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The Pros and Cons of State Tax Breaks for Senior Citizens

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All U.S. states provide tax credits and exemptions to older Americans, who clearly benefit and appreciate the help. Of course, people retired from the labor force do not owe payroll taxes, and their income tax rates may fall as well. Nevertheless, most citizens over age 65 must get by on relatively fixed budgets – and income for the typical older household is about half the level for all U.S. households. For many seniors, the cost of state and local taxes can loom large.

Not just older residents, but entire states may reap benefit from these tax breaks for seniors. Migrant retirees may move in, establishing new homes and spending pensions earned elsewhere. But there can also be disadvantages for localities and states that provide large and growing tax breaks to older residents. The pros and cons become evident when we look more closely at the various kinds of elder tax abatements and consider their consequences in the context of growing public budget pressures.

How Abatements for Elders Work

States have instituted various combinations of the following provisions:

- **"Circuit breaker"** tax credits are offered in 35 states to elderly residents (and sometimes to veterans and the disabled as well). They phase out at higher income levels.

- • **Homestead exemptions** in 48 states lower the taxable value of an owner-occupied property. Exemptions go to all age groups, but older citizens get the most tax relief.

- **Property tax-deferrals** offered in 24 states allow older residents (and sometimes veterans and the disabled) to defer property taxes until a property is sold or the resident owner dies.

- **Tax limits, caps, and freezes** benefit the elderly in 42 states – including limits on the annual increase of assessed property values, caps on property tax rates, and freezes on property tax assessments.

Popular and Under the Radar

Tax abatements benefitting the elderly are rarely controversial. For several reasons, they usually fly "under the radar" and avoid public scrutiny and controversy.

- Older citizens are held in high regard by public officials and Americans of all ages. Many elders are poor and heavily reliant on Social Security and Medicare in an era of controversies about public spending and deficits. Nevertheless, seniors continue to be viewed as deserving of continued generous public benefits.

- Abatements for the elderly are "tax expenditures" that benefit people by reducing taxes they otherwise would owe to government. This kind of benefit is relatively invisible, in sharp contrast to welfare benefits that involve direct spending on private beneficiaries. Visible welfare spending is often much more controversial than under-the-radar tax breaks.

- Public officials often categorize tax abatements for the elderly as "economic development" measures – comparing them to the various abatements states and localities use to lure businesses. Officials maintain that senior tax abatements can be used to attract younger, affluent retirees, who collect their public or private pensions from other jurisdictions and spend them in their new home state, thus boosting the economy.

The kinds of factors that usually limit the generosity of publicly funded benefits do not seem to restrict the generosity of tax abatements for the elderly. Our research finds that the percentage of a state's population that is elderly does not explain abatement generosity; nor does a state's capacity to raise overall revenues. Because tax abatements are popular and not very visible, they tend to expand with few of the usual constraints that limit welfare spending.

Looming Disadvantages

At first glance, indeed, elder tax abatements appear to create a "win-win" situation – reducing property taxes for retirees on fixed incomes while, at the same time, stimulating aggregate economic demand for states and localities. However, there can also be downsides for senior citizens and their home states – because, over time, tax abatements can shrink the revenues that states need to fund care for aging residents.

As younger affluent retirees age, their private resources are apt to dwindle even as they increasingly need expensive medical services and long-term care subsidized by the public sector. This occurs, for example, when older, poorer, and less healthy retirees rely on partially state-funded Medicaid programs for acute medical care, nursing facilities, and community-based home care services. Older people make up only a minority of all Medicaid beneficiaries, but each elder beneficiary costs more than each of the infants and children who constitute the majority getting Medicaid. Long-term senior care can cost more than $75,000 per person every year.

Medicaid now constitutes the largest public sector budget item in many states, and governments can face increasing trouble covering the bill when tax abatements shrink revenues. Which states are most likely to face this financial bind? We have discovered only one factor that explains the generosity of elder tax abatements: the overall tendency of a state's political culture to favor public expenditures for the vulnerable.

States in the Northeast and Upper Midwest fit this profile. They offer bigger tax breaks to the elderly – and most of these states also have relatively generous public social programs. Ironically, the downsides of tax breaks for the elderly may become evident first in states where publicly funded medical care and senior services are already quite generous. In an era of tight budgets, burgeoning tax abatements may turn out to be a luxury the most public-spirited states cannot afford. It may not be possible to spend more on the most feeble elderly at the same time that early retirees enjoy large and growing tax exemptions.

Read more in Chalres Lockhart, Jean Giles-Sims, and Bayliss J. Camp, "States Senior Residential Property Tax Abatements: Uncontroversial Benefit or Looming but Unrecognized Problem?" *Politics & Policy* 38, no. 4 (2010): 766-804.

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Property Tax Exemptions for Seniors

Many states offer special exemptions for senior citizens

BY BEVERLY BIRD Updated September 20, 2018

It's difficult to avoid paying property taxes if you own real estate, but some states and localities are kinder than others—particularly when it comes to tax exemptions offered to senior citizens. Older taxpayers often find themselves in a position where their homes' values have increased so significantly over the years that their tax bills have become almost prohibitive, at a time when they're trying to live on fixed incomes.

Property Taxes Are Local

Property taxes are imposed at state, county, and local levels. This is one area of taxation that the Internal Revenue Service doesn't have a hand in, but that can be both a good and a bad thing. Blanket, coast-to-coast rules exist for federal taxes, but property tax rules can vary considerably from state to state. They can even differ from one city to the next within the same county.

But some basic regulations and provisions apply in most jurisdictions and many states have state-wide rules.

How Property Taxes Are Assessed

Understanding property tax exemptions begins with getting a handle on how these taxes are calculated. Your local tax authority will send someone to your property to appraise it and tag it with a market value based on things like comparable sales in your area and amenities you might have added.

In simplest terms, your area's tax rate is then applied to this value. So your annual property tax would be $7,500 if the assessor says your home is worth $250,000 and your locality assesses the tax at a rate of 3 percent.

Now Apply Your Exemption

Exemptions don't have any effect on the tax rate, and they don't come off that $7,500 tax bill, either. They reduce the value of your home that's subject to taxation. Some areas offer a certain percentage off values, while others offer a dollar amount.

For example, New York's Senior Citizen Exemption is 50 percent of your home's appraised value. If you're lucky enough to live in that state and you qualify, your tax bill just dropped to $3,750 because your home's value is cut in half to $125,000.

Now let's say your property is located in Alaska. This state offers a dollar amount exemption to seniors—$150,000 off the appraised value of your home. Here, you would pay only $3,000 annually on a property valued at $250,000 at a 3 percent tax rate: $250,000 less $150,000 comes out to $100,000 times 3 percent.

The senior exemption is even better in the Houston area—$160,000 plus 20 percent off your property's value. In fact, the vast majority of seniors living in this part of Texas do not have to pay property taxes. Honolulu comes close with an exemption of $120,000.

Most states' dollar exemptions are considerably less than this, however. The senior property tax exemption is just $8,000 in Cook County, Illinois, and this is actually an increase, up from $5,000 in 2017. And Cook County does things a bit differently. The exemption isn't subtracted from your home's value. It's multiplied by the tax rate, then this amount is subtracted from your tax bill. At a tax rate of 3 percent, you can deduct just $240 from the second installment of your annual tax bill. Try not to spend it all at once.

Then there's Boston. This city offers a meager $1,500 senior exemption, but only if you literally work for it. You must volunteer 137 hours of your time each year to a city agency to qualify.

Some Typical Requirements

Of course, there are qualifying rules for these tax breaks, and the first of these is your age. These exemptions are generally offered to those who are age 65 or older. If you're married and own your property jointly with your spouse, only one of you must typically be 65 or over, and New York will allow you to continue claiming your exemption if your spouse was over 65 but is now deceased. Texas will do this as well, but only if the surviving spouse is age 55 or older.

And age 65 is by no means a universal rule. It's just 61 in Washington State. New Hampshire will increase your exemption over the years as you age, sort of like giving you a birthday present each year.

Many locations require that you've owned your home for a prescribed period of time. It's 12 months in New York, but if you qualified at your previous residence, you can carry that period of ownership over to your new home. Cook County, Illinois has a similar rule.

And you must live in the property. It must be your residence. New York offers a slim exception to this rule if you must move into a nursing home, provided that you still own your home and your co-owner or

Many locations set income requirements as well. If you earn too much, you won't qualify, or at least the amount of your exemption will be reduced. And these limits can be stringent in some locations. The income cap in Miami, Florida is just $29,500. Some areas in New York will allow you to deduct the cost of prescription drugs and other medical expenses from your income to help you qualify.

Can You Claim Multiple Exemptions?

Almost all states offer more than just one kind of property tax exemption. It's sometimes possible to combine your senior citizen exemption with other exemptions that are available in your area to help you control that tax bill.

In some states, your senior exemption can be applied more than once if you're taxed on multiple levels, such as by the county and by your city as well. Illinois lets you combine your senior exemption with its regular homeowner's exemption.

New York is generous in a lot of ways, but if you own property here and you're disabled in addition to being age 65 or older, you must choose between the senior exemption and the exemption for disabled homeowners. You can't double-dip. You can, however, pair the senior exemption with other partial exemptions, such as those available for veterans and clergy members. If you qualify for New York's Senior Citizen's Exemption, this automatically qualifies you for the state's STAR exemption as well. The STAR exemption applies to school taxes.

The Best Locations for Property Taxes

A hefty exemption might be nice, but you might receive about the same relief as someone living in an area with low taxes, low assessed values, and just a modest exemption if property tax rates and home values are exceptionally high where you live.

So what are the best states for property taxes before exemptions are applied? Investopedia lists seven:

Hawa n Carolina, West Virginia, and the District of Columbia. But again st property tax rate, but it imposes a very high income tax rate. I West Virginia is comparatively low, which might make this a bette

San F well: Property taxes are based on your home's original asses e like crazy over the years, but it's only that first assessed value

Prope -fits-all calculation. It's always best to check with the tax assessor in the area where you own property so you know exactly what's offered there and how you can qualify. And keep in mind that these rules can change yearly.

Annual Income

$ 59,652

Current Savings

$ 25,000

Monthly Savings

$ 298

6% of income

Birth Year

1984

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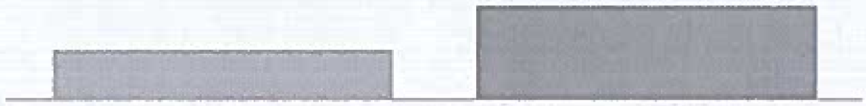

Savings at Retirement **$357,334**

Recommended Savings **$657,894**

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