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Finding a Balance: Tax Exemptions for Seniors

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Introduction

Seniors play a vital role in the economy and are one of the most politically active groups in the United States. The proportion of the population 65 and older continues to grow and shows no signs of slowing. In recent decades, states have also increased the number of tax exemptions that cater to older residents.

Because the majority of seniors are retired, this group can be significantly affected by increases in the cost of living (Conway and Rork, 2008). However, extending tax benefits to seniors without considering the needs of other demographics can lead to social and economic inequities (Meyer, 2004). Government decisionmakers must balance potential benefits with the need to raise revenues to fund critical programs such as healthcare and education. In this way, governments can create a state or municipality that benefits residents of all ages, seniors included.

How do seniors decide where to live?

Research on the frequency of senior migration underscores the complexity of these decisions. While some seniors relocate to warmer climates after retirement, many do not. Those who remain often do so due to high migration costs or having family members nearby (Duncombe, Robbins and Wolf, 2000). A 2018 survey by AARP found that 76 percent of Americans aged 50 or older would like to stay in their current home for as long as possible (Binette and Vasold, 2018).

Seniors must consider many factors beyond tax rates when deciding whether to relocate: Which state has better services and amenities? Are the migration costs worth the move? Do health concerns make it essential to stay close to family or other caregivers? Duncombe, Robbins and Wolf (2000) note that many older Americans who do move choose “elder magnet” cities in the South and West regions of the United States, and many surveys have

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concluded that low crime rates and good hospitals are additional considerations.

Though the decisions of retirees may have a significant impact on state and local governments' abilities to raise revenues and provide services, there has not been a substantial body of research on whether governments can influence senior citizens' migration decisions until recently. Policy scholars are increasingly interested in the factors affecting senior migration and are providing decisionmakers with more data and analysis on the topic than ever before.

Duncombe, Robbins and Wolf (2000) find that changes in tax policies and service provisions do lead to changes in senior's decisions whether to relocate—but these changes are small. They find that the most salient factors are inheritance taxes, income taxes and property taxes. However, the authors note that governments would need to dramatically reduce these taxes for the changes to have any significant effect. They instead advocate for other means of attracting retirees, such as marketing the services and amenities the jurisdiction can provide to residents. In a similar study, Shan (2010) analyzes the effects of property taxes on senior mobility rates and finds that increases in property taxes lead to a rise in the rate of senior migration.

What types of exemptions do governments offer seniors?

Tax exemptions for seniors come in many forms, but the most common type of exemption involves decreasing the property taxes seniors owe to their local government. For example, Fulton County in the Atlanta Metro area offers several tax exemptions geared toward reducing the property tax burden of the county's senior population. The county's property tax freeze for all residents aged 65 and older holds the assessed value of a homeowner's property at the value as of the time they apply for the exemption. The value will not increase as long as the occupant continues to meet an income eligibility requirement of less than $39,000 per year. This exemption allows seniors to stay in their home without having to pay property taxes on any increases in the value of their property (Fulton County Board of Assessors).

Additionally, Fulton County offers a $25,000 City of Atlanta Schools exemption. This exemption applies to City of Atlanta residents residing in Fulton County who are over 65 years old or disabled. Those eligible for the benefit can deduct $25,000 from the assessed value of their property for the portion of the property tax that goes to the school system (Fulton County Board of Assessors).

Are senior exemptions worth it?

State and local governments have to consider meaningful trade-offs when deciding which tax incentives to offer. Some tax exemptions for older residents may negatively influence the funding for other expenditures such as education and healthcare (Duncombe, Robbins and Wolf, 2000). To avoid unnecessary budget cuts, states must consider the net benefit from a tax exemption. If the losses are too great, officials may want to consider other means of attracting seniors, such as marketing local amenities and services.

Current research on senior tax exemptions frequently highlights them as a strategy for states to keep older residents from migrating to other cities or states. Senior residents support their local economy by shopping within the community and utilizing recreational facilities (Shan, 2010). Seniors also tend to have more property wealth than those in younger age groups and, therefore, contribute more through property taxes (Duncombe, Robbins and Wolf, 2000). For these reasons, many elected officials and other government decisionmakers see senior tax exemptions as a net benefit for their jurisdiction.

Tax exemptions also have nonfinancial benefits for seniors. Alleviating property tax concerns can benefit psychological health and allow older individuals to stay close to family and support networks. These exemptions for individual citizens also benefit the community at large by maintaining multigenerational communities and reducing the rates at which seniors use support services (Meyer, 2004).

Conversely, providing tax exemptions to seniors could exacerbate social and economic inequities. Poverty rates are higher among those under 65 than they are among seniors (Meyer, 2004). Seniors are also more likely to own homes than those in younger age demographics. A higher percentage of Americans age 65 and older are white compared to the population at large, so racial equality is an important consideration as well (Meyer, 2004).

Political considerations also factor into the decision to provide tax incentives to senior citizens. Older Americans turn out to vote at consistently higher rates than their younger counterparts. In the 2016 election, 71 percent of Americans aged 65 and older showed up to vote. This turnout rate is 25 percentage points higher than the turnout for Americans ages 18-29 (US Census Bureau, 2017). Because of this disparity, politicians may favor senior exemptions to gain the support of older residents in their district.

Final Thoughts

Tax exemptions for those over 65 can have positive benefits on the productivity of the local economy and help retirees struggling with high property taxes and low income. Due to the political power of older Americans, elected officials also have political incentives to provide exemptions to seniors.

However, if tax exemptions become too expensive, they can take funding away from other essential government services. Community amenities can be a successful way to attract retirees to migrate to a particular jurisdiction and can serve as an alternative to tax benefits. In a landscape that is becoming saturated with tax exemptions for seniors, states and municipalities must consider the trade-offs involved in offering these exemptions and make decisions that will positively impact their communities.

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