Why seniors should be wary of Governor’s tax-shift plan

Income-tax cuts/sales-tax increases produce higher net tax bill for 3 in 5 seniors

Seniors in particular should be wary of Governor Reynolds’ tax-shift plan because, like most Iowans they would, in general, see little or no benefit and could even be worse off.

At least 60 percent of seniors would pay more, just to finance tax cuts for wealthier Iowans

The Iowa Department of Revenue estimates the income tax cuts would not provide a measurable benefit for the lowest-income 40 percent of seniors — an average tax savings of just one dollar, for those with taxable income under $10,000.¹ Because of favorable tax treatment for seniors, many already pay no state income tax and thus would get no benefit.

Those earning $50,000 to $75,000 total income represent the middle 20 percent of Iowa households. They would pay $100 to $120 more a year in sales tax under the Reynolds plan, but save only about $33 in state income taxes.

Governor’s tax shift: She demands income, property tax cuts greater than sales-tax increase

Seniors count on many public services that are funded by state and local government. So while seniors largely will not benefit on the revenue side, they will also lose on the expenditure side, in lost services. These services cannot avoid cuts if the Governor gets her way. Her proposal would reduce General Fund revenue by about $175 million each year, meaning less funding for services benefiting all Iowans including seniors, from education to health care, to safety-net services.

Existing tax preferences for seniors mean new income-tax cuts do not help most seniors

Built-in exceptions to income tax for seniors make new income-tax cuts meaningless or minimal to them, unless they are quite well off already:

- All Social Security benefits already are exempt from state tax in Iowa.
- First $6,000 in pension benefits per person ($12,000 per married couple) is tax-exempt.
- Those age 65 or older receive an additional $20 personal credit.
- Those age 65 or older have an exemption for the first $24,000 of income ($32,000 couple).

In short, current Iowa tax law reduces or eliminates income tax for many seniors, so while paying higher sales taxes, they will not see an offsetting income-tax cut.

¹ Those with taxable income under $10,000 account for 41 percent of senior tax filers for Tax Year 2022, according to Table 5 in an Iowa Department of Revenue memo to Jeff Robinson of the Legislative Services Agency on the impact of SSB3116 on seniors, Feb. 14, 2020. Those with $10,000 to $20,000 taxable income account for another 17 percent of senior taxpayers.