

The Fiscal Impact

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Individual Income Tax Expenditures for the Retiree Exemption

	-----Year-----			
	2005	2006	2007	2008
Cumulative impact of increasing exemption from \$10,000 to \$15,000 per filer	\$26 million	---	---	---
Cumulative impact of increasing exemption from \$15,000 and \$35,000 by 2008 per filer	---	\$91 million	\$122 million	\$150 million

Individual Income Tax Implications of Georgia's Growing Elderly Population

Previously published *Fiscal Impacts* have documented the aging of Georgia's population. This demographic trend has important implications for a variety of public expenditures including those for Medicaid but also for the revenue side of the budget. The elderly tend to receive and spend their income differently from the non-elderly with more of the elderly's consumption and income non-taxable according to Georgia's income tax code. The elderly consume more services and health care than non-elderly and these items are largely untaxed under Georgia's sales tax. The elderly tend to receive more of their income in the form of tax-preferred pensions and social security than in the form of taxable wages. The State and numerous local governments also reduce property taxes for the low-income elderly. As the elderly population grows, the revenue from sales and income taxes will grow more slowly because there is simply slower growth in the taxable components of income and consumption.

Georgia's individual income tax is one of the more generous state individual income tax structures in terms of income exclusions for the elderly. Georgia currently allows up to \$15,000 of income (a combination of earned and unearned income) to be exempt from tax per retired tax filer, and all social security income is exempt. Most other states allow less than \$10,000 in exemptions for pension income and the same social security exclusion. For taxable years beginning on or after January 1, 2006, and prior to January 1, 2007, the retirement exclusion increases to \$25,000. For taxable years beginning on or after January 1, 2007 and prior to January 1, 2008, the retirement exclusion increases to \$30,000 and increases to \$35,000 for taxable years beginning on or after January 1, 2008. The revenue cost of the exclusion is large and will increase over time as more and more Georgia tax filers are eligible for the exemption. Table 1 presents the tax expenditure estimate associated with these retiree exemptions. These estimates are referred to as "tax expenditures" because they are costs to the state in the form of foregone tax revenue. Tax expenditures are not necessarily bad (nor good), but simply reflect tax policy decisions that have been made and that reduce the potential revenue from any particular source. As seen in Table 1, the revenue cost of these is significant (although only about 1.5 percent of total individual income tax revenue), and increases over time as the elderly population of the State grows.

These issues will be further analyzed in work supported by the Healthcare Georgia Foundation.

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The Fiscal Research Center mission is to promote the development of sound public policy and public understanding of issues concerning state and local governments. For more information contact David L. Sjoquist, Director and Sally Wallace, Associate Director at 404-651-2782 or visit our website at frp.ayps.gsu.edu.