



# Facts Matter

Facts Matter is a series of briefs highlighting Michigan's budget and tax system

## Senior Tax Preferences:

- Michigan tax breaks for seniors are highest in the country
- Tax breaks are three times the national average
- Michigan could free up \$200 million a year and still offer generous breaks

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## Senior Tax Preferences: Can Michigan Afford Such Generosity?

### What is a Senior Tax Preference?

Individuals 65 years of age and older are eligible to receive tax exemptions and credits, which vary by state. These exemptions and credits are mainly applied to Social Security income, pension income, and property taxes.

### Senior Poverty—Then and Now

Senior tax preferences originated at a time when many seniors were living below the poverty level. Today, age does not have as strong a correlation with poverty as in previous years:

- **1970**—25 percent of individuals 65 years of age and older had income below poverty level.
- **2006**—Only 10 percent of individuals 65 years of age and older had income below poverty level.

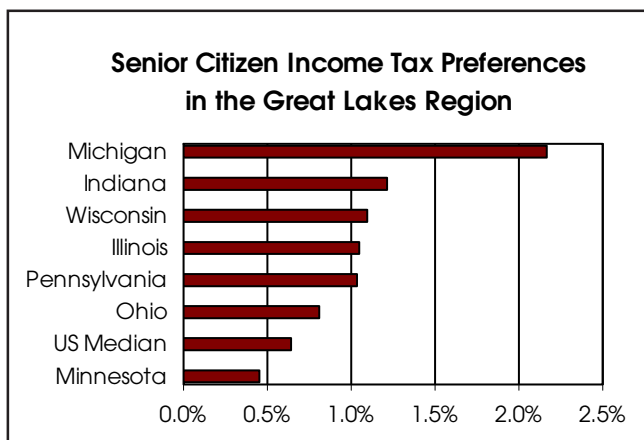
Even so, all Michigan seniors, regardless of income, are eligible to receive various state tax exemptions and credits, not available to those under 65.

### Michigan's Senior Tax Preferences

Michigan	Exemption	Credit
Social Security Income	Fully exempt from income tax	
Public Pension Income	Fully exempt from income tax	
Private Pension Income	Partially exempt from income tax Cap: \$45,120/single—\$90,240/joint	
Additional Personal Exemption	\$2,300/single—\$4,600/joint	
Homestead Property Tax		Up to \$1,200
Renters' Tax		Up to \$1,200
Other	Exemption of \$8,595/single \$17,190/joint in interest, dividends, capital gains, federal elderly tax credit deduction	

## How Does Michigan Compare to Other States?

- Michigan leads all other states with the most-generous senior income tax preferences.
- Michigan's senior tax preference is about double the average of the other Great Lakes states.
- Michigan is much more generous than Kentucky, the second leading state in senior preferences.
- As of 2006, Michigan was one of 28 states that fully exempted Social Security income from taxation.



## How Does Michigan Compare to the Federal Government?

Michigan's senior tax preference is over three times the national average. In the mid-1980s, the federal government began to tax a portion of Social Security income in order to restore the finances of the Social Security system. Today, 14 states are following the federal government's senior taxing guidelines, but Michigan is not one of them.

## Why Should This Be Addressed?

Michigan's senior population is expected to grow considerably over the next 20 years. In turn, Michigan's revenues will be increasingly drained as a result of generous senior exemptions and credits. This strain on state revenues will come at a time when spending on senior needs and services will be increasing.

- In 2005, 12 percent of Michigan's population was 65 and older. By the year 2030, Michigan's senior population will rise to almost 20 percent of the total state population.
- The Center on Budget and Policy Priorities estimates that over \$688 million is annually forgone as a result of Michigan's generous senior tax exemptions and credits, mostly from pension and retirement income tax exemptions.
- Based on the growth of the senior population, Michigan will forgo an estimated \$1.15 billion a year by 2030. This would represent 6.2 percent of general fund revenues for the state.

## Alternatives for Senior Tax Preferences

Michigan must recognize the difference between effective tax relief for seniors and "poorly targeted tax giveaways." It is estimated by the Michigan League for Human Services that effectively targeted senior tax preferences, similar to those implemented in Kentucky, could return \$200 million in much needed revenues to the state. There are also a number of other ways to do this that do not involve the elimination of exemptions and credits altogether:

### *Social Security taxation options:*

- Follow the federal standards for Social Security tax exemptions.
- Set Michigan's specified limit to Social Security tax exemptions.

### *Pension limits and caps options:*

- Freeze the exemption at the current level.
- Phase out pension exemptions at a certain income level.
- Only offer pension exemptions to taxpayers with income below a specified level.
- Lower the cap on the amount of private pension that can be exempted.
- Grant pension exemptions only to individuals above a certain age level.
- Eliminate the exemption altogether and grandfather in the seniors who currently benefit.