Untaxing Seniors:
A 'Solution' in Search of a Problem

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The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans. IFP reports are available on the web at http://www.iowafiscal.org.

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By Peter S. Fisher

Legislation that recently passed the Iowa House would dramatically change the way Iowa taxes its citizens. HF2045 would exempt people over age 65 who have incomes of $36,000 or less ($48,000 if married) from paying income tax, and would exempt everyone, regardless of age or income, from paying tax on pensions and Social Security benefits. This legislation has natural appeal. After all, who can be opposed to providing tax relief to the elderly? Proponents argue that Iowa's taxes are driving the elderly from the state in search of lower taxes. Opponents, on the other hand, point to the high cost of the bill: $227 million annually when fully phased in, most of which is attributable to the tax exemption for pension and Social Security income.[1]

There are three major policy issues that need to be addressed in considering the merits of this legislation. First of all, is it true that seniors are leaving the state in large numbers and that taxes are the cause? Secondly, is this proposal fair? And finally, is it a fiscally responsible measure?

Is There an Exodus of Seniors from Iowa?

What are the facts on the migration patterns of the elderly? Here's what we learn from the 2000 U.S. Census.

■ ***Most seniors stay put.*** Only about 0.7 percent of Iowa residents age 65 and older left Iowa for another state during each year between 1995 and 2000. About 39 percent of those leaving the state went to one of the five Sunbelt states of Arizona, Florida, Texas, California or Nevada. Another 34 percent went to one of the seven states surrounding Iowa.

■ ***Many seniors move into Iowa.*** While 15,770 seniors left the state during this five-year period, 10,843 migrated into Iowa from another state. The net out-migration from Iowa amounted to under 5,000, or just 1.1 percent of the population of persons age 65 or older.

Clearly there is no substantial out-migration of the elderly. In 2000, there were 435,401 persons age 65 and older, and the net loss each year amounts to fewer than 1,000.

Table 1. Top 14 Destinations Iowans Age 65 and Older Migrating to Another State 1995-2000

Arizona	2,068
Texas	1,571
Florida	1,363
Illinois	1,188
Minnesota	1,133
Missouri	1,072
California	948
Colorado	781
Nebraska	742
Arkansas	504
Wisconsin	499
South Dakota	446
Kansas	285
Nevada	279
New Mexico	237
All other states	2,654
Total moving	15,770
Total Iowans 65/Older	435,401

Source: 2000 Census

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Are Taxes Causing Some Seniors to Leave?

For the small group of seniors leaving Iowa each year, are taxes a major factor behind their decision? First of all, consider how seniors are taxed in Iowa and elsewhere. The majority of Iowans are already exempt from paying taxes on their Social Security income, and the rest pay tax on at most 50 percent of their benefits (as opposed to federal law, which taxes up to 85 percent). Current Iowa law also allows taxpayers to exclude $6,000 in pension income, or $12,000 for married couples. (Pension income includes public and private pensions, annuities, and distributions from IRAs and 401(k) accounts.) The most recent report from the Iowa Department of Revenue showed that 69 percent of Social Security recipients paid no tax on Social Security benefits. Furthermore, 45 percent of seniors pay no Iowa income taxes whatsoever.[2]

Among the surrounding states, Minnesota, Wisconsin, Nebraska, Kansas and Missouri are less generous than Iowa in exempting retirement income overall. All but Wisconsin use the federal Social Security exemption and thus tax up to 85 percent of benefits; Wisconsin taxes up to 50 percent. Minnesota and Nebraska have no pension exclusion, while Missouri's is $6,000 for single taxpayers and $12,000 for taxpayers filing jointly. Kansas exempts all public, but no private pension income, and Wisconsin exempts only military pensions.[3] Furthermore, Wisconsin, Nebraska and Kansas have effective top marginal rates similar to Iowa's; Minnesota's is higher, Missouri's a little lower.[4] Of our other neighbors, South Dakota has no income tax and Illinois exempts all Social Security and pension income. Among the popular destinations for seniors across the country — the Sunbelt states — California and Arizona tax retirement income, while Nevada, Texas and Florida do not have any income tax.

Proponents of HF2045 argue that large numbers of Iowans leave the state each year in order to avoid paying taxes on retirement income and that this population drain creates a significant problem for the state. What does the evidence show?

■ ***Many, if not most, seniors who leave receive little or no income tax advantage.*** Of the 15,770 seniors who left the state between 1995 and 2000, about 5,629 went to one of the 13 states that either had no income tax or that exempted Social Security benefits and pensions entirely. On the other hand, 4,237 went to one of the 13 states that taxed a *larger* share of pension income than Iowa. The remainder went to states where the tax benefit is small to nonexistent. The majority of these states exempt all Social Security income but have pension exemptions smaller than Iowa's. For the two-thirds of Iowa seniors who already do not pay tax on Social Security, a full Social Security exemption is of no value. Furthermore, 45 percent of seniors — all with low incomes — already pay no Iowa income tax, and yet these seniors are prevalent among those leaving the state.[5]

■ ***Even the average high-income senior would gain little in income-tax reductions by moving.*** An analysis by Kiplinger's estimated the taxes on a relatively high-income couple in the capital city of each state.[6] The couple had a $60,000 income, consisting of $24,000 from Social Security, $21,000 from private pensions, $10,000 from IRA distributions, and $5,000 in taxable interest and dividends. Iowa's income tax burden even for this relatively high-income couple was only $461, which placed Iowa 22nd out of the 50 states (21 had higher taxes, 28 had lower). Taxes were substantially higher in many of the leading destination states for Iowa retirees: Missouri ($589), New Mexico ($897), Nebraska ($994), Kansas ($1,114), Wisconsin ($1,320), Minnesota ($1,383), and Arkansas ($2,241). Taxes for such a couple would also be slightly higher in Arizona ($479). Most Iowa seniors have incomes under $60,000 and thus would pay even less than the $461 calculated by Kiplinger's.

- ***Sales and property taxes can easily offset the income-tax savings.*** According to the Kiplinger’s report, total taxes in Austin, Texas, ($3,487) and Tallahassee, Florida, ($3,424) were just a little less than in Des Moines ($3,625), while the total tax bill in Pierre, South Dakota, was about the same as in Des Moines ($3,645).

- ***Very few higher-income seniors leave for no-tax states.*** Higher-income seniors, who have substantial pension income, may be more motivated by tax concerns. The 2000 census data allowed us to look at only those seniors who had a family income of at least $30,000 and who had pension income of $5,000 or more (and thus possibly had some taxable pensions above the exempt amount, which was $5,000 per person or $10,000 per couple at the time of the 2000 Census). While this income level does not really represent what most would think of as high income, only 43,759 seniors, or 10 percent of all Iowans over age 65, met these criteria. Of this number of higher-income seniors, only about 2,347 left the state between 1995 and 2000. Thus, just 1.1 percent of all higher-income seniors, or 470 people, left the state each year. Of these, only about 189 per year went to one of the 13 states without an income tax or with all retirement income exempt.

- ***Overall out-migration rates appear to have little or nothing to do with taxes.*** Between 1995 and 2000, 3.6 percent of all elderly Iowans left the state. If income taxes were a major factor causing people to leave for other states, we should expect greater rates of migration out of Iowa than out of South Dakota (which has no income tax) or Illinois (which has no tax on retirement income). We would also expect lesser rates of out-migration from Iowa than from Kansas, Nebraska, Minnesota, Wisconsin and Missouri, all of which tax a greater share of retirement income. Iowa’s out-migration rate was not significantly different from the rates for Minnesota, Missouri and Nebraska. But a significantly higher percentage left Illinois (4.8 percent) and South Dakota (4.0 percent) despite lower taxes, and a significantly lower percentage (3.3 percent) left Wisconsin despite higher taxes. Only for Kansas was there a significant difference in the direction predicted by taxes on retirement income.

- ***Migration rates of higher-income seniors bear no relation to taxes.*** The rates of out-migration of higher-income seniors (those with family incomes over $30,000 and more than $5,000 in pensions) from Iowa and surrounding states do not appear to be influenced by tax considerations. About 2.2 percent of higher-income seniors left Iowa from 1995 to 2000 for one of the 13 states that did not tax retirement income, and the percentages were very similar in the five neighboring states that tax more pension income and in the two states that tax less.[7] In fact, the lowest out-migration rate was from Kansas, which has higher taxes, and the highest rate was from Illinois, which has lower taxes. Furthermore, if we look at net migration rates, the results are even more at odds with the tax-induced migration myth. The two states in the region with the highest net losses of higher-income seniors — i.e., the ones that generate the most out-migrants relative to in-migrants — were the supposed tax havens for the elderly: South Dakota and Illinois. On the other hand, Kansas, Missouri and Wisconsin had the *lowest* net losses.[8]

Common sense tells us that warmer weather and proximity to family and friends are key factors when seniors consider where to live in retirement. Research confirms that these factors are important and that taxes are not.

- ***The Iowa Department of Revenue (IDR) found no evidence that taxes matter.*** The IDR examined federal tax returns of elderly Iowans who left the state between 2000 and 2003. IDR analysts found that the deciding factors were climate and proximity to Iowa. Seniors moved to warmer places and they moved to one of the surrounding states. They could not find any significant effect of taxes on location choices.[9] This statistical analysis confirms the patterns we found in the census data. Almost three-fourths of those leaving between 1995 and 2000 went to a Sunbelt state or to one of the states bordering Iowa. The tendency not to move very far is presumably due to the desire to remain closer to family and friends. After all, younger Iowans are also moving to the surrounding states. The elderly appear to be following their children.[10] Furthermore, the Revenue study found that the average income of those moving from Illinois to Iowa was higher than the income of those moving from Iowa to Illinois.

■ ***The Legislative Services Agency (LSA) came to the same conclusion.*** LSA examined IRS data on taxpayers of all ages who migrated from Iowa or one of the surrounding states to Arizona and Texas. LSA analysts concluded that there was no evidence that taxes were an important factor.[11]

Are these exemptions fair?

It is worth stating the obvious: An income tax is a tax on income. And a basic principle of fairness is that equals should be treated equally. This means that people in similar circumstances with the same income — and hence the same ability to pay — should pay the same tax on that income.

Elderly recipients of pension and Social Security income are already treated advantageously compared to elderly and non-elderly persons with the same total income, but from other sources. For instance, a retired individual with $35,000 in retirement income pays only $356 in state income tax, compared with a working person with $35,000 in wages and salaries, who pays $1,503. The difference is even more pronounced for retired couples and working families with children. A retired couple with $35,000 in retirement income pays no state income tax, while a married couple with two children and $35,000 in wages pays $1,160 to $1,471 in income tax.[12]

House File 2045 would greatly increase the inequities. Under this bill, a person under age 65 who is working and receiving $55,000 in wages and salaries would still find all of his or her income subject to tax and would pay about $2,600 in Iowa income tax.[13] A senior who received $15,000 in Social Security but who also received $40,000 in interest and dividends earned by investing the proceeds from the sale of the family farm would pay $1,706.[14] But under HF2045, a senior receiving $15,000 in Social Security and $40,000 from a private pension would pay no tax at all.

That seniors have worked all of their lives and paid taxes does not justify such inequities. The senior who receives income from taxable sources such as interest on CDs may have worked just as hard and paid just as much in taxes before retirement as the person getting all his or her income from pensions and Social Security. A senior who recently retired to Iowa and who never paid a dime to the state could live here tax-free in retirement, and draw thousands of dollars in state Medicaid funding to boot. Furthermore, working Iowans who contributed to IRAs or 401(k)s did so on the understanding that the tax break they got when contributing was in exchange for paying taxes on that income later, presumably at a lower rate during retirement. HF2045 would now forgive those taxes as well, leaving that income untaxed forever. Rather than trying to construct arguments for granting tax relief to a select portion of Iowa citizens, policy makers should return to the basic principle of fairness: As long as you live in Iowa and benefit from the services provided by the state, you pay your share, based on your ability to pay.

Even with the exemption of lower-income seniors from all income taxes, over 65 percent of the benefits of HF2045 would flow to higher-income seniors — those earning more than $36,000 (single), or more than $48,000 (married). We know this because $79 million in tax savings would have gone mostly (but not entirely) to those with incomes below these amounts, had the amendment to HF2045 been passed as a separate bill.[15] The additional cost of the bill as passed — $148 million — therefore represents benefits to those with higher incomes through the exclusion of all Social Security and pension income, and accounts for 65 percent of the total cost of $227 million.

Is this bill fiscally responsible?

As the Fiscal Notes on this bill have indicated, Iowa's population will continue to age, and new sources of tax-favored pension income will become more prominent. Thus the cost of this exemption will continue to rise. It will rise faster than the rest of the budget because pension income will rise as a share of overall income. In a recent study, Charles Bruner and Mike Crawford reported that Social Security and pension income will increase from 8.6 percent of Gross Domestic Product in 2003 to 10.3 percent in 2013, and will continue to increase thereafter. They estimated that the existing Iowa tax preferences for retirement income will therefore increase in cost by at least 50 percent over the next 20 years, from 4 percent of the state budget in 2005 to 6 percent by 2025.[16]

Proponents argue that the bill will not really cost $227 million because it will keep seniors in Iowa, and they will stay here and pay taxes. It is worthwhile to consider the math. How much could we expect annually from seniors induced to remain in the state due to this legislation?

First of all, we saw earlier that the annual outflow of seniors to states with a significant tax advantage amounted to only about 1,125 (or 5,629 over the five-year period between 1995 and 2000). If we look only at the higher-income seniors, who might see a significant tax savings by moving to such states, the number is even smaller: about 189. We also saw that the majority of seniors went to surrounding states and warmer states. This confirms other research, which shows that these are important factors in and of themselves. In other words, it is likely that many, if not most, of those going to a low-tax state did so for the same reasons as those migrating in general: To remain close to Iowa, close to family or to go to a warmer climate.

But let's suppose that 500 seniors a year (almost surely too large a number) would stay in Iowa if the House bill became law. How much would they pay in taxes each year? The average senior contributes at most $3,000 annually in state and local taxes. This is based on the LSA estimate of $1,700 per year in total state revenue per capita, and our own estimates of about $1,000 per capita ($2,000 for a couple) in property taxes and about $265 in local option taxes. (This is a generous estimate, for it makes no adjustment for the fact that they would be paying far less in state income taxes if this bill were enacted into law, or for the fact that low-income seniors benefit from the elderly and disabled property tax relief, or for the fact that a smaller share of seniors' purchases are subject to sales tax.) Thus the 500 seniors would be contributing a total of just $1.5 million per year, hardly enough to make a dent in the annual cost of $227 million.

More importantly, those seniors who decide to stay in Iowa consume state and local services. They may place more demands on the state Medicaid budget as their assets are exhausted. Thus even the small amount of revenue retained in Iowa is not all gravy. It may not even cover the cost of that one service, Medicaid, should a senior end up needing nursing home care.

Conclusions

The proposed bill is a very expensive attempt to solve a largely mythical problem. The evidence shows that taxes are not a significant factor in migration decisions and that the total number of seniors leaving the state each year for tax reasons cannot be more than a few hundred. HF2045 would make the Iowa tax system much less fair, shifting the burden of financing state government from retirees, particularly those with large private pension incomes, and higher incomes overall, to working families and individuals. If 500 seniors a year are induced to remain in Iowa by this tax break, which is probably much too high an estimate, the bill represents an expenditure of $450,000 per senior retained each year. This is funding that could be better used to replenish the Senior Living Trust Fund to ensure that services to the needy elderly are not slashed when the next recession hits the state, or to maintain quality education for the children and grandchildren of those retirees. The bill will take an ever larger share of general fund revenues in future years as the Iowa population continues to age, guaranteeing a chronic fiscal problem for the state.

Notes

1 Legislative Services Agency, Fiscal Services Division, Fiscal Notes on HF2045 dated Feb. 7, 2006, Jan. 31, 2006, and Jan. 30, 2006. The estimated cost of the original proposal to exempt all Social Security and pension income was $198 million. The estimate of the cost of the low-income exemption, if it were to stand alone, was $79 million (amendment H-8005). The combined fiscal effect is $227 million because the tax savings overlap for some taxpayers.

2 Percent of returns with the primary taxpayer (or both taxpayers) age 65 or older who had no tax liability for tax year 2003. Data from the Iowa Department of Revenue. For only those returns where both taxpayers were 65 or older, the percentage with no tax was 47 percent.

3 Missouri's exemption is phased out at $25,000 (single) or $32,000 (joint). Railroad retirement income is not taxed in any of the five states. Wisconsin will fully exempt Social Security starting in 2008. Source: www.retirementliving.com.

4 The top marginal tax rates in Minnesota (7.85 percent), Wisconsin (6.75 percent), Nebraska (6.84 percent), and Kansas (6.45 percent) are below Iowa's top rate of 8.98 percent, but these four states do not allow a deduction for federal income taxes. After accounting for federal deductibility, the effective marginal rate for the wealthiest Iowans (those in the 35 percent federal tax bracket) is 6.0 percent, while the marginal rate for those facing the top Iowa rate but in the 25 percent federal tax bracket is 6.9 percent. Missouri caps the deduction for federal taxes at $5,000 (single) or $10,000 (joint), and has a top rate of 6.0 percent.

5 Estimates based on 2000 census data show that about 58 percent of persons age 65 and older who migrated from Iowa to another state between 1995 and 2000 had family income under $30,000. These estimates were found by the author using the 5 percent Public Use Microdata Sample.

6 "Which States Give Retirees the Best Deal?" A report by Kiplinger's available online at http://moneycentral.msn.com/content/Retire-mentandWills/P45875.asp. The report is not dated, but has remained unchanged since at least April 2003, and thus must be based on state tax laws for 2002 or earlier.

7 None of the differences in migration rates were statistically significant.

8 The difference in rate for Illinois (compared to Iowa) was statistically significant, while that for South Dakota was not. The differences in rates for Kansas, Missouri and Wisconsin were all statistically significant.

9 Iowa Department of Revenue, Issue Paper: State Tax Policy Implications of an Aging Population. Revised version <http://www.state.ia.us/tax/taxlaw/IssuePaper1-AgingPopulation.pdf> posted on the department web site approximately Feb. 6, 2006. Criticisms of the study by Donald Racheter of the Public Interest Institute (PII) are mostly off the mark. (Issue Brief: Iowa Tax Policy and Outmigration, http://www.limitedgovernment.org/). Racheter correctly raised a problem of collinearity and suggested alternative regression analyses that would correct that problem; these additional analyses had been done by the Department and were referenced (but not shown) in the original report. These additional analyses resulted in the same conclusions; they are now part of the appendix. The PII report also appears to misunderstand the basic use of regression analysis, which is to include in one equation all of the measurable factors thought to influence migration choices and to control for variation statistically. The use of a dummy variable for proximity to Iowa, for example, accomplishes much the same thing as doing a separate regression for neighboring states, as Racheter would prefer, and inclusion of all variables in one regression controls at the same time for the influence of climate (for example, the significant difference between Minnesota and Missouri). A separate regression, moreover, would drastically reduce sample size (to seven surrounding states). The PII report offers no data supporting the contention that taxes are important, but simply cites two persons' "professional opinions."

10 During the 1995 to 2000 period, younger people (age 20 to 64) moved at three times the rate as seniors, and they moved to pretty much the same places as the elderly. The top 12 destination states for those under 65 were all among the top 13 states for the elderly.

11 Legislative Services Agency, Fiscal Services Division, "Taxpayer Migration – Iowa to Texas and Arizona." Feb. 10, 2005.

12 For assumptions underlying these tax computations, and for additional comparisons of tax payments by elderly and non-elderly single persons and married couples under current law, see Charles Bruner and Mike Crawford, Iowa's Personal Income Tax: Reform for Iowans at Any Age, Iowa Fiscal Partnership, April 2005. Available at: http://www.iowafiscal.org/documents/050419-ifp-tax.pdf.

13 See Bruner and Crawford, above.

14 Assuming that the alternative tax calculation in HF2045 is extended to single persons, the tax on this person would be equal to the top tax rate times the excess of his or her net income from all sources ($55,000) over the zero-tax threshold of $36,000 (i.e., 8.98 percent of $19,000, or $1,706), or the regular tax, whichever is less. The regular tax on $40,000 of taxable income for 2005 would be $2,086, assuming the standard deduction.

15 Legislative Services Agency, Fiscal Note on Amendment H-8005 to HF2045, Jan. 31, 2006. Because of the alternative tax calculation, persons with income above these amounts would get some benefit as the threshold is phased out.

16 Charles Bruner and Mike Crawford, Iowa's Personal Income Tax: Reform for Iowans at Any Age, Iowa Fiscal Partnership, April 2005. Available at: http://www.iowafiscal.org/documents/050419-ifp-tax.pdf. See also Older Iowans, Economic Security, and State Fiscal Policy, Iowa Fiscal Partnership Backgrounder, Jan. 9, 2006, available at: http://www.iowafiscal.org/2006docs/060109-IFP-elderly.pdf.

Migration of Seniors from Iowa and Surrounding States, 1995-2000
Part A: All Persons Age 65 and Older

	Moved from (state of residence in 1995)							
Moved to (state of residence, 2000)	Illinois	Iowa	Kansas	Minnesota	Missouri	Nebraska	S.Dakota	Wisconsin
States with no income tax or with all retirement income exempt								
Texas	3,962	1,571	1,688	1,515	2,491	694	351	1,001
Florida	15,023	1,363	921	3,634	3,696	579	150	5,033
Illinois		1,188	272	360	2,022	159	72	2,199
South Dakota	135	446	65	529	46	391		86
Nevada	2,257	279	251	582	390	188	66	625
8 others	4,997	782	2,062	1,087	2,331	731	353	1,204
Sub-total	26,374	5,629	5,259	7,707	10,976	2,742	992	10,148
Percent of all seniors[1]	**1.8%***	**1.3%**	**1.5%***	**1.3%**	**1.5%**	**1.2%**	**0.9%***	**1.4%**
States with smaller retirement exemption than Iowa[2]								
Minnesota	1,128	1,133	110		213	236	527	1,817
Missouri	3,574	1,072	3,287	445		570	121	442
Nebraska	222	742	402	163	315		324	115
Wisconsin	5,216	499	89	2,059	339	85	107	
Kansas	412	285		144	3,573	526	43	48
8 others	1,609	506	460	1,329	608	328	418	476
Sub-total	12,161	4,237	4,348	4,140	5,048	1,745	1,540	2,898
Percent of all seniors[1]	**0.8%***	**1.0%**	**1.2%***	**0.7%***	**0.7%***	**0.8%**	**1.4%***	**0.4%***
Iowa	1,206		139	757	777	838	209	695
Totals: All States								
Total Moving to another state	73,413	15,770	14,792	21,060	27,384	8,669	4,330	23,008
Percent of all seniors[1]	**4.9%***	**3.6%**	**4.2%***	**3.6%**	**3.6%**	**3.7%**	**4.0%**	**3.3%***
Moving from another state	30,294	10,843	14,357	14,923	27,897	6,780	4,084	19,046
Net migration	-43,119	-4,927	-435	-6,137	513	-1,889	-246	-3,962
Percent of all seniors[1]	**-2.9%***	**-1.1%**	**-0.1%***	**-1.0%**	**0.1%***	**-0.8%***	**-0.2%***	**-0.6%***
Total residents age 65 or more	1,489,143	435,401	354,588	591,186	753,858	231,903	107,910	700,307

Part B: Persons age 65 or older with family income of $30,000 or more and pension income over $5,000

	Moved from (state of residence in 1995):							
Moved to (state of residence, 2000)	Illinois	Iowa	Kansas	Minnesota	Missouri	Nebraska	S.Dakota	Wisconsin
States with no income tax or with all retirement income exempt								
Florida	2,880	471	193	934	695	90	36	1,273
Texas	529	327	91	318	597	87	69	202
Illinois		33	60	31	189	18	27	237
South Dakota	25	23	10	84	0	44		0
Nine other states	1,471	93	382	208	564	265	45	365
Sub-total	4,905	947	736	1,575	2,045	504	177	2,077
Percent of higher-income seniors[1]	**2.5%**	**2.2%**	**1.7%***	**2.0%**	**2.0%**	**2.3%**	**1.9%**	**2.3%**
States with smaller retirement exemption than Iowa[2]								
Kansas	0	64		0	245	26	0	0
Minnesota	154	144	37		23	36	31	193
Missouri	372	103	337	67		171	62	41
Nebraska	18	9	18	0	0		41	32
Wisconsin	714	28	0	360	14	13	0	
Eight other states	257	81	111	125	43	70	37	64
Sub-total	1,515	429	503	552	325	316	171	330
Percent of higher-income seniors[1]	**0.8%**	**1.0%**	**1.2%**	**0.7%**	**0.3%***	**1.5%**	**1.8%***	**0.4%***
Iowa	242		0	48	34	51	0	8
Totals: All States								
Moved to another state	13,291	2,347	2,019	3,963	4,324	1,432	783	4,016
Percent of higher-income seniors[1]	**6.7%***	**5.4%**	**4.7%***	**5.1%**	**4.3%***	**6.6%***	**8.3%***	**4.4%***
Moved from another state	3,895	993	1,492	1,704	4,251	660	314	2,774
Net migration	-9,396	-1,354	-527	-2,259	-73	-772	-469	-1,242
Percent of higher-income seniors[1]	**-4.8%***	**-3.1%**	**-1.2%***	**-2.9%**	**-0.1%***	**-3.6%**	**-5.0%***	**-1.3%***
Total number of higher-income seniors	197,744	43,759	43,260	77,602	100,020	21,605	9,406	92,154

Source: For all seniors: Census 2000 PHC-T-23, Migration by Sex and Age for the Population 5 Years and Over. For higher-income seniors: Census 2000 5% Public Use Microdata Sample.

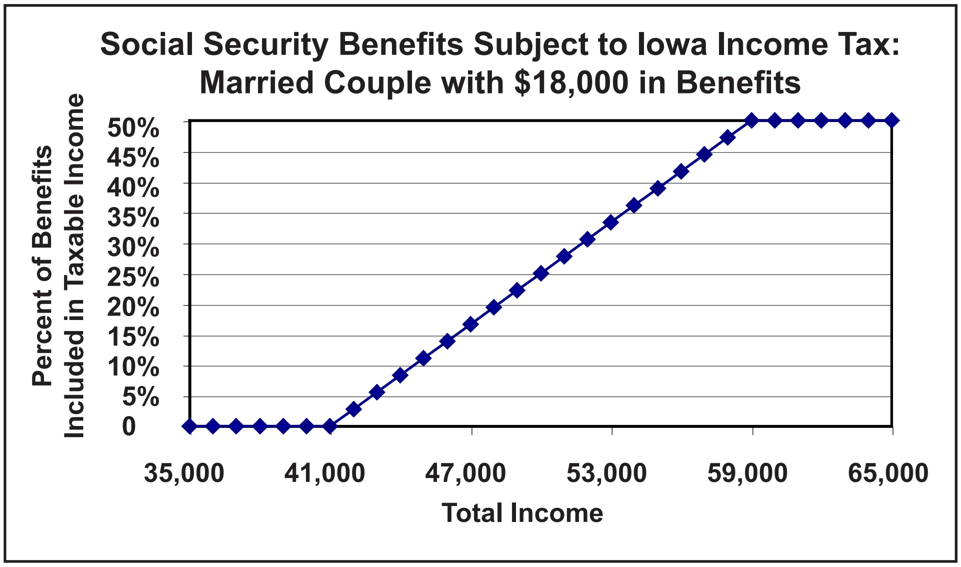
*We can say with 95 percent confidence that the percentage is different from Iowa's. That is, the 95-percent confidence interval for the difference between that state's migration rate and Iowa's rate does not include zero.

1 Number of seniors who moved to those states over the period as a percent of the total number of seniors (Part A) or total number of higher-income seniors (Part B) residing in the state as of 2000 Census.

2 Ten of these 13 states have no pension exclusion; the rest offer smaller exclusions than Iowa. Ten of the 13 use the federal Social Security exemption, so that up to 85 percent of benefits are taxable. All tax more retirement income than Iowa.

Appendix: How Iowa Currently Exempts Social Security Income

To determine if one's Social Security benefits are subject to tax, the taxpayer completes a worksheet included in the Iowa 1040 instructions. The first step calculates "provisional income," which is the total of most sources of money income (including all pension income and tax exempt interest) but excluding half of Social Security benefits. If provisional income for a married couple is $32,000 or less (whether they file jointly or separately), then 100 percent of their Social Security benefits are tax exempt. Half of the provisional income in excess of this amount is added to taxable income until an income level is reached at which the maximum of 50 percent of benefits are taxed.



The exemption and its phase-out are illustrated in the figure to the right for an elderly married couple who receive an average amount of Social Security benefits — $18,000 per year.* As long as their income from other sources (interest, dividends, pensions, IRA distributions, etc.) is less than $23,000, this couple does not pay tax on any of their Social Security benefits, because $23,000 plus half of their Social Security income produces a provisional income of just $32,000. If the couple's other income is between $23,000 and $41,000 (that is, their total income is between $41,000 and $59,000), they must include an increasing percentage of Social Security benefits in their taxable income. At a total income level of $59,000 or more, the maximum of 50 percent of benefits is taxable.

For single taxpayers, the provisional income threshold is $25,000. An individual with $10,000 in Social Security benefits, for example, could earn $20,000 in other income (for a total income of $30,000) and still have just $25,000 in provisional income ($20,000 plus half the Social Security benefit). This would allow him or her to pay no taxes on the $10,000 in Social Security income.

* Social Security Administration, Social Security Bulletin, Annual Statistical Supplement, 2005, Table 5.A1, shows that the national average monthly retirement benefit for a white worker in December 2004 was $973 and for the spouse of a retired white worker was $490. We added these two figures, converted to annual, and rounded up to the nearest thousand for the illustration.

Iowa Fiscal Partnership

The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans. IFP reports are available on the web at http://www.iowafiscal.org.