Sen. Chuck Grassley · Iowa
Ranking Member

http://finance.senate.gov
Press_Office@finance-rep.senate.gov

Floor Speech of Sen. Chuck Grassley
on Tax Issues Relating to Seniors
Delivered, Wednesday, Sept. 17, 2008

Today I want to talk about an important segment of our nation's population – America's seniors. Our senior population has seen a rapid growth in the 20th century. As of the year 2000, there were about 35 million people who were 65 or older. Compare this with 3.1 million people at the beginning of the 20th century. Today, about 37 million people are age 65 or older. This amounts to about 12 to 13 percent of our population. In 2011, the first baby boomers turn 65. This will mark the beginning of an explosion in our senior population. By 2030, the senior population will be twice as large as in 2000 – growing from 35 million to 72 million.

You may ask, why am I citing these numbers? My Senate colleagues may think that I am setting the stage for a lengthy discussion about our entitlement programs – Social Security and Medicare. While the impending entitlement crisis does require my attention – along with the attention of every member of Congress – very very soon, I want to discuss an issue that is at the center of this year's political debate. And that is TAXES. Yes, taxes on seniors.

I want to explain to my Senate colleagues and my friends in the media how seniors are taxed under our current laws. I also would like to talk about how the Republican and Democratic presidential candidate's tax plans will affect seniors. With the significant increase in our older population looming, those who are currently 65 and over – and those who will be turning 65 over the next two decades – should pay close attention to the tax changes they will face under a Republican OR Democratic Administration. People should not only be wary of campaign promises, they must also understand the flaws of any tax proposal. "Change" may result in higher taxes.

I want to start by picking up off of a speech I gave back in July. That speech featured Rip Van Winkle. In that speech, I explained how a charismatic, likeable, articulate young governor from Arkansas barnstormed across America as the Democratic Presidential Candidate. That candidate – now former President Bill Clinton – had a battle cry: "Putting People First" and "Middle Class Tax Fairness." It sounds familiar doesn't it?!?

Another familiar tune is what Candidate Clinton was saying back in 1992. He said, if elected, "the only people who will pay more income taxes are those living in households making more than

$200,000 per year." If elected, the junior Senator from Illinois says he will only raise taxes on families earning $250,000 or more.

But once Candidate Clinton was sworn in as President Clinton, that campaign promise was quickly discarded. In 1993, President Bill Clinton and a Democratic Congress enacted the largest tax increase in history. Those are not my words. The late, great Chairman of the Finance Committee, Patrick Moynihan, termed it, "the largest tax increase in the history of public finance in the United States or anywhere else in the world." And much to the voters' surprise, the tax increase was on people who earned more than <u>$20,000</u>, not just those earning more than <u>$200,000</u>.

So the moral of this story is that Candidate Clinton – who promised middle-class tax relief – raised taxes on hard-working middle-class taxpayers once he became President Clinton. This obviously was not "change" you could believe in.

The reason why I told that story, was to tell this story. Not only did President Clinton raise taxes on the middle-class, President Clinton raised taxes on seniors. That's right, <u>taxes were raised on seniors</u>. What was this tax increase? It was an added tax on Social Security benefits. Let me take a moment to explain how this tax currently works. Prior to the 1993 tax increase, married seniors with incomes less than $32,000 did not pay taxes on their Social Security benefits. For single seniors, those with less than $25,000 paid no taxes on their Social Security benefits.

However, single seniors with incomes over $25,000 and married seniors with incomes over $32,000 paid income tax on 50 percent of their Social Security benefits. The revenue raised from this tax is directed to the Social Security Trust Fund. These rules remain in place today. Under the 1993 tax increase, single seniors with incomes over $34,000 – and married seniors with incomes over $44,000 – were required to pay income tax on <u>85 percent</u> of their Social Security. This so-called Tier Two Social Security Tax is still part of our tax laws. The revenue generated from the Tier Two Tax is directed to the Medicare Trust Fund.

Let me pause for a moment to show you how many seniors actually pay the Tier One and Tier Two Social Security Tax. You can see here that in 1994 – the tax year the Tier Two Tax became effective – almost 6 million seniors paid income tax on their Social Security benefits. This includes single and married seniors. Compare this with 2005 – the most recent year we have accurate data from the IRS – around 12 million seniors paid the Tier One and Tier Two Social Security Tax.

So you can bet your bottom dollar that seniors with incomes less than $200,000 were surprised when they saw their taxes increase in 1993. Why? Because Candidate Clinton assured them that their taxes would not go up. Not only did their taxes go up, they had to give back a significant portion of their Social Security benefits to the government – benefits that they worked a lifetime to receive. Will America's seniors – and the middle-class, for that matter – have to wake up to higher taxes after the 2008 election, much like Rip Van Winkle woke up to a different, changed world? Will Senator Obama's "change" be something that seniors can believe in? Could history repeat itself?

I would now like to explain how the 2001 and 2003 BIPARTISAN TAX RELIEF benefits America's seniors. I would like to specifically focus on the 2003 tax relief. Why? Because in 2003, Congress reduced the top tax rate on capital gains from 20% to 15%. Congress also tied dividend income to the capital gains tax rate instead of a taxpayer's marginal tax rate. That is, 15%. For low-income taxpayers, the tax rate on capital gains and dividends is currently zero. That's ZERO, with a capital Z.

Now, how does a lower capital gains and dividend income tax rate benefit seniors? Census Bureau statistics show that about 23% of taxpayers claiming dividend income are 65 or over. A nonpartisan tax research group – the Tax Foundation – shows that nearly 26% of all taxpayers claiming capital gains are seniors 65 or older. So, a considerable number of seniors rely on investment income as the cornerstone of their overall income.

Now, the Democratic Leadership may file onto to this floor and tell you that the majority of seniors' income is locked away in retirement plans and IRAs. And because of this, they don't need the favorable tax relief for capital gains and dividend income.

Well, I have news for them. First – as I just pointed out – a large number of seniors rely on a stable flow of income that dividends provide. Add seniors' reliance on capital gains, and you see that any reduction in investment income through higher taxes will hurt seniors.

Let me show my Democratic colleagues and friends in the media the tax savings that seniors currently enjoy due to the lower tax rates. As you can see here, seniors with incomes under $50,000 earning dividend income see the biggest tax savings. Their tax liability is 17% less than what it would be if the favorable tax relief expired!! This portion of the chart also illustrates how much more seniors rely on this favorable tax treatment than taxpayers of all ages. For all other taxpayers, their tax liability is 7.6% less.

Now let's look at seniors claiming capital gains. As you can see, seniors with incomes under $50,000 pay about 13% less in taxes than they would without the favorable tax relief for capital gains. That's a significant chunk of change for these seniors.

So you can see, my Democratic friends don't have a stool to stand on. They may come out here like the Big Bad Wolf and huff and puff about how seniors do not benefit from the 15% capital gains and dividend income tax rate. But the facts are clear! Seniors rely on capital gains and dividend income to maintain their standard of living and pay their medical expenses. Seniors benefit significantly from the favorable tax treatment on capital gains and dividend income, especially low-income seniors!!

So the moral of this story is that lower tax rates on investment income means that these seniors can keep more of their earnings to pay for life's necessities. Taking these tax benefits away from seniors – who most typically live off of a fixed income – would severely impact how they live.

My Democratic colleagues here in Congress actually want to take away the 2003 tax relief for seniors. For example, in March of this year, this body took an important vote. Myself – along with my Senate colleagues – voted on an amendment to the budget that would have allowed the 15% capital gains and dividend income rates to be extended. <u>Every Democrat voted NO</u>. That's right – if the Democrats get their way, this favorable tax treatment <u>will go away for seniors</u>.

I voted to extend the 15% capital gains and dividend income tax rates. The senior Senator from Arizona voted YES. Interestingly, the junior Senator from Illinois voted NO. My friend's vote is interesting because the junior Senator from Illinois is now barnstorming across America campaigning to be President – much like former President Clinton did.

On the stump, my friend from Illinois has stated that he does not want the 15% capital gains and dividend income tax rates to go away – at least for families earning less than $250,000 a year.

Let me repeat that -- the junior Senator from Illinois – whose word is his bond – voted to allow the 15% capital gains and dividend income tax rates to expire. But now, my friend is saying that he wants this tax relief to stick around. To a degree, I'm glad he had a change of heart. But the more I think about it, the more I wonder whether the junior Senator from Illinois will stick by his campaign promise if elected. Candidate Clinton failed to stick by his campaign promise when he became President Clinton.

So maybe my Democratic friends will be the Big Bad Wolf after all. They will huff and puff and let the 15% capital gains and dividend income tax rate expire. And I'm not sure if a President Obama will be living in a brick house. His house may be made of straw. And his campaign promise of extending the 15% capital gains and dividend income tax rate for families earning less than $250,000 may be blown down. Former President Clinton's promise was blown down. And we saw the biggest tax increase in history. I wouldn't want history to repeat itself.

Let's focus in on how seniors would be affected under a Republican OR Democratic Administration. Let me start with a Republican Administration, because Senator McCain's tax plan is straightforward. That is, my friend from Arizona would continue the current 15% capital gains and dividend income tax rates. My friend would also continue the tax rate of 0% for low-income taxpayers. Yes, it is as simple as that.

Seniors under the tax plan proposed by the senior Senator from Arizona would continue to benefit from lower tax rates. This will allow seniors to maintain their current standard of living. These taxpayers will be able to age with dignity.

The Democratic presidential candidate's tax plan for seniors is much more complicated. But first, let's keep it simple. Although the junior Senator from Illinois voted to allow the 15% capital gains and dividend income rates to expire, he is now saying that he wants to keep this favorable tax treatment for families earning less than $250,000. It seems my friend from Illinois thinks the BIPARTISAN TAX RELIEF is good and should continue for most taxpayers. However, his Democratic colleagues in the House and Senate don't think so. After all, they voted to allow the 15% capital gains and dividend income tax rate to expire.

So I ask, if Senator Obama is elected on November 4th, will he be able to convince his Democratic colleagues to continue this favorable tax treatment? President Clinton was unable to stop a Democratic Congress from increasing taxes in 1993. I wouldn't want history to repeat itself.

I also want to spend some time discussing a proposal that my friend from Illinois has discussed on the campaign trail. Senator Obama has proposed to exempt seniors with incomes less than $50,000 from income taxes. This sounds pretty good, doesn't it?! I mean, for 2007, the median income for people 65 and over was close to $28,000. But if you take a closer look, there are a number of flaws.

These are not my words. The Tax Policy Center – a non-partisan think tank that has received notoriety for analyzing Senator McCain and Senator Obama's tax plans – states that, "the proposal is poorly designed."

They also say that the proposal "creates inequities between older and younger workers with the same income." The AARP – the powerful seniors' lobby – hasn't even highlighted the proposal in communications with its membership on the Presidential race.

But I would like to highlight this proposal and expose its flaws. Why? Because I don't want our seniors to believe in a campaign promise that my friend from Illinois can't deliver on.

First, the $50,000 exemption amount is not indexed. This means that it will erode over time, becoming less and less valuable to seniors.

Second, the $50,000 threshold is a "cliff." This means that seniors with $1 over $50,000 won't qualify for the exemption. This may encourage seniors to stop working just because they don't want their incomes going over $50,000.

Third, the $50,000 exemption amount applies to both single and married taxpayers. This produces a marriage penalty that is unfair to married seniors.

Finally, this proposal – exempting seniors making less than $50,000 from paying income taxes – would add to the Social Security and Medicare deficits. This may not be such a big deal to seniors, but it is a <u>BIG</u> deal to me. And it should be a <u>BIG</u> deal to every member of Congress.

Let me tell my colleagues and my friends in the media how this proposal would add to the Social Security and Medicare deficits. As I discussed earlier, our current tax laws require seniors with incomes over $25,000 and $32,000 to pay income taxes on their Social Security benefits. According to preliminary data released by the IRS, close to 14 million seniors paid income tax on their Social Security benefits in 2006.

This is because many seniors continue to work. Or they retire, but earn interest income, capital gains and dividend income, or rental income. Even half of their Social Security benefits are taken into account for purposes of determining whether a taxpayer must pay income taxes on their Social Security benefits.

Now, there are many seniors who are earning less than $50,000, but more than $25,000 and $32,000. Currently, the income taxes that these seniors pay on their Social Security benefits goes directly to the Social Security and Medicare Trust Funds. This means that if these seniors are exempt from taxes, less tax revenue would be flowing into Social Security and Medicare. The Social Security and Medicare Trustees are already projecting that the Medicare Trust Funds will run out of money in 2019 and the Social Security Trust Fund will follow in 2041. Eliminating sources of revenue that these Trust Funds currently rely on will only speed up this impending crisis.

Now my friend from Illinois may say that he will make up for this revenue loss by raising payroll taxes on families earning more than $250,000 a year. But his campaign has recently stated that any increases in payroll taxes on these workers would be phased in over 10 years. This means that the revenue Senator Obama was relying on to make up for the revenue loss that would result from the seniors' tax exemption won't be there. I'm not sure about you, but making a campaign promise that will balloon the Social Security and Medicare deficits is <u>not good judgment</u>, especially when the baby boomers are on the verge of turning 65. And when our seniors' population is projected to explode over the next two decades.

Now, I wanted to save the best for last. I want to say it loud and clear so that my friends in the media and our nation's seniors can hear me. At the end of the day, <u>seniors will see their taxes go down under Senator McCain's tax plan</u>. Especially married seniors.

That's right, low- and middle-income seniors who are married will be taxed <u>less</u> than the Democratic tax plan. Single seniors will also enjoy tax relief under the McCain tax plan.

Let me explain how. My friend from Arizona is doing the right thing and reducing the corporate tax rates. After all, our nation has the second highest corporate tax rate in the world. Do you know what high corporate tax rates do? They cause companies to move their operations overseas so they don't have to pay higher taxes. Both Senator Obama and Senator McCain have alluded to the competitive problem of our nation's high corporate tax rates.

There is an added benefit of reducing corporate tax rates. What's the benefit? The answer is a tax cut for middle-class seniors. How? Well, the incidence of the reduction of corporate tax rates falls on <u>capital</u>. I am not pulling this fact out of thin air. The Congressional Budget Office tells me that the burden of the corporate tax falls on capital. So does the Tax Policy Center.

So, because seniors hold investments in corporations – as evidenced by the fact that almost a quarter of all Americans claiming dividend income are seniors – they will see the benefits of lowering corporate tax rates. This means that they will see their taxes <u>go down</u> if the corporate tax rate is reduced. Married seniors in particular will see their taxes go down more than the tax plan my friend from Illinois has proposed. And in some cases, seniors' taxes would <u>go up</u> under the Democratic tax plan.

Let me be a little more specific here. The Tax Policy Center has indicated that low-income seniors – those earning up to $32,000 – would see their taxes <u>go up</u> by close to $150 under the Obama tax plan. Contrast this with Senator McCain's plan, where these same low-income seniors would see a <u>tax cut</u> of over $150.

Now my Democratic friends may not believe me. After all, the junior Senator from Illinois has promised NO NEW TAXES for families earning less than $250,000. And that these taxpayers would receive a tax cut. But see here, it's in black and white. According to the Tax Policy Center, seniors with total income up to approximately $24,500 and $32,000 would see a <u>tax cut</u> of $186 and $154 respectively. That's under the McCain plan. Under the Obama plan, these same seniors would see their taxes <u>GO UP</u> by $157 and $131 respectively. That's a <u>tax increase</u>!

And if your income is around $83,000, you see a tax increase of $364 under the Obama plan. Compare this with a $431 tax cut under the McCain plan.

Let's look at single seniors for a moment. If you are a single senior with total income of around $21,000, you'll see your taxes go up by $118 under Senator Obama's tax plan. Under Senator McCain's plan, your taxes GO DOWN by $140.

So I ask the junior Senator from Illinois whether he would like to revise and extend his remarks. He says no new taxes and tax cuts for people making less than $250,000. But as we can see here, that's just not true. And the tax increase is on one of the most vulnerable segments of our society – SENIORS.

I would like FACT-CHECK dot ORG to post the Tax Policy Center's numbers on their web site. And I want seniors in Pennsylvania, Florida, Ohio, Missouri, and my home state of Iowa to hear me. Don't buy a pig-in-a-poke. Be wary of a unified government. A Democratic Congress will let the tax rates on capital gains and dividends expire. And who knows what an Obama Administration will do.

The Democratic presidential candidate is promising that your tax relief will stick around. But we've seen this movie before. It debuted back in 1993.

But under a Republican Administration, you can bank on a tax cut being there. Why? Because I agree with my friend from Arizona that we ought to cut taxes for seniors. Let's keep the tax burden on seniors low!!

-30-