

Summary of Senator Grassley's Floor Speech on Tax Issues Relating to Seniors

On September 17, 2008, Senator Grassley delivered a floor speech discussing tax issues relating to seniors 65 or older. The text of the speech and charts used in the speech are available at <http://finance.senate.gov/press/Gpress/2008/prg091708.pdf>. The speech makes the following points:

1. Approximately 23% of all taxpayers claiming dividend income and nearly 26% of all taxpayers claiming capital gains are seniors 65 or older. This means that a significant number of seniors benefit from the lower dividend income and capital gains tax rates that were enacted in 2003, and set to expire at the end of 2010. For example, seniors with incomes under \$50,000 earning dividend income pay 17% less in taxes than they would if the lower dividend tax rate expired. Similarly, seniors with incomes under \$50,000 claiming capital gains pay about 13% less in taxes than they would without the favorable tax relief for capital gains.
2. The tax plan proposed by Senator McCain would reduce taxes for seniors 65 or older, especially married seniors. Senator Obama's tax plan, on the other hand, would raise taxes on many seniors.
3. According to the Tax Policy Center, under the McCain tax plan, married seniors with total income up to approximately \$24,500 and \$32,000 would see a tax cut of \$186 and \$154 respectively. These same seniors would, on the other hand, see their taxes go up by \$157 and \$131 respectively under Senator Obama's tax plan. If these same married seniors' income is around \$83,000, their taxes will go up by \$364 under Senator Obama's tax plan. Compare this with the \$431 tax cut these seniors would receive under Senator McCain's tax plan. 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 plan, while the taxes for these same seniors would go down by \$140 under Senator McCain's plan.
4. The tax cuts for seniors under Senator McCain's tax plan is a direct result from a reduction in the corporate tax rates. Specifically, according to the Congressional Budget Office and the Tax Policy Center the incidence of the reduction of corporate tax rates falls on capital. Because seniors hold investments in corporations – as evidenced by the fact that almost a quarter of all Americans claiming dividend income and capital gains are seniors – they will see the benefits of lowering corporate tax rates.
5. Senator Obama's proposal to exempt seniors with incomes less than \$50,000 from income taxes is flawed for the following reasons: 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.

Questions and Answers on Tax Issues Related to Seniors

Question #1: Do seniors claim dividend income and capital gains?

Answer #1: Approximately 23% of all taxpayers claiming dividend income and nearly 26% of all taxpayers claiming capital gains are seniors 65 or older. This means that a considerable number of seniors rely on investment income as the cornerstone of their overall income.

Question #2: How does a lower capital gains and dividend income tax rate benefit seniors?

Answer #2: Seniors with incomes under \$50,000 earning dividend income pay 17% less in taxes than they would if the lower dividend tax rate expired. Similarly, seniors with incomes under \$50,000 claiming capital gains 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.

Question #3: What are the effects of Senator McCain's tax plan on seniors?

Answer #3: Senator McCain's tax plan reduces taxes for seniors, especially married seniors. This is a direct result from a reduction in the corporate tax rates. Specifically, according to the Congressional Budget Office and the Tax Policy Center the incidence of the reduction of corporate tax rates falls on capital. Because seniors hold investments in corporations – as evidenced by the fact that almost a quarter of all Americans claiming dividend income and capital gains are seniors – they will see the benefits of lowering corporate tax rates. According to the Tax Policy Center, married seniors with total income up to approximately \$24,500 and \$32,000 would see a tax cut of \$186 and \$154 respectively. And if these same married seniors' income is around \$83,000, they would see a tax cut of \$431. For single seniors with total income of around \$21,000, taxes would go down by \$140.

Question #4: Does Senator Obama's tax plan benefit seniors?

Answer #4: The Tax Policy Center states that “retirees would generally benefit from few of Obama's new tax credit proposals...[i]nstead, increases in the tax rates on capital gains and dividends would hurt the typical older taxpayer more than the typical younger taxpayer, who receives more of his or her income from earnings.” According to the Tax Policy Center, married seniors with total income up to approximately \$24,500 and \$32,000 would actually see their taxes increase by \$157 and \$131 respectively. And if these same married seniors' income is around \$83,000, their taxes will go up by \$364. If you are a single senior with total income of around \$21,000, you'll see your taxes go up by \$118.

Question #5: Would the proposal to exempt seniors with incomes less than \$50,000 be complicated?

Answer #5: Yes. 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.

Tax Cuts and Tax Increases for Seniors Under McCain and Obama Tax Plans (Married Filing Jointly)

MCCAIN PLAN

Total Income	Individual Income Tax	Corporate Tax
\$24,535	0	-186
\$32,209	0	-154
\$46,560	0	-205
\$65,074	0	-231
\$83,065	0	-431
\$111,005	0	-388
\$143,060	-319	-832
\$172,289	-1091	-1302
\$206,747	-1780	-1562
\$275,662	-4760	-2083

OBAMA PLAN

Total Income	Individual Income Tax	Corporate Tax
\$24,535	0	+157
\$32,209	0	+131
\$46,560	-301	173
\$65,074	-1347	195
\$83,065	0	+364
\$111,005	-375	327
\$143,060	-319	703
\$172,289	-1091	1100
\$206,747	-1780	1320
\$275,662	-4847	1759

Tax Cuts and Tax Increases for Seniors Under McCain and Obama Tax Plans

(Single Filers)

	MCCAIN PLAN	Corporate Tax
Total Income		-140
\$21,358	0	-180
\$27,120	0	-253
\$42,259	0	-275
\$55,988	0	-433
\$74,170	0	-727
\$107,661	0	-1350
\$141,607	0	-2389
\$158,165	0	-2867
\$189,798	-1100	=B10
\$253,064	-3393	

	OBAMA PLAN	Corporate Tax
Total Income		+118
\$21,358	0	152
\$27,120	-362	214
\$42,259	-1512	232
\$55,988	-3170	366
\$74,170	-3690	614
\$107,661	0	1141
\$141,607	0	2018
\$158,165	0	-2422
\$189,798	-1100	3229
\$253,064	-3393	

Source: Tax Policy Center

Social Security Benefits Subject to Income Tax

<i>Size of real adjusted gross income</i>	1994 <i>Number of Returns</i>	2005 <i>Number of Returns</i>
Taxable returns	5,778,366	12,018,896
Nontaxable returns	113,547	641,858
No adjusted gross income	1,923	1,799
\$1 under \$5,000	8,269	9,174
\$5,000 under \$10,000	16,757	21,458
\$10,000 under \$15,000	51,535	37,500
\$15,000 under \$20,000	278,794	327,820
\$20,000 under \$25,000	727,216	897,024
\$25,000 under \$30,000	771,696	1,140,682
\$30,000 under \$40,000	1,259,614	1,944,253
\$40,000 under \$50,000	815,261	1,539,959
\$50,000 under \$75,000	1,139,738	2,969,555
\$75,000 under \$100,000	391,702	1,623,288
\$100,000 under \$200,000	316,871	1,566,754
\$200,000 under \$500,000	86,661	433,481
\$500,000 under \$1,000,000	17,668	89,068
\$1,000,000 under \$1,500,000	3,872	24,242
\$1,500,000 under \$2,000,000	1,643	11,126
\$2,000,000 under \$5,000,000	2,073	16,544
\$5,000,000 under \$10,000,000	412	4,263
\$10,000,000 or more	208	2,762

Source: IRS, Statistics of Income Division

Tax Hike Amnesia



1992 Campaign	N	1993 Legislation
	O	
Middle Class Tax Cut Promised	V	Largest Tax Increase Enacted
	3, 1992	