PPI PUBLIC POLICY INSTITUTE

DATA DIGEST

A PROFILE OF OLDER TAXPAYERS

Introduction

Several recent tax proposals, such as deductions for long-term care insurance, caregiving exemptions and credits, health insurance tax credits, and catch-up pension contributions have been targeted at midlife and older persons. However, fewer than two-thirds of all persons aged 65 or older file tax returns, only about half of them have any income tax liability, and fewer than one-third have itemized deductions. Therefore, the intended beneficiaries may not benefit at all from these targeted tax “preferences” unless their design considers the structure of the provision (deduction, exemption, exclusion, credit, etc.) and whether those targeted can avail themselves of it.

Value of Tax Preferences to Older Persons

Tax provisions having the same nominal dollar value may not have equal tax-reduction value to a given taxpayer. For example, the value to the taxpayer of an exclusion from income (such as that provided to workers for employer-provided health insurance), a personal exemption, or a traditional itemized deduction (i.e., one that is “below the line” where the adjusted gross income [AGI] total appears), each equal to $1,000, is actually worth $1,000 times the taxpayer’s marginal tax rate. For someone in the 15 percent bracket, the tax provisions above are worth $150, but are worth $270 for someone in the 27 percent bracket, because that is how much more income that person retains. Greater benefits go to those with higher incomes.

To the taxpayer who has insufficient deductions to exceed the standard deduction, and who, therefore, does not itemize, the $1,000 provision may not be worth anything at all. On the other hand, a tax credit of $1,000 to qualifying taxpayers is worth $1,000 to all, regardless of tax bracket, and is proportionally more valuable to those in lower brackets because it is a larger percentage of their income. However, none of these provisions is available to those whose incomes are too low to pay any taxes. This last issue is of particular importance for older Americans, many of whom do not pay income taxes or file tax returns.

The primary data source for any analysis of tax filers is the IRS’s Statistics of Income Division (SOI), which collects information directly from tax forms. The SOI data contain authoritative information on filing status, deductions, exemptions, sources and amounts of income (both taxable and tax-exempt), AGI, taxable income, tax liability, and numerous other variables. However, the SOI data are not without limitations. Of paramount importance for older persons is that the SOI data do not include non-filers—people who don’t have to file tax returns because their income is too low. As a consequence, it excludes those at the bottom of the income distribution.

Another difference from other data sets is that the unit of analysis—the tax filer—does not necessarily correspond directly to conventional units of analysis such as families or households. A filing unit can be a family or a part of a family or household. There may be several filing units within a household or family.

A third difference is that the conventional income measure used for tax analysis—AGI—is not a comprehensive measure of income. AGI excludes certain forms of income such as tax-exempt interest and most Social Security benefits, as well as other items such as IRA contributions, moving expenses, medical savings accounts, health insurance premiums paid by the self-employed, and contributions to self-employed pension plans. It also excludes numerous items of greater relevance to younger taxpayers, such as employer-provided health insurance, pension contributions, and flexible spending accounts.

Finally, an important limitation of the SOI public use data for analytical purposes is that the file contains no information on individual or family characteristics. For example, it is not possible to determine the age of the tax filer from the tax return alone. The only age information on the tax form is whether the filer claims an additional standard deduction for being age 65 or older. Because many itemize their deductions, this is a faulty indicator of age. However, the IRS does match IRS data with Social Security records for internal purposes, and it is possible to obtain tabulations with age information included. We use that information for this analysis.

One other source of data on tax filers that would be potentially valuable for tax filer analysis is the Current Population Survey (CPS), which includes *imputations*, or assigned values, of tax filer information. Unfortunately, a careful comparison of the CPS taxpayer information tabulated by age and filing status with official IRS data reveals disparities that are too large to make it a useful source of data at this time. Therefore, we rely solely on the SOI data in this report.

How Many File?

The SOI data file for the 1998 tax year shows that almost 16 million tax returns were filed in 1998 in which at least one person was aged 65 or older, covering roughly 21.7 million persons aged 65 or older (Table 1). Given the 1998 population aged 65 and older of 34.4 million persons, just under two-thirds (63%) filed 1998 income tax returns. Of all returns filed in which at least one person was aged 65 or older, about 7 million were single returns, about 5.7 million were joint returns where both persons were aged 65 or older (joint, both 65+) (approximately 11.3 million persons), 2.8 million were returns where only one spouse was aged 65 or older (joint, one 65+), and just over .5 million returns were filed by married persons filing separate returns, heads of households, or widow(er)s.

Because more than one-third of all persons aged 65 or older filed no tax returns in 1998, they presumably had no tax liability in that year. However, there were substantial numbers of *filing units* that included at least one person aged 65 or older who had no taxable income. Of the 16 million returns filed in which at least one person was aged 65 or older, 3.1 million returns, or about one-fifth (19.6%), had no taxable income. These 3.1 million returns represent more than 4.3 million persons aged 65 or over. Add these to the approximately 12.7 million persons aged 65 or older who did not file an income tax return, and we get a total of about 17 million persons aged 65 or older who owed no income tax in 1998, just under half of the total 65+ population (49.4%).

Table 1.
Number and Type of Returns with Persons 65+ (in 000s)

Type of filer	# of filers	# of persons	Filers with taxable income
Single	7,017	7,017	5,657
Joint, one 65+	2,770	2,770	2,279
Joint, both 65+	5,661	11,322	4,491
Married separate, head, or widow(er)	547	547	426
Total	15,994	21,655	12,854

Source: Special Tabulation of Tax Year 1998 Individual Complete Report File, Statistics of Income Division, IRS, May 2001.

Why Do People with No Tax Liability File?

Why do people with no tax liability file federal income tax returns? One explanation might be that they have income withheld by their employer for federal tax purposes, and they need to file to recoup their withheld taxes. Roughly 44 percent of the returns filed by persons 65 or older that had no tax liability did have taxes withheld by their employer, so in all probability, more than four in 10 nontaxable returns were filed to recoup taxes paid. Other situations that might explain why people with no taxable income would file a tax return include: (1) they have more than $400 in self-employment income; (2) they are filing for the Earned Income Tax Credit (people caring for grandchildren can qualify); (3) they owe special taxes, such as those on early pension distributions; or (4) they have income from property that is excluded (such as the sale of a home).

Are There Differences among Types of Filers?

Table 2 below shows the percentage of older filers in each filing status who had selected income sources or types of deduction. As noted earlier, just over one-fifth of filing units had no taxable income, and that percentage was fairly consistent across types of filing units. About one-third (32 percent) of joint (both 65+) returns had wage income, compared with about 20 percent of singles, but more than two-thirds of joint (one 65+) filers had wage income, in all likelihood because the spouse under age 65 was still working.

Table 2.
Percent of Filers Aged 65 and Over with Certain Income Sources or Deductions, 1998

Income source or deduction	Single, 65+	Joint (one 65+)	Joint, (both 65+)
Wages	20	70	32
Taxable interest	88	86	94
Dividends	51	42	56
Capital gains	41	36	48
IRA distribution	21	22	40
Total pensions and annuities	68	64	78
Total Social Security	57	61	70
Taxable Social Security	38	48	55
Itemized deductions	27	36	27
Taxable income	81	82	79

Source: Special Tabulation of Tax Year 1998 Individual Complete Report File, Statistics of Income Division, IRS, May 2001.

Joint (both 65+) returns were most likely to have capital income (interest, dividends, or capital gains), with single filers next likeliest, and joint (one 65+) filers least likely. Two-thirds to three-fourths of filers had pension or annuity income, with joint (both 65+) filers the most likely to have it (78%) and most likely to have income from an IRA. More than half of all joint (both 65+) filers (55%) and just under half of joint (one 65+) filers (48%) had taxable Social Security benefits, while only 38 percent of single filers were taxed on their benefits. Just over one-quarter of all single filers and joint (both 65+) filers itemized their deductions, compared with more than one-third of joint (one 65+) filers.

Those with no *taxable* Social Security benefits are not required to report benefits, so the fact that a higher percentage of filing units (between 15 and 20 percent, depending on filing status) reported Social Security benefits than paid taxes on them merely reflects over-reporting.

Distribution of Filers by Income

Table 3 below provides a more detailed look at the income distribution of filing units aged 65 and older. If we look at all returns for persons aged 65 and older, we see that they are concentrated in the lowest income classes. Almost 45 percent of all returns filed with a person aged 65 or older had an AGI of less than $20,000 (last column), and 60 percent fell below the $30,000 AGI threshold.

Single individuals are the most numerous category of tax filers among older Americans, representing more than 7 million of 16 million filing units, or 44 percent. They also have the highest concentration of low-income persons of any group of filing units. One-quarter of single filers fall into the lowest income class, and another third fall into the next lowest income class, both well above the average for all 65+ filers. Almost three-fourths of single filers have incomes of $30,000 or less.

Based on data from the CPS, we know that nearly three-fourths of single persons aged 65 and older are female, and they are

Table 3. Number and Percentage of Returns in Each Category, by Type of Return, 1998										
Income class ($000)	Single returns, 65+	Percent in income class	Joint returns, both 65+	Percent in income class	Joint returns, one 65+	Percent in income class	Separate, head of household, widow(er)	Percent in income class	Total returns, 65+	Percent in income class
<10	1,767,522	25.19	598,262	10.57	265,600	9.59	101,338	18.53	2,732,721	17.09
10<20	2,292,317	32.67	1,335,182	23.59	551,631	19.92	182,474	33.37	4,361,603	27.27
20<30	917,632	13.08	967,335	17.09	446,549	16.12	93,192	17.04	2,424,708	15.16
30<40	591,546	8.43	607,093	10.72	277,910	10.03	50,622	9.26	1,527,170	9.55
40<50	409,263	5.83	376,369	6.65	209,386	7.56	33,092	6.05	1,028,110	6.43
50<75	591,323	8.43	751,602	13.28	482,917	17.44	43,058	7.87	1,868,900	11.68
75<100	196,229	2.80	426,804	7.54	230,355	8.32	17,459	3.19	870,847	5.44
100<200	180,207	2.57	416,748	7.36	218,507	7.89	17,992	3.29	833,454	5.21
200+	70,690	1.01	181,549	3.21	86,839	3.14	7,664	1.40	346,742	2.17
Total	7,016,728	100.00%	5,660,944	100.00%	2,769,693	100.00%	546,891	100.00%	15,994,256	100.00%
Percent of all returns	43.87%		35.39%		17.32%		3.42%		100.00%	
Source: Special Tabulation of Tax Year 1998 Individual Complete Report File, Statistics of Income Division, IRS, May 2001.										

more likely to be poor or low-income than single males aged 65 and older (Grad, 2002).

By contrast, both types of joint filers—i.e., those with only one person aged 65 or older and those with both persons aged 65 or older—have smaller percentages in both of the two lowest income brackets. The "joint, one 65+" returns represent 2.8 million (17.3 percent) of all 65+ returns. Ten percent of these returns fall into the lowest income class, and an additional 20 percent fall into the next lowest income class. As noted earlier, there is likely to be a wage earner in these families. Seventy percent of "joint, one 65" filers have wage income, compared with only 32 percent of "joint, both 65+" filers and only 20 percent of single filers. Therefore, their income is likely to be higher.

"Joint, both 65+" filers constitute 5.7 million (about 35 percent) of all returns filed by persons aged 65 and older. Nearly 11 percent of these returns are in the lowest income class (below $10,000) and just under one-quarter of them are in the $10,000 to $20,000 income class.

Married persons filing separately, heads of households, and divorced persons make up the remaining 3.4 percent of filers aged 65 and older. Next to single filers, this group has the highest concentration of low-income people of any filing status group. More than 50 percent of all filers in this group have incomes below $20,000.

Conclusion

Although 63 percent of Americans aged 65 and older filed 1998 tax returns, only 80 percent of the filers (50.6 percent of persons) had positive tax liability. Therefore, only about half of older Americans benefit from income tax relief via reduced rates, deductions, or exemptions. Only 27 percent of older filers (17 percent of older persons) itemize deductions and would therefore benefit from "below the line" deductions. "Above the line" deductions, on the other hand, would potentially reach the 50 percent of older persons who file and owe taxes. Refundable credits could reach the nearly two-thirds of older persons who file, since even filers with no tax liability might benefit, and even more might file to obtain a refund.

References

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Written by John Gist
AARP Public Policy Institute
September 2002
AARP 601 E Street, NW
Washington, DC 20049