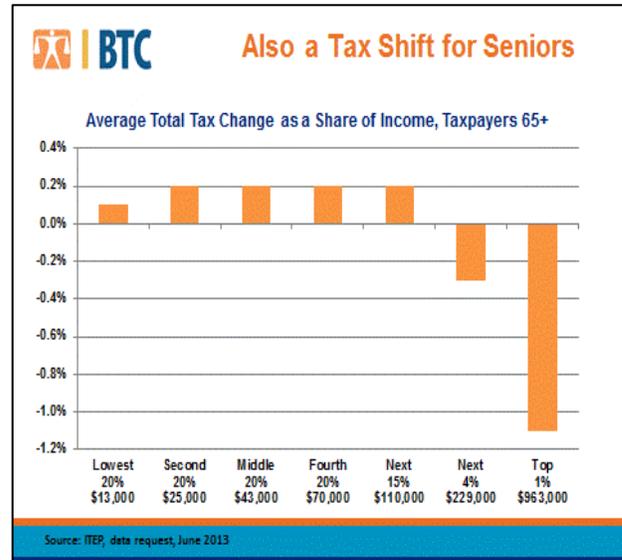


June 2014

The financial security of seniors is vital to local communities across North Carolina and the state's overall economy. Nearly 20 percent of North Carolina's population is age 60 and olderⁱ and over the next 20 years, *one in four* residents is projected be in the 60+ age group.ⁱⁱ Accordingly, tax policy changes that harm this demographic will matter to an increasing number of residents in the years ahead and the communities where they live.

State policymakers passed a tax plan last year that does not bode well for many seniors. The plan includes significant tax changes that make the state's upside-down tax system worse and that will largely benefit the wealthy and profitable corporations. In fact, the bottom 95% of seniors will see their taxes go up on average under the tax plan.

Because these tax changes result in fewer dollars available for core public investments, all North Carolinians, including seniors, will feel the impact. From the lack of teaching assistants, adequate supplies and books in classrooms, to the loss of dollars invested in higher education and job development, to threats to home care and community support for older North Carolinians, we will all suffer the consequences.



Here are some tax changes passed last year that directly impact the financial security of seniors in North Carolina.

Deduction of retirement benefits eliminated under the tax plan. Prior to the new tax changes, individuals receiving non-Bailey retirement benefits as former employees of the state or any of its local governments, or as former employees of the federal government, could deduct up to \$4,000 of retirement benefits when determining income subject to state income tax. Individuals were allowed to deduct up to \$2,000 of retirement benefits received from a private retirement plan.

- ❖ Seniors are longer allowed to deduct this retirement income as of January 1, 2014. This tax change affects a significant share of North Carolinians. The most current federal income tax data available shows that around 20 percent of North Carolina tax filers received income from pensions and annuities.ⁱⁱⁱ

Deduction of medical expenses eliminated under the tax plan. Prior to the tax plan, state tax law allowed tax filers who claimed the federal deduction for unreimbursed medical and dental expenses to also get the deduction when determining state income tax. New state tax law requires individuals who claim a deduction for unreimbursed medical and dental expenses on their federal taxes to add this deduction amount back when adjusting income for state income tax.

- ❖ Seniors spend a significant share of their income on healthcare and medical expense – as much as 20 percent on average of their income before taxes for seniors age 65 and older.^{iv} No longer being able to deduct medical expenses for state income tax purposes represents a tax increase for many seniors.

Tax credit for premiums paid on long-term care insurance eliminated under the tax plan. Prior to the new tax changes, a tax credit of up to \$350 was allowed for premium costs that an individual paid on a qualified long-term care insurance contract that offered coverage to either the individual, the individual's spouse, or a qualified dependent.

- ❖ Over half of people over 65 are expected to need long-term care services such as home-based care, an

assisted living facility, or adult day care, at some point in their lives.^v Medicare and private insurance programs don't pay for many long-term care services. This credit provides an incentive to help people plan for their potential long-term care needs.

Sales tax expanded to goods and services not previously taxed. The tax expands the sales tax to selected goods and services (e.g. warranties on appliances and auto repairs) as well as to entertainment activities – movie theaters and performing arts, for example – that were not taxed prior to the tax plan.

- ❖ Many seniors rely on a fixed-income. Paying more in sales taxes means fewer dollars are available to ensure financial security for low- and middle-income seniors who spend a larger share of their income on goods and services subject to the sales tax compared to the wealthy.

North Carolina's New Tax Code

DETAILS OF 2013 TAX PLAN

Personal income tax

- Three-tier personal income tax rate – 6%, 7%, and 7.75% – replaced with a flat 5.75 percent tax rate by 2015
- Standard deduction increased to a maximum \$15,000 from \$6,000 based on filing status; itemized deductions limited to mortgage interest and property taxes and capped at \$20,000 plus unlimited charitable contributions.
- Personal exemption allowance eliminated and state Earned Income Tax Credit allowed to expire at the end of 2013.
- Child Tax Credit increased by \$25 per child for filers with adjusted gross income below \$40,000
- Business pass-through income deduction and private pension deduction eliminated

Corporate income tax

- Corporate income tax rate to be cut to 5

Sales Tax

- Expanded to include selected services such as warranty agreements for appliance purchases, auto repair contracts, and maintenance agreements.
- Electricity and piped natural gas taxed at combined general tax rate (franchise and excise tax on these items eliminated)
- Manufactured and modular homes taxed at general sales tax rate
- Entertainment and exhibitions taxed at general sales tax rate (privilege tax on these items eliminated)
- Sales tax holidays eliminated

Gas Tax

- Capped the gas tax at 37.5 cents per gallon

percent from 6.9 percent by 2015 and if revenue triggers are met will be reduced to 3 percent by 2017.ⁱ

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ⁱ U.S. Census, 2010 estimates

ⁱⁱ North Carolina Division of Aging and Adult Services; A Profile of People Age 60 and Over, 2012 report.

ⁱⁱⁱ [U.S. Internal Revenue Service, Sources of Income, North Carolina, 2011](http://www.irs.gov)

^{iv} Bureau of Labor Statistics, Consumer Expenditure Survey, 3rd quarter 2012 through 2nd quarter 2013, Table 1300.

^v Swedroe, Larry "Why long-term care insurance is important." CBS News, May 11, 2012.

<http://www.cbsnews.com/news/why-long-term-care-insurance-is-important/>