



STRATEGY 3

Update Tax Policy to Help Older Adults with Lower Incomes

The North Carolina General Assembly should review and update income and property tax policies related to older adults to provide tax relief for those most in need. Tax policies to be reviewed include the Homestead Property Tax Exclusion, Circuit Breaker Tax Deferment, Refundable Earned Income Tax Credit, and the income and age brackets currently in place for older adults..

Desired Result - Older adults most in need will have more money available to help pay for housing, food, transportation, health care, and other essentials.

Why does the task force recommend this strategy? -

Financial resources are a key factor in the ability of older adults to live in a safe home environment, purchase nutritious foods, and maintain their ability to move around in the community. With strained state budgets, targeting tax benefits to lower- and middle-income older adults helps to ensure that public funds are helping those most impacted by limited income and rising housing costs.

Context - Older adults often receive tax benefits from both the federal and state levels. Federal tax benefits for older adults include a limit on the amount of Social Security income that is taxed,^d a larger standard deduction, and subsidies on certain retirement savings. North Carolina and many other states exempt all Social Security income from state taxes, regardless of income.⁵⁵ Ten other states exempt Social Security income taxes for some families depending on income or follow the federal standards.⁵⁵

Property tax can also be a challenge for older adults, even those who own their homes, as some become “house rich, but cash poor” when income decreases but property value increases. Research indicates a direct relationship between increased property tax burden and older adults moving from their homes.⁵⁶

There are currently three property tax relief programs in North Carolina. Participants may enroll in only one of the three programs at a time.

- 1. Elderly or Disabled Exclusion (Homestead Property Exemption)^f** - excludes the greater of the first \$25,000 or 50% of the appraised value of the permanent residence of a qualifying owner; income eligibility of \$33,800 or less for the 2023 tax year
- 2. Disabled Veteran Exclusion^g** - excludes up to the first \$45,000 of the appraised value of the permanent residence of a disabled veteran
- 3. Circuit Breaker Tax Deferment** - taxes limited to 4% of income; must be aged 65 or older or disabled; income eligibility limit \$33,800 for 2023 tax year for full benefit; taxes limited to 5% of income for those up to 150% of the income eligibility limit (\$50,700 for 2023)⁵⁷

Despite the availability of these property tax reduction programs, the AARP Foundation estimates that only 8% of eligible older adults are participating.⁵⁸ County tax administration offices and housing departments typically provide information about these programs on their websites. The AARP Property Tax-Aide program provides help to eligible homeowners and renters who want to

apply for available property tax relief. The program is currently available in six states and is being developed in North Carolina.

How would this impact the health of older adults?



Increased financial resources can be used to help maintain a safe home environment to reduce the risk of falls.



Increased financial resources can help maintain access to transportation into older age, whether that means maintaining a car or using community transportation options.



Increased financial resources will improve older adults’ ability to purchase enough nutritious foods to maintain good health.



Increased financial resources can have a direct impact on older adults’ ability to maintain social connections through access to broadband internet service or participation in community activities.

^D “People with incomes below \$25,000 (\$32,000 for married couples) are fully exempt from paying taxes on Social Security benefits.... For people with incomes between \$25,000 and \$34,000 (\$32,000 and \$44,000 for married couples) up to 50 percent of benefits are taxable and for higher incomes up to 85 percent is subject to tax.” <https://itep.org/state-income-tax-subsidies-for-seniors-2023/>

^E Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, Rhode Island, Utah, and Vermont.

^F G.S. 105-277.1 Elderly or disabled property tax homestead exclusion. https://www.ncleg.net/enactedlegislation/statutes/html/bysection/chapter_105/gs_105-277.1.html

^G G.S. 105-277.1C