CENTER FOR RESEARCH
CROWE
ON THE WISCONSIN ECONOMY
UNIVERSITY OF WISCONSIN–MADISON™

The Economic Impact of Retirement Income Tax Cuts*

Junjie Guo
Research Economist
Center for Research on the Wisconsin Economy
University of Wisconsin – Madison

Ananth Seshadri
Professor of Economics
Mary Sue and Mike Shannon Distinguished Chair
Director, Center for Research on the Wisconsin Economy
University of Wisconsin – Madison

September 25, 2025

*The views expressed herein are those of the authors and not necessarily those of the Center for Research on the Wisconsin Economy, the Department of Economics, or the University of Wisconsin – Madison.

Executive Summary

- In the last 20 years, U.S. states with larger income tax cuts for seniors (aged 65 and above) experienced faster growth in population, real GDP, and employment.
- The finding is robust when we control for concurrent tax changes for other groups, e.g., non-seniors (aged 64 and below), taxpayers at the bottom 90% of the national income distribution, and taxpayers at the top 10% of the national income distribution.
- We estimate that each percentage point reduction in a state's net income tax rate for seniors is associated with an increase in the annual growth rate of state population, employment, and real GDP by around 0.2 percentage points.
- The new policy in Wisconsin, where retirees aged 67 and up are allowed to exclude up to $24,000 in retirement income from state income taxes, is estimated to raise the annual growth rate of the state's population, employment and real GDP by around 0.13 percentage points.

Income tax breaks for seniors (aged 65 and above) exist in every U.S. state that has an individual income tax (Brewer et al., 2023). More of these breaks are being proposed and adopted at both the federal and state level. On July 1, 2025, the U.S. Senate passed a tax-and-spending bill that includes a $6,000 per person deduction for seniors (Ebeling, 2025). On the same day, Governor Evers and GOP leaders in Wisconsin State Legislature reached a budget deal that allows retirees aged 67 and up to exclude up to $24,000 in retirement income from state income taxes (Kremer, 2025).

One argument for these tax breaks is that they “attract and retain retirees, with the presumption that these constituents are especially beneficial for economic growth" (Brewer et al., 2022). This article provides some evidence consistent with this argument.

The vertical axis of figure 1 plots the annualized growth rate of each state’s population in 2005-2024, where the District of Columbia is treated as a state throughout this article. The horizontal axis plots the change in the net state income tax rate for seniors during the same period. The negative slope of the fitted line indicates that states with larger tax cuts for seniors experienced faster population growth in the last 20 years.

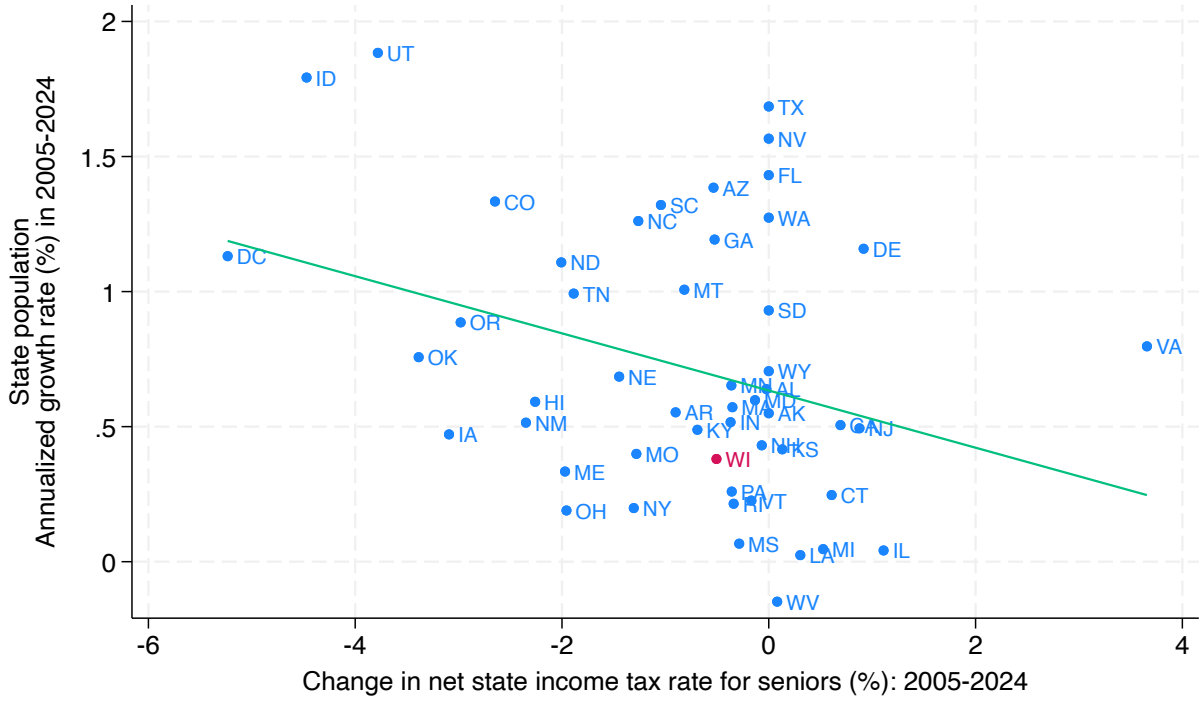

Figure 1: State population and the net income tax rate for seniors: 2005-2024

Figures 2, 3 and 4 at the end of this article show similar patterns for state real GDP, real GDP per capita and employment, respectively. The slope of the fitted line is negative in all three cases, indicating that states with larger tax cuts for seniors also experienced faster growth in real GDP, real GDP per capita and employment in the last 20 years.

Table 1 shows that these patterns are robust when we regress the annualized growth rate of each of the four variables (population, real GDP, real GDP per capita, and employment) against concurrent changes in the net state income tax rate for four groups of taxpayers: seniors, non-seniors (aged 64 and below), taxpayers in the bottom 90% of the national income distribution, and taxpayers in the top 10% of the national income distribution. Estimates in the first row suggest that each percentage point reduction in a state's net income tax rate for seniors is associated with an increase in the annual growth rate of state population, real GDP, and employment by around 0.2 percentage points. The estimate for real GDP per capita is of the same sign but small in magnitude and not statistically different from zero. Together, the estimates suggest that state income tax breaks for seniors have a significant impact on economic growth.

Table 1: State income tax rate and economic growth: 2005-2024

	Annualized growth rate (%) of state			
Change in net tax rate (%) for	population	real GDP	real GDP per capita	employment
Seniors (65 and above)	-0.191	-0.253	-0.059	-0.170
	(0.076)	(0.120)	(0.080)	(0.074)
Non-seniors (64 and below)	-0.287	-0.484	-0.192	-0.485
	(0.222)	(0.441)	(0.378)	(0.317)
Bottom 90%	0.280	0.435	0.152	0.467
	(0.225)	(0.414)	(0.339)	(0.298)
Top 10%	0.099	0.107	0.007	0.136
	(0.055)	(0.109)	(0.085)	(0.066)
Constant	0.811	1.754	0.934	1.264
	(0.137)	(0.241)	(0.161)	(0.136)
Observations	51	51	51	51

Notes. Due to data availability, the growth rate and tax changes in the last column are between 2005 and 2023.

According to Wisconsin Legislative Fiscal Bureau (Lang, 2025), the number of full-year resident filers where at least one individual on the return is aged 67 or older in tax year 2025 is estimated to be 577,080. Among them, 278,162 are estimated to receive a tax cut under the new policy where retirees aged 67 and up are allowed to exclude up to $24,000 in retirement income from state income taxes, and the average amount of tax cuts is $1,010. Using these numbers, we estimate that the policy would reduce the net state income tax rate for Wisconsin's seniors by around 0.63 percentage points. Based on estimates in Table 1, the policy would raise the annual growth rate of Wisconsin's population, employment and real GDP by around 0.13 percentage points.

Data and Measurement

The four outcome variables for each state (population, real GDP, real GDP per capita and employment) are obtained from the U.S. Bureau of Economic Analysis. Let $y_{s,t}$ be the level of one of the four variables in state s in year t. We calculate the annualized growth rate in 2005-2024 for the first three variables as $100 \times [(\frac{y_{s,2024}}{y_{s,2005}})^{\frac{1}{19}} - 1]$. Because state employment is only available until 2023, we calculate its growth rate as $100 \times [(\frac{y_{s,2023}}{y_{s,2005}})^{\frac{1}{18}} - 1]$.

For changes in the net state income tax rate for different groups of taxpayers, we use data from the Annual Social and Economic Supplements (ASEC) to the Current Population Survey (CPS). Conducted monthly by the U.S. Census Bureau on behalf of the U.S. Bureau of Labor Statistics, CPS is the source of official Government statistics on employment and unemployment. ASEC is conducted annually in the months of February, March and April. In addition to the usually monthly labor force data, ASEC provides supplemental data on work experience, non-cash benefits, migration and income, including both total income and income components from the preceding year. Using these information and data from other sources, such as the Internal Revenue Service, the Census Bureau constructs tax filing units from ASEC respondents and estimates the gross income and tax liability for each unit (Lin, 2022).

We categorize all tax filing units in each year into two groups based on age and two other groups based on income. The first group, for seniors, includes (1) married couples filing jointly where at least one spouse is 65 or older, and (2) single filers and household heads who are 65 or older. The second group, for non-seniors, includes (1) married couples filing jointly where both spouses are 64 or younger, and (2) single filers and household heads who are 64 or younger. The third group includes those in the bottom 90% of the national income distribution, and the last group includes those in the top 10% of the national income distribution. The two income groups are defined in the same way as Zidar (2019), who find that tax cuts for the bottom 90% have a significant effect on economic growth, while tax cuts for the top 10% have no significant effect. Different from Zidar (2019), who focuses on changes in the federal income tax and the heterogeneous impact by household income, we focus on changes in state income tax and the heterogeneous impact by age. We include tax changes for the two income groups for robustness.

For each state in each year, we calculate the net state income tax rate for each of the four groups as the ratio between (1) the sum of state income tax liability after credits across all tax filing units in the group and (2) the sum of adjusted gross income across all tax filing units in the group. We then calculate the change for each group in each state between 2005 and 2024 when the outcome variables are state population, state real GDP and state real GDP per capita, and calculate the change between 2005 and 2023 when the

outcome variable is state employment. We start from 2005 because it is the first year when state income tax liability after credits is available in ASEC.

The estimates by Lang (2025) mentioned above imply that, for tax filers where at least one member is 67 or older, the new policy in Wisconsin would reduce their state income taxes by about \$487 ($= \$1010 \times \frac{278{,}162}{577{,}080}$). We subtract this number from the net state income tax of each Wisconsin filing unit in ASEC where at least one member is 67 or older, and use the adjusted taxes to calculate the projected net state income tax rate under the policy. Finally, we estimate the impact of the policy on the net state income tax rate for seniors as the difference in the rate with and without the policy.

Additional Figures

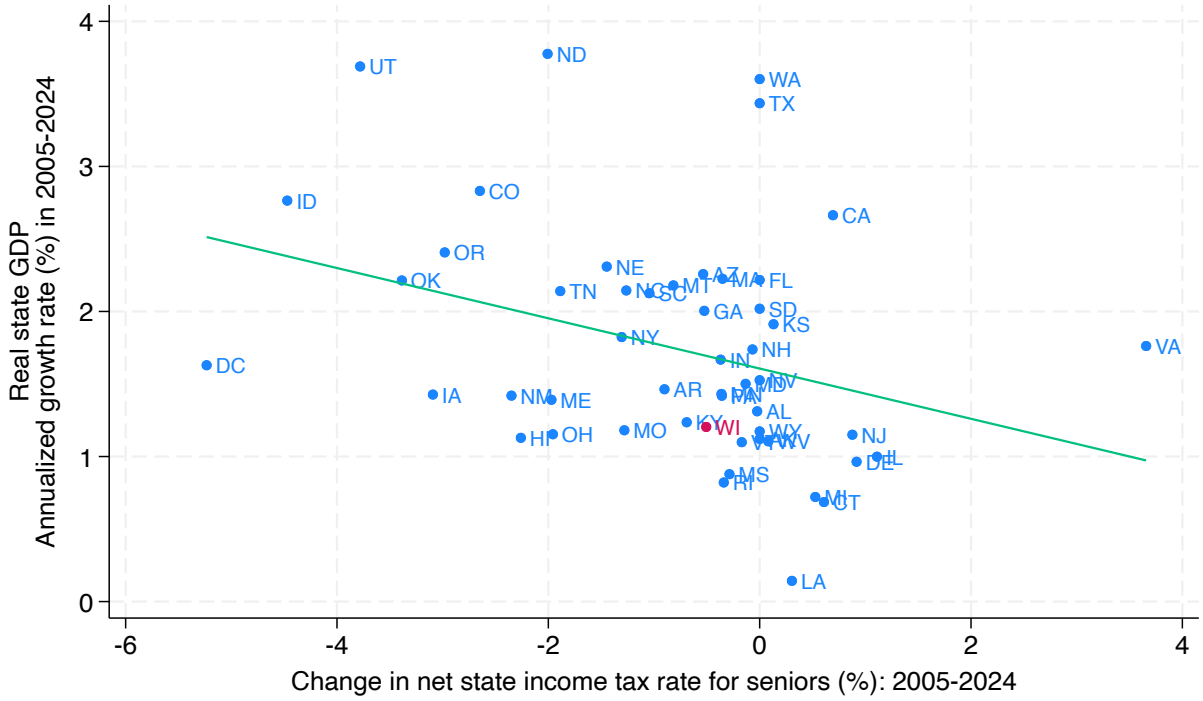

Figure 2: State GDP and the net income tax rate for seniors: 2005-2024

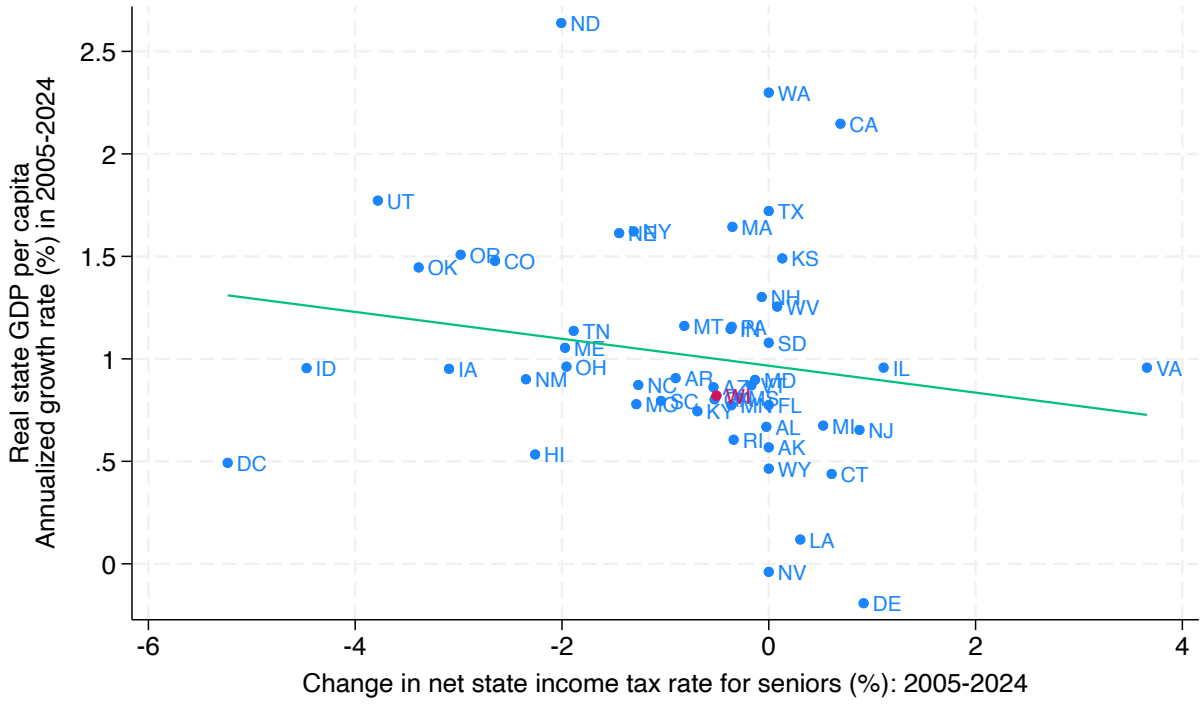

Figure 3: State real GDP per capita and the net income tax rate for seniors: 2005-2024

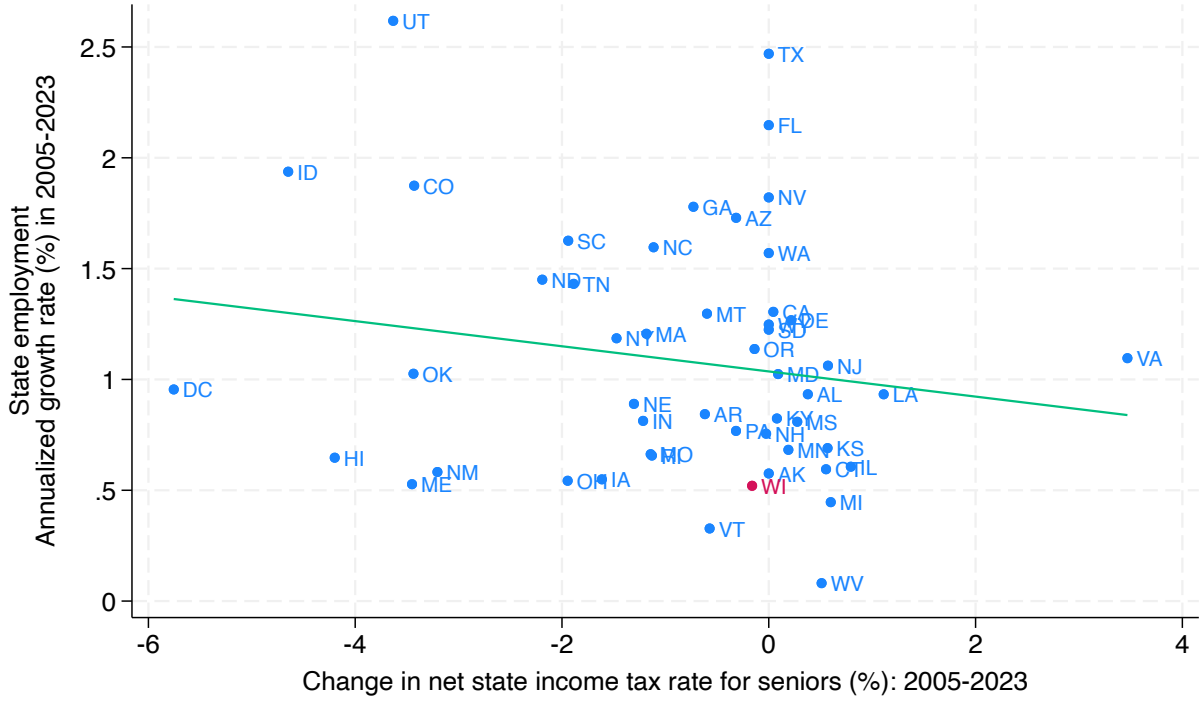

Figure 4: State employment and the net income tax rate for seniors: 2005-2023

References

Brewer, Ben, Karen S Conway, and Jon Rork, "Are Income Tax Breaks for Seniors Good for State Economic Growth?," Carsey Research National Issue Brief #165, Carsey School of Public Policy, University of New Hampshire 2023.

_ , Karen Smith Conway, and Jonathan C Rork, "Do income tax breaks for the elderly affect economic growth?," *Contemporary Economic Policy*, 2022, *40* (1), 7–27.

Ebeling, Ashlea, "Trump Said 'No Tax on Social Security.' The Tax Bill Comes Closer to It," *The Wall Street Journal*, 2025.

Kremer, Rich, "Evers and GOP leaders in Wisconsin Legislature reach bipartisan budget deal, governor says," *Wisconsin Public Radio*, 2025.

Lang, Bob, "Estimated Distribution of Individual Income Tax Reductions in Motion #44," *Wisconsin Legislative Fiscal Bureau*, 2025.

Lin, Daniel, "Methods and assumptions of the cps asec tax model," SEHSD Working Paper FY-2022-18, US Census Bureau 2022.

Zidar, Owen, "Tax cuts for whom? Heterogeneous effects of income tax changes on growth and employment," *Journal of Political Economy*, 2019, *127* (3), 1437–1472.