

Approved 4-29-84
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Senator Paul "Bud" Burke at
Chairperson

11:00 a.m./~~p.m.~~ on February 15, 1984 in room 526-S of the Capitol.

All members were present ~~except~~

Committee staff present: Wayne Morris, Research Dept.
Tom Severn, Research Dept.
Don Hayward, Revisor's Office

Conferees appearing before the committee:

Bryan Whitehead, Kansas Legislative Director, Brotherhood of Railway
and Airline Clerks
Ron Calbert, United Transportation Union
Leroy Jones, Brotherhood of Locomotive Engineers
Basil Covey, Kansas Retired Teachers Association
Walter Johnson, Kansas Association of Public Employees
John O. Miller, Topeka
Harley Duncan, Secretary of Revenue

The committee held a hearing on SB 624 which would exclude from state taxable income all amounts received as benefits under Title II of the Social Security Act or as tier I railroad retirement benefits under the Railroad Retirement Act.

The following persons appeared in support of SB 624:

Bryan Whitehead, BRAC, told the committee that he was representing not only the 8,000 working and retired employees of the transportation industry in Kansas but also the Kansas Federation of Labor, AFL-CIO, with an affiliate membership of over 70,000, in urging support for this proposed legislation. He urged the committee to break with the conformity to Federal tax law and exclude these two pensions from Kansas adjusted gross income. (Attachment #1)

Ron Calbert, UTU, and Leroy Jones, BLE, spoke in support of Mr. Whitehead's statement.

Walter Johnson, representing KAPE, particularly those retired and under social security, stated they support this legislation.

Basil Covey, representing the Kansas Retired Teachers Association, said the planned retirement program of these citizens will be damaged if this bill is not passed. He said this bill attempts to prevent the state government from reducing that benefit to retired citizens in order to enhance funds for the state, and could easily lead to lowering the standard of living for those who have had productive careers. (Attachment #2)

John Miller said the federal income taxation of these benefits was intended to shore up the Old Age and Survivors Insurance and Disability Trust Funds in an attempt to keep this trust fund solvent. He said he was certain it was not the intent of Congress to broaden the states' tax base at the expense of social security and railroad retiree beneficiaries. (Attachment #3)

Harley Duncan, Secretary of Revenue, taking no position with respect to SB 624, explained the mechanics of the process at the federal level by which a portion of the social security and tier I railroad retirement benefits may be subjected to federal income taxation. (Attachment #4) He said this bill would have the effect of lowering revenues because the higher federal tax bill that some retirees will pay would increase their federal tax deduction.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,
room 526-S, Statehouse, at 11:00 a.m.~~xxx~~ on February 15, 1984

However, if no change is made in state law and this legislation is not passed, the state would make about \$3 million in extra revenue through the increase in adjusted gross income of retirees. Mr. Duncan said it would seem to affect those taxpayers whose social security benefits comprise a larger proportion of their modified adjusted gross income.

The chairman adjourned the meeting at 12:00 noon. The committee will meet at 11:00 a.m. on February 16.

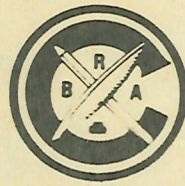
ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
Feb. 15	Roni Calbert	Newton	U.T.U.
	Bob Hopkins	Topeka	BRAC
	BRYAN WHITEHEAD	K.C.K.	BRAC
	JACK M. GLOTHLIN	Pittsburg	U.T.U.
	Jack Holmberg	Topeka	BRAC
	Robert (Ken) Cox	Topeka	KAPE
	Walter Johnson	"	KAPE
	Harold C. Pitts	"	TARTA
	Roy Freeland	"	Myself
	William A. Gardner	"	KAPE
	Henrietta S. Gardner	"	KAPE
	Leroy Jones	Overland Park	B.L.E.
	Ralph T. Newman	Topeka	TARTA
	Elizabeth Faulkner	"	Namp
	Evelyn Tralk	Topeka	NRTA
	J. J. Zinke	Topeka	NRTA
	C. A. Hagan	Salina	Myself
	Frances Hagan	"	myself
	Basil Coney	Topeka	KRTA
	Xen Rooy	Paula	KRTA
	M. Haver	Topeka	Corp-owners
	John D. Miller	Topeka	TARTA
	Ray E. Hudson	"	Myself
	Lola Mae Johnson	"	"
	George A. Duggan	"	KDOA

**BROTHERHOOD OF RAILWAY, AIRLINE AND STEAMSHIP CLERKS,
FREIGHT HANDLERS, EXPRESS AND STATION EMPLOYES**

AFL-CIO — CLC



GEORGE W. FALLTRICK
Regional Legislative Director
926 "J" Street, Suite 801
Sacramento, CA 95814
Office Phone: (916) 442-1114
Home Phone: (916) 782-2563

BRYAN K. WHITEHEAD
Assistant Regional Legislative Director
4917 Haskell
Kansas City, KS 66104
Phone: (913) 287-9062

Kansas City, Kansas, February 12, 1984

TESTIMONY OF

BRYAN K. WHITEHEAD

Kansas Legislative Director

For The

Brotherhood of Railway and Airline Clerks

And On Behalf Of The

Kansas State Federation of Labor, AFL-CIO,

As a Proponent Of

SENATE BILL NO. 624

AN ACT amending the Kansas Income Tax Act;

excluding amounts received as Social Secur-

ity and Railroad Retirement benefits from

adjusted gross income;

Presented at Hearing

Before The

Senate Assessment & Taxation Committee

Topeka, Kansas

February 15, 1984

2/15/84 Atch. 1

Mr. Chairman, and Members of the Committee, I am Bryan K. Whitehead and I am the Kansas Legislative Director and a Regional Representative for the Brotherhood of Railway & Airline Clerks representing over 8,000 working and retired employes of the transportation industry in Kansas.

Today, Mr. Chairman, I am also representing the Kansas State Federation of Labor, AFL-CIO, which has an affiliate membership of over 70,000 residents of Kansas.

We rise in support of Senate Bill No. 624 which proposes to amend the Kansas Income Tax Act by excluding amounts received as Social Security and Railroad Retirement benefits from Kansas adjusted gross income. The amendment is a new Paragraph (xii) of Sub-Section (c) of Section 1, at line 0134:

(c) There shall be subtracted from federal adjusted gross income:

(xii) Amounts received as benefits under Title II of the Social Security Act or as Tier 1 railroad retirement benefits under the Railroad Retirement Act which are included in federal adjusted gross income.

Benefits under Title II of the Social Security Act include all annuities and entitlements received under the Act.

Tier 1 benefits under the Railroad Retirement Act are generally equivalent to annuities and entitlements received under the Social Security Act and are based on both railroad earnings and non-railroad wage credits.

Tier 2 benefits under the Railroad Retirement Act are in addition to Tier 1 benefits and are computed under a separate formula based on railroad service alone.

Benefits of Social Security and Tier 1 of Railroad Retirement are basically financed the same by an equal payroll tax paid by employes and employers at 6.70% until January 1, 1984. Through 1984 the employe tax will be 6.70% and the employer will pay 7.00%. Effective January 1, 1985, both employes and employers will pay 7.05% increasing to 7.15% in 1986. The maximum wage base for both Social Security and Railroad Retirement is \$3,150 per month or \$37,800 annually.

Tier 2 of Railroad Retirement is currently financed by a payroll tax of 2.75% on employes and 12.75% on employers. In 1985 the tax will increase to 3.50% and 13.75% and in 1986 to 4.25% and 14.75%. The maximum wage base for 1984 is \$2,350 per month subject to annual adjustment.

The 1983 amendments to the Social Security Act and to the Internal Revenue Code are included in: Code Sec. 86. Social Security and Railroad Retirement Benefits and I attach a copy of CCH 1800AA. As with amendments to the Railroad Retirement Act the Congressional intent was to generate revenue to fund projected Social Security deficits.

I attach an example of how the Internal Revenue Service at Dallas tells me retirement benefit income is going to be taxed in 1984. And, I particularly call your attention to the amendment which will result in taxation of currently exempt interest from bonds and securities.

Social Security officials in Kansas City tell me that approximately 70% of Social Security beneficiaries will not be affected

and 30% will have modified adjusted gross income in excess of \$32,000. They also advised me that the current maximum Social Security benefit is \$709 per month or \$8,508 annually.

Railroad Retirement Board officials in Kansas City and in Chicago made "ballpark" estimates that the average monthly annuity for career employes would be \$1,500 or \$18,000 annually. And, that approximately 60% of that amount or \$900 monthly would be Tier 1 benefits and 40% or \$600 would ^{be} Tier 2 benefits for career employes retiring at age 60 with 30 or more years of service.

H. R. 1646 the "Railroad Retirement Solvency Act of 1983" was enacted on August 12, 1983 and became PUBLIC LAW 98-76. Numerous amendments of the Railroad Retirement Act clearly demonstrate the intent of increases in Tier 1 and Tier 2 employe and employer payroll taxes. Particularly specific is the amendment of the Internal Revenue Code section 72(r) contained in Section 224, of P. L. 98-76:

"SEC. 224. TAXATION OF RAILROAD RETIREMENT BENEFITS OTHER THAN TIER 1 BENEFITS."

"(c) SECTION 72(r) REVENUE INCREASE TRANSFERRED TO CERTAIN RAILROAD ACCOUNTS."

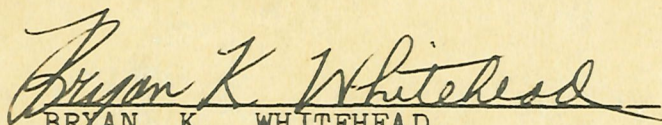
"(A) TRANSFERS TO RAILROAD RETIREMENT ACCOUNT. There are hereby appropriated to the Railroad Retirement Account amounts equivalent to the aggregate increase in tax liabilities under chapter 1 of the Internal Revenue Code of 1954 which is attributable to the application of section 72(r) of the Internal Revenue Code of 1954 (as added by this Act) with respect to benefits received before October 1, 1988. The aggregate amount appropriated under the preceding sentence to the extent attributable to benefits other than windfall benefits shall not exceed \$877,000,000."

Therefore, Mr. Chairman, I submit that Tier 2 benefits under the Railroad Retirement Act should also be excluded from the Kansas adjusted gross income and I suggest an amendment by striking "as tier 1" in line 0135 would accomplish that exclusion.

Moreover, if the amendment which would exclude all Railroad Retirement benefits from Kansas adjusted gross income is adopted then Paragraph (vii) of Sub-Section (c) of Section 1. of K. S. A. 1983 Supp. 79-32,117 (at line 0106 of S B - 624) which excludes Railroad Retirement supplemental annuities, can be repealed.

Working and retired employes of the bus and truck industry, whom we represent in Kansas, are covered by Social Security and in their behalf and joining the Kansas Federation of Labor, AFL-CIO, we strongly support excluding all benefits under the Social Security Act from Kansas adjusted gross income.

The opportunity to present testimony on this most important legislation is appreciated, Mr. Chairman. If I have failed to make our position clear or raised any questions, I will certainly try to respond. Thank you.


BRYAN K. WHITEHEAD,
Kansas Legislative Director,
Bro. of Railway & Airline Clerks

1983 AMENDMENTS TO THE INTERNAL REVENUE CODE
OF 1954 TAXING SOCIAL SECURITY BENEFITS AND
RAILROAD RETIREMENT BENEFITS EFFECTIVE 1-1-84

Code Sec. 86. Social Security and Railroad Retirement Benefits

¶ 1800AA After December 31, 1983, benefits received under title II of the Social Security Act and tier I railroad retirement benefits must be included in the gross income of certain recipients, in an amount equal to the *lesser* of:

- (1) 50 percent of the benefits received during the taxable year, or
- (2) 50 percent of the amount obtained by subtracting a "base amount" from the sum of the recipient's "modified adjusted gross income" and 50 percent of the benefits received.

The term "modified adjusted gross income" means adjusted gross income (e.g., line 32 of the 1982 Form 1040), determined without regard to the possible inclusion of any social security benefits, plus the following additions if applicable:

- (1) tax-exempt interest received or accrued,
- (2) the deduction for a married couple when both work (¶ 3301),
- (3) certain foreign-source income (¶ 5238 and 5239),
- (4) income from U.S. possessions (¶ 5250) and Puerto Rico (¶ 5255).

The base amount for a single person is \$25,000. For married persons filing a joint return, the base amount is \$32,000. In the case of a married person not filing a joint return, and who has not lived apart from his or her spouse at all times during the taxable year, the base amount is zero.

The appropriate agency must provide recipients with statements showing the aggregate amount of benefits paid during the year (.05).

Source: C.C.H., INC.

RE: SENATE BILL NO. 624

Bryan K. Whitehead 2-15-84



Kansas Retired Teachers Association



1983-1984

Attachment #2

ELECTIVE OFFICERS

President

Mr. Glenn E. Burnette
1630 Knollwood
Topeka, Ks. 66611
Phone 913-232-5404

President Elect

Mrs. Etta Blanche Dahlgren
4326 Waverly
Kansas City, Ks. 66104
Phone 913-287-2279

Vice President

Mr. Morris J. Thompson
412 E. 13th
Hutchinson, Ks. 67501
Phone 316-662-3002

Secretary

Mrs. Thyra Olson
106 W. Saline
Lindsborg, Ks. 67456
Phone 913-227-3661

Treasurer

Mr. Mearle Hoover
2135 Norton
Salina, Ks. 67401
Phone 913-827-5443

Assistant Treasurer

Mr. Fred Jarvis
1122 N. Cedar
Abilene, Ks. 67410
913-263-1533

Chairman of Editing & Publishing Committee

Mrs. Elsie Klemp
608 E. Price
Garden City, Ks. 67846
Phone 316-275-5322

Legislative Chairman

Mr. Laurence Stanton
406 LaVista
Dodge City, Ks. 67801
Phone 316-227-6877

Past President

Mrs. Margaret Riddick
2534 Broadway
Great Bend, Ks. 67530
Phone 316-793-3714

DISTRICT DIRECTORS

District 1

Mr. Arnold J. Lehmann
216 W. Wilson
Salina, Ks. 67401
913-827-1913

District 2

Mr. Jack Rose
808 Iowa St.
Holton, Ks. 66436
Phone 913-364-2965

District 3

Mr. Willis Jordan
935 Maple
Ottawa, Ks. 68067
913-242-6130

District 4

Mrs. Ruth A. McCarty,
Box 334
Bucklin, Ks. 67834
Phone 316-826-3769

District 5

Mrs. Martha D. Hicks
1323 N. Erie
Wichita, Ks. 67214
Phone 316-682-2490

District 6

Mrs. Beulah C. Bohn
Route #1, Box 192
Fall River, Ks. 67047
Phone 316-736-2213

Mr. Chairman, and members of the committee--

I want to speak in support of Senate Bill 624. My name is Basil Covey and I represent the Kansas Retired Teachers Association which includes all retired school personnel in Kansas.

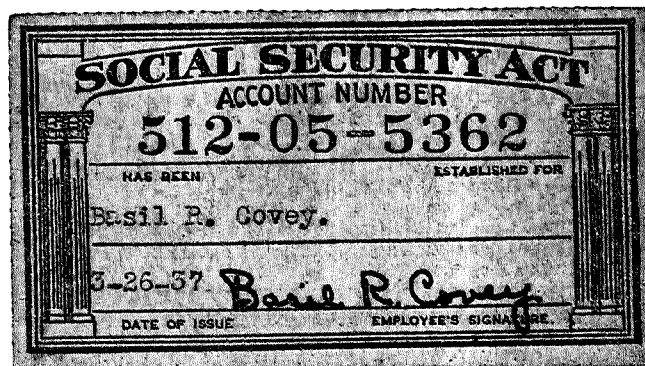
This bill represents relief for approximately 25,000 retirees in Kansas. A planned retirement program for these citizens will be damaged if this bill is not passed. A tax on social security funds as well as other retirement funds can easily lead to lowering the standard of living of citizens that have had productive careers and have planned for their retirement. A tax on social security funds is like changing the rules of the game after the game has started. In legal terms, its called, after the fact.

This generation of retired citizens were looking for a job or were working long hours for a bare living wage when the government created the social security system to benefit the citizens. This bill attempts to prevent the state government from reducing that benefit to retired citizens to enhance funds for the state.

We recommend that this bill be approved for passage by the legislature. It will serve in the best interests of retired citizens in Kansas. Ten or more states have already passed similar legislation.

Sincerely,

Basil Covey
Basil Covey
KRTA
2-15-84



APPOINTEE OFFICERS

Legislative Committee

Mr. Edwin J. Friesen
6605 Abbottsford
Wichita, Ks. 67206
Phone 316-682-2349

Mr. Earl Ludlum
Route #3 - Box 108
Pittsburg, Ks. 67262
316-231-5842

Dr. Calvin E. Harbin
303 W. 19th
Hays, Ks. 67601
913-625-2428

Basil R. Covey
3119 W. 31st Ct.
Topeka, Ks. 66614
913-272-7114

Mr. Kenneth Rogg
110 Hillcrest Dr.
Paola, Ks. 66071
913-294-3933

Historian and Parliamentarian

Mrs. Faye Riggs
604 N. Washington
Lindsborg, Ks. 67456
Phone 913-227-3434

Community Affairs Chairman

Mr. Frank Rosser
S. Topeka
Holton, Ks. 66436
913-364-2860

Necrology Chairman

Mrs. Eunice E. Schnitzer
1711 N. 4th, Apt. 518
Arkansas City, Ks. 67005
Phone 316-442-2685

Informative and Protective Services

Mrs. Lucy E. Clark
425 Morningside Dr.
Newton, Ks. 67114
316-283-2421

Retirement Planning Chairman

Mrs. Hazel Hawks
7835 Sandusky
Kansas City, Ks. 66112
Phone 913-788-7167

Membership Chairman

Mr. Elbert Fly
1830 Cheyenne Rd.
Topeka, Ks. 66604
Phone 913-272-2822

NRTA Coordinator

Mr. Marvin Forker
Box 602
Ottawa, Ks. 66067
Phone 913-242-4616

Corresponding Secretary

Mrs. Edith K. Copenhaver
1638 Withdean Rd.
Topeka, Ks. 66611
913-232-5311



The Symbol of Service and Concern for the Retired Teachers of Kansas

Attch. 2
2/15/84

Testimony before Senate Assessment & Taxation Committee
by John O. Miller Topeka, Kansas, Wednesday, Feb. 15, 1984

Chairman Burke and members of the Senate Assessment & Taxation Committee. My name is John Miller, I live in Topeka, Kansas. I appear before your committee today in support of Senate Bill #624.

Some Kansas Social Security and Railroad Retirement recipients already facing federal income taxation of their benefits in 1984 could have those payments taxed even more unless the Kansas Legislature passes legislation such as SB 624. Kansas has conformity statutes that require Kansas to follow federal guidelines.

Provisions of 1983 Social Security legislation call for federal taxation of up to one-half of Social Security payments to recipients whose adjusted gross income (with one-half of their Social Security added in) exceeds \$25,000 for an individual or \$32,000 for a married couple.

The amount of the benefit to be taxed federally will be the lesser of either one-half of a person's annual Social Security benefits or one-half the amount by which combined income (adjusted gross income plus one-half of Social Security income and income from tax exempt bonds) exceeds the \$25,000 or \$32,000 threshold. This tax will be applicable to 1984 income.

I want to call your attention to two items as I have related in the federal laws. One says adjusted gross income. To most Social Security recipients, adjusted gross income, means gross income because few of them will have any of the deductions allowed from gross income to reach their adjusted gross income. Secondly, you will note that Social Security recipients must include interest from tax exempt bonds as income in arriving at their adjusted gross income for federal taxation.

The federal legislation was intended to shore up the Old Age and Survivors Insurance and Disability Trust Funds which are expected to accumulate about \$27 billion from this new revenue source over the next six years. I for one do not object to paying this federal tax if it will keep the Trust Fund solvent.

I feel certain it was not the intent of Congress to broaden the states' tax base at the expense of Social Security and Railroad retirees' beneficiaries. This unexpected windfall will vary among the states that have conformity laws like Kansas. I am not sure what

Atch. 3
2/15/84

this tax increase will be in Kansas. Some states have estimated that a couple over age 65 whose adjusted gross income is \$32,500 would face an annual tax jump of about \$140.00. Some states' estimate a tax of \$250.00 for a couple. The tax money received by Kansas if SB #624 is not passed is strictly a windfall at the expense of many older Kansans. It certainly will not in anyway be used to shore up the Old Age and Survivors Insurance and Disability Trust Funds.

I urge you to give favorable consideration to passage of SB 624.

If you have questions, I will be glad to respond to the best of my knowledge.

*Kansas*
DEPARTMENT OF REVENUEState Office Building
Topeka, KS 66625

MEMORANDUM

February 15, 1984

TO: The Honorable Paul Burke, Chairman
Senate Committee on Assessment and Taxation

FROM: Harley T. Duncan
Secretary of Revenue *HTD*

SUBJECT: Senate Bill 624 - Excluding Amounts Received as Social Security
and Railroad Retirement Benefits from Adjusted Gross Income for
Kansas Income Tax Purposes

Thank you for the opportunity to appear before you to discuss Senate Bill 624, which is intended to exclude from Kansas adjusted gross income any Social Security or Tier I Railroad Retirement benefits which may be included in federal adjusted gross income as a result of P.L. 98-21 enacted by the Congress in 1983. I want to stress at the outset that the Department of Revenue takes no position with respect to Senate Bill 624. Instead, my intent is to provide information on the bill and its fiscal impact.

Mechanics of the Taxation

At the federal level, the process by which a portion of the Social Security and Tier I Railroad Retirement benefits of certain individuals may be subjected to federal income taxation works as follows:

1. A taxpayer receiving Social Security or Tier I benefits is required to compute a "modified adjusted gross income." The modified adjusted gross income is to consist of the regular federal adjusted gross income (AGI) as computed on Form 1040 plus:

- One-half the Social Security or Tier I benefits received;
- Tax-exempt state and local bond interest received;
- Any deduction taken for two earner married couples;
- Amounts excluded as foreign-earned income; and
- Amounts excluded as possession or Puerto Rican source income.

*Feb. 4
2/15/84*

That is, modified AGI is to represent more closely than regular AGI the money income a taxpayer has at his/her disposal by adding back a part of the Social Security or Tier I benefit and other amounts excluded from taxation for constitutional or other reasons.

2. The modified AGI is then compared to a "base amount" to determine if any of the Social Security or Tier I benefit is to be included in income. The base amount is \$32,000 for individuals filing a joint return and \$25,000 for individuals filing a single return or other returns except that the base amount for a married person not filing a joint return and not living apart from his/her spouse for the entire year is zero. The zero base amount is to discourage married filing separate returns where there would normally be joint returns.
3. If the modified AGI is greater than the appropriate base amount, the taxpayer is required to include in his/her gross income, the lesser of one-half of the Social Security or Tier I benefits received or one-half of the amount by which the modified AGI exceeds the base amount. That is, a taxpayer filing a joint return with a modified AGI of \$42,000 and receiving \$7,000 in Social Security benefits would add \$3,500 to gross income (i.e., 1/2 of \$7,000 is less than 1/2 of \$10,000 which is the excess over the \$32,000 base amount.) If, however, under the same circumstances, there were \$12,000 in Social Security benefits, only \$5,000 (1/2 of the excess over \$32,000) would be added to the gross income.
4. From the point of determining any addition to gross income, the tax computation proceeds as it would normally.
5. The tax change is effective for all Social Security or Tier I benefits received after December 31, 1983 and all tax years beginning after December 31, 1983, i.e., tax year 1984 and beyond.
6. Because any amount that must be added under the law is added to gross income, and Kansas law starts with federal AGI (i.e., the addition will already have been made) the additional income will be "picked up" for taxation in Kansas unless there is a change in current law.

Effect on Hypothetical Taxpayers

The tables at the back of this memorandum present information on the effect of this tax change at the federal and state levels with no change in state law and with the enactment of Senate Bill 624. The two taxpayers chosen include: (a) a married couple, 64 year old or less, with regular AGI of \$42,000, \$9,000 in Social Security benefits, filing with 2 exemptions and a standard deduction; and (b) a single taxpayer, 64 years old or less, \$24,000 in regular AGI, \$7,000 in Social Security benefits, filing with one exemption and a standard deduction.

As shown, the Kansas tax increase with no change in current law for the married couple is \$226 or an increase of 0.1 percentage point in their effective tax rate. This compares to a federal tax increase of \$1,485, which is a 1.4

percentage point increase in the effective tax rate. You will note that the increase in taxable income at the federal level is greater than at the state level because the increased federal tax is deductible at the state level.

For the single taxpayer referenced above, the increase in state income tax with no change in current law is \$67 and 0.1 percentage point increase in the effective tax rate. This compares to a federal tax increase of \$355 or 0.6 percentage points when measured in terms of the effective tax rate.

If, however, Senate Bill 624 is enacted, taxpayers affected by the federal changes will experience some decrease in their state income tax liability from what it would have been had the federal change not been enacted. This results because these taxpayers will have a higher federal tax liability which can be deducted, thus decreasing Kansas taxable income and Kansas tax liability. The decrease in Kansas taxable income will not be as great as the increase in federal tax liability, however, because the federal tax deduction must be pro-rated by the ratio of Kansas AGI to federal AGI.

As shown, the decrease in state liability from what it would be absent any federal change is \$42 or a 0.1 percentage point decline in the effective tax rate for the hypothetical married taxpayer. For the single taxpayer, the decrease is \$10, which creates a negligible change in the effective tax rate.

Fiscal Impact

The Department of Revenue and the Legislative Research Department have cooperated in estimating the fiscal impact of Senate Bill 624. It is estimated that enactment of Senate Bill 624 would result in a decrease of approximately \$750,000 in income tax collections in tax year 1984. Again, the decrease results because the income added at the federal level will result in a higher federal liability, some portion of which will be deducted in Kansas. The estimate is based on a federal projection that the change enacted by P.L. 98-21 will raise federal revenues by \$2.6 billion nationally, of which 1.2 percent or \$31.2 million will be paid by Kansans. The 1.2 percent ratio is based on the proportion of all Social Security benefits paid nationally to those paid to residents of Kansas. Of the \$31.2 million in additional federal liability, 40 percent will flow through to reduce Kansas taxable income by \$12.5 million which, at an estimated marginal tax rate of 6.0 percent, yields a revenue loss of \$0.75 million.

Utilizing roughly the same methodology, it is estimated the federal tax change, with no change in state law, increases state income tax receipts by approximately \$3.0 million. While this figure was not utilized specifically in the consensus estimate of individual income tax receipts, I would urge the Committee not to assume that such an amount will necessarily be added to the current estimates. The \$3.0 million is less than 0.5 percent of the total \$650 million in individual income taxes estimated in FY 1985. Any adjustments to that figure will depend on many factors such as economic conditions and patterns in current year receipts.

The Department estimates that approximately 25-30,000 Kansas taxpayers will be affected by the federal tax change. This figure is based on an estimated 2.2 million taxpayers being affected nationally which constitutes 8.8 percent of the 25 million persons over age 65. There are roughly 312,000 Kansans over age 65, of which 8.8 percent is approximately 27,500.

Other Considerations

There is one other issue I would like to raise for the Committee. I presume the intent of Senate Bill 624 was to eliminate the impact of the federal tax change on Kansas AGI. As the bill is written, however, it is only the Social Security or Tier I benefits that are subtracted from federal AGI for state tax purposes. For some taxpayers affected by the federal change, the amount added to federal AGI will be one-half of the amount by which their "modified AGI" exceeds the base amount. This amount would not seem to be deducted from federal AGI as the bill is drawn. This would seem to create unreasonable differences among similarly situated taxpayers and would seem to affect those taxpayers whose Social Security benefits comprise a larger proportion of their modified AGI.

I trust this information is helpful. I would be glad to attempt to answer any questions.

HTD:b/2/S400

Computation of Addition to Gross Income

Married	Item	Single
\$ 9,000	Social Security Benefits	\$ 7,000
42,000	Adjusted Gross Income	24,000
<u>4,500</u>	Plus: 1/2 of Soc. Sec. Benefit	<u>3,500</u>
\$46,500	Modified AGI	\$27,500
<u>32,000</u>	Less: Base Amount	<u>25,000</u>
\$14,500	Excess Above Base Amount	\$ 2,500
7,250	1/2 of Excess	1,250
4,500	1/2 of Soc. Sec. Benefit	3,500
<u>4,500</u>	Amount Added to Gross Income	<u>1,250</u>
46,500	AGI with Added Income	25,250

Computation of Tax

Married Taxpayer
64 Years Old or Less
\$9,000 in Social Security Benefits

2 Exemptions
Standard Deduction
1984 Tax Tables

	Law Prior to 1984	Law After 1984 without SB 624	Law After 1984 with SB 624
Federal AGI	\$42,000	\$46,500	\$46,500
Taxable Income	\$40,000	\$44,500	\$44,500
Federal Liability	\$ 7,858	\$ 9,343	\$ 9,343
Liability as % of AGI	18.7	20.1	20.1
Kansas AGI	\$42,000	\$46,500	\$42,000
Taxable Income	\$29,342	\$32,357	\$28,791
Kansas Liability	\$ 1,601	\$ 1,827	\$ 1,559
Liability as % of AGI	3.8	3.9	3.7

Single Taxpayer
64 Year Old or Less
\$7,000 in Social Security Benefits

1 Exemption
Standard Deduction
1984 Tax Tables

	Law Prior to 1984	Law After 1984 without SB 624	Law After 1984 with SB 624
Federal AGI	\$24,000	\$25,250	\$25,250
Taxable Income	\$23,000	\$24,250	\$24,250
Federal Liability	\$ 3,985	\$ 4,340	\$ 4,340
Liability as % of AGI	16.6	17.2	17.2
Kansas AGI	\$24,000	\$25,250	\$24,000
Taxable Income	\$16,615	\$17,510	\$16,477
Kansas Liability	\$ 946	\$ 1,013	\$ 936
Liability as % of AGI	3.9	4.0	3.9