

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 24, 1984 in room 526-S of the Capitol.

All members were present ~~except~~:

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

Conferees appearing before the committee:

Bryan Whitehead, Brotherhood of Railway and Airline Clerks
Harley Duncan, Secretary of Revenue

The committee considered 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 chairman noted this is a complicated issue and called on Tom Severn to present some indepth explanation of the bill. Tom presented a memorandum prepared in response to several inquiries regarding the income taxation of Social Security and Railroad Retirement benefits at the federal and state level. (Attachment #1) He called attention to lines 134 through 137 concerning excluded amounts received as benefits under Title II of the Social Security Act or as tier I railroad retirement benefits. At the present time the bill does not address tier II benefits. He said if the committee is of the mind to include tier II retirement benefits, they can be included on line 135.

Bryan Whitehead, BRAC, presented a suggested amendment to the committee members (Attachment #2) which he said was drawn to exclude the possibility of double deducting amounts in the same year one retired. However, after talking to counsel he now believes it is not necessary. Inserting tier II in the bill would accomplish what they are advocating. The chairman noted that the fiscal note had indicated that passage of SB 624 would result in a reduction in FY 1985 State General Fund receipts of approximately \$3.75 million, but did not specifically account for any positive impact on state revenues of federal taxation of social security benefits when preparing its estimate for 1985. If this legislation is not passed, the revenues would be increased by approximately \$3 million.

The chairman noted that SB 813, use value of agriculture land, will be assigned to this committee today. Reappraisal hinges on this. This bill includes not only gathering the data but applying the information for tax purposes after reappraisal is complete. The bill is scheduled for hearing Tuesday, February 28.

Harley Duncan commented on SB 680 and enforcement of the sales tax on purchases by parent-teacher organizations. He said there is no clear exemption for these organizations, and so they have tried to enforce collection of the sales tax.

The chairman adjourned the meeting at 11:35 a.m. The committee will meet February 27, at 11:00 a.m.

MEMORANDUM

Attachment #1

Kansas Legislative Research Department

February 24, 1984

INCOME TAXATION OF SOCIAL SECURITY BENEFITS

This memorandum was prepared in response to several inquiries regarding the income taxation of Social Security and Railroad Retirement benefits at the federal and state level.

Benefits Received Prior to 1984

Social Security and tier 1 Railroad Retirement benefits received prior to 1984 are not taxable. Such amounts are not included in federal adjusted gross income (AGI). The computation of Kansas tax begins with the computation of Kansas AGI. Kansas AGI is federal AGI with modifications, and since Social Security and tier 1 Railroad Retirement benefits are not added to federal AGI, benefits received prior to 1984 are not subjected to Kansas income tax.

Federal Law for Tax Year 1984

Beginning in tax year 1984 part of Social Security and tier 1 Railroad Retirement benefits will be included in federal AGI under certain circumstances. The amount included will be the lesser of one-half of the benefit or one-half of the excess of "modified AGI" over \$25,000 for a single taxpayer, \$32,000 for a joint return, or zero for certain married taxpayers not filing joint returns.

"Modified AGI" is AGI without deductions for the two-earner married couple deduction, or certain foreign, U.S. possessions and Puerto Rican source income exclusions and increased by the amount of tax-exempt interest received or accrued during the year and one-half of Social Security or Tier I Railroad Retirement benefit. The computation is illustrated by the following hypothetical example for two-earner couple with AGI of \$24,000, Social Security benefits of \$8,000, tax-exempt interest income of \$5,000, and a two-earner married couple deduction of \$500.

AGI	\$ 24,000
interest	5,000
Social Security (one half)	4,000
two-earner deduction	500
Modified AGI	\$ 33,500
base amount	(32,000)
excess	\$ 1,500
one-half of excess	\$ 750
one-half of social security	\$ 4,000

Atch. 1
(2/24/84)

Thus, federal AGI for this hypothetical couple would be \$24,750, and \$750 of their Social Security benefits would be subject to income tax.

Effect in Kansas

For Kansas individual income tax purposes the larger federal AGI would be the starting point for computing the tax and thus Kansas also would tax a part of Social Security benefits.

SENATE BILL No. 624 (AMENDMENT)

0027 (b) THERE SHALL BE ADDED TO
FEDERAL ADJUSTED GROSS INCOME:

NEW " (vi) THE AMOUNT OF EMPLOYEE CONTRIBUTIONS
SECTION AT CLAIMED AS A DEDUCTION BY
LINE 0064 RECEIPIENTS OF TIER 2 RAILROAD
RETIREMENT ACT BENEFITS
UNDER THE PROVISIONS OF
45 U.S.C. 352 ET SEQ. "

BRYAN K. WHITEHEAD
KS. LEGISLATIVE DIRECTOR
BRO. OF RAILWAY CLERKS
FEB. 24, 1984

Atch. 2
(2/24/84)

PART II—OTHER CHANGES AFFECTING TIER 2 TAXES

SEC. 221. INCREASES IN TIER 2 EMPLOYEE TAX; ANNUALIZATION OF TAX BASE.

Section 3201 of the Internal Revenue Code of 1954 (relating to rate of tax on employees) is amended to read as follows:

“SEC. 3201. RATE OF TAX.

“(a) **TIER 1 TAX.**—In addition to other taxes, there is hereby imposed on the income of each employee a tax equal to the following percentage of the compensation received during any calendar year by such employee for services rendered by such employee:

“In the case of compensation received during:	The rate shall be:
1985.....	7.05
1986 or 1987.....	7.15
1988 or 1989.....	7.51
1990 or thereafter.....	7.65.

“(b) **TIER 2 TAX.**—In addition to other taxes, there is hereby imposed on the income of each employee a tax equal to the following percentage of the compensation received during any calendar year by such employee for services rendered by such employee:

“In the case of compensation received during:	The rate shall be:
1985.....	3.50
1986 or thereafter.....	4.25.

“(c) CROSS REFERENCE.—

“For application of different contribution bases with respect to the taxes imposed by subsections (a) and (b), see section 3231(e)(2).”

SEC. 222. INCREASES IN TIER 2 EMPLOYER TAX; ANNUALIZATION OF TAX BASE.

(a) **IN GENERAL.**—Subsections (a) and (b) of section 3221 of the Internal Revenue Code of 1954 (relating to rate of tax on employers) are amended to read as follows:

“(a) **TIER 1 TAX.**—In addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to the following percentage of compensation paid during any calendar year by such employer for services rendered to such employer:

“In the case of compensation paid during:	The rate shall be:
1985.....	7.05
1986 or 1987.....	7.15
1988 or 1989.....	7.51
1990 or thereafter.....	7.65.

“(b) **TIER 2 TAX.**—In addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to the following percentage of compensation paid during any calendar year by such employer for services rendered to such employer:

“In the case of compensation paid during:	The rate shall be:
1985.....	13.75
1986 or thereafter.....	14.75”.

(b) **CROSS REFERENCE.**—Section 3221 of such Code is amended by adding at the end thereof the following new subsection:

“(e) CROSS REFERENCE.—

“For application of different contribution bases with respect to the taxes imposed by subsections (a) and (b), see section 3231(e)(2).”

SEC. 223. INCREASES IN TIER 2 EMPLOYEE REPRESENTATIVE TAX; ANNUALIZATION OF TAX BASE.

Subsection (a) of section 3211 of the Internal Revenue Code of 1954 (relating to tax on employee representatives) is amended to read as follows:

“(a) IMPOSITION OF TAXES.—

“(1) **TIER 1 TAX.**—In addition to other taxes, there is hereby imposed on the income of each employee representative a tax equal to the following percentage of the compensation received during any calendar year by such employee representative for services rendered by such employee representative:

“In the case of compensation received during:	The rate shall be:
1985.....	14.10
1986 or 1987.....	14.30
1988 or 1989.....	15.02
1990 or thereafter.....	15.30.

“(2) **TIER 2 TAX.**—In addition to other taxes, there is hereby imposed on the income of each employee representative a tax equal to the following percentage of the compensation received during any calendar year by such employee representatives for services rendered by such employee representative:

“In the case of compensation received during:	The rate shall be:
1985.....	13.75
1986 or thereafter.....	14.75.

“(3) CROSS REFERENCE.—

“For application of different contribution bases with respect to the taxes imposed by paragraphs (1) and (2), see section 3231(e)(2).”

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

(a) **PENSION BENEFITS (OTHER THAN TIER 1 BENEFITS) TAXED AS BENEFITS RECEIVED UNDER EMPLOYER PLANS.**—Section 72 of the Internal Revenue Code of 1954 (relating to annuities; certain proceeds of endowment and life insurance contracts) is amended by redesignating subsection (r) as subsection (s) and by inserting after subsection (q) the following new subsection:

“(r) **CERTAIN RAILROAD RETIREMENT BENEFITS TREATED AS RECEIVED UNDER EMPLOYER PLANS.—**

“(1) **IN GENERAL.**—Notwithstanding any other provision of law, any benefit provided under the Railroad Retirement Act of 1974 (other than a tier 1 railroad retirement benefit) shall be treated for purposes of this title as a benefit provided under an employer plan which meets the requirements of section 401(a).

“(2) TIER 2 TAXES TREATED AS CONTRIBUTIONS.—

“(A) **IN GENERAL.**—For purposes of paragraph (1)—

“(i) the tier 2 portion of the tax imposed by section 3201 (relating to tax on employees) shall be treated as an employee contribution,

“(ii) the tier 2 portion of the tax imposed by section 3211 (relating to tax on employee representatives) shall be treated as an employee contribution, and

26 USC 3211.

96 Stat. 546.
26 USC 72.

45 USC 231t.

45 USC 352.

Ante, p. 420.

Supra.

TIER II

\$ 2,350 MAX SALARY
2.75%

\$ 2,350
12.75%

\$ 64.625 (ANNUAL: \$775.50)

\$ 299.625 (ANNUAL: \$3595.50)

TIER I

3,150 MAX SALARY
6.70%

3,150
7.00%

\$ 211.05 (ANNUAL: \$2532.60)

\$ 220.50 (ANNUAL: 2646.00)

TOTAL
EMPLOYEE
CONTR

\$ 3308.¹⁰

TOTAL
EMPLOYER
CONTR

\$ 6246.⁵⁰

GRAND
TOTAL

\$ 9549.⁶⁰