

Approved On: _____

Minutes of the House Committee on Assessment and Taxation. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on February 5, 1985 in room 519 South at the Capitol of the State of Kansas.

The following members were absent:

Representatives Crowell

Committee staff present:

Tom Severn, Legislative Research
Melinda Hanson, Legislative Research
Don Hayward, Reviser of Statutes
Millie Foose, Committee Secretary

Sylvia Houglund, Secretary of Aging, gave testimony as a proponent of HB-2035. She said this bill would insure that all recipients of Kansas pension plans are treated equally. In response to a question, she indicated that she was not appearing for or stating a position for the executive branch. (Attachment 1)

Representative Clint Acheson, the primary sponsor of HB-2035, testified that HB-2035 will return a little integrity to the Social Security program. (Attachment 2).

Basil Covey, representing the Kansas Retired Teachers Association, appeared in support of HB-2035, saying that if Kansas taxes Social Security it will be by default. (Attachment 3)

Former Representative Ruth Wilkin, appearing as a private citizen, explained her reasons for believing that senior citizens with income over \$25,000 or \$32,000 should be willing to pay their share if Kansas needs this income. (Attachment 4)

Mrs. Wilkin also submitted copy of a letter from Senator Bob Dole, in which he said that probably at least 91% of all Social Security beneficiaries in Kansas will not be affected by this provision. (Attachment 5)

The minutes of February 4, 1985 were reviewed. There being no changes, the chairman declared them approved as presented.

There being no further business, the chairman adjourned the meeting.



Ed C. Rolfs Chairman

TESTIMONY ON H.B. 2035
EXCLUSION OF SOCIAL SECURITY BENEFITS FROM TAXATION

BY KANSAS DEPARTMENT ON AGING

FEBRUARY 5, 1985

#1
Hoagland

Bill Brief:

Excludes Social Security benefits from adjusted gross income.

Bill Provisions:

Amounts received as benefits under Title II of the federal Social Security Act would be excluded from federal adjusted gross income on the State tax form.

Background:

The Social Security Amendments of 1983 provide for federal taxation of up to one-half of Social Security benefits to recipients whose adjusted gross income (including one-half of their Social Security benefits and all interest from tax-exempt municipal bonds) exceed \$25,000 for an individual and \$32,000 for a married couple. Taxation took effect in 1984. The amendments were intended to restore the financial solvency of the Social Security programs to assure that benefits would be paid on time even if economic conditions seriously deteriorate. The amendments were not intended to provide a windfall to the States.

Because Kansas uses the federal adjusted gross income (AGI) in calculating state income tax liability, these benefits will also be taxed on 1984 state tax returns. An estimated \$3.5 million in new state revenues will be generated in FY 85.

Testimony:

As the first national retirement system, the Social Security program was designed to address the special problems of economic insecurity for the nation's elderly. From the inception of the Social Security program beneficiaries have been led to believe that their benefits would not be taxed. While older citizens were willing to accept the 1983 Amendments taxing part of these benefits to insure the future of the Social Security program, they are reluctant to support unintended windfalls to the States.

Twenty-nine states have tax codes that couple with the federal code. At least seventeen states have passed legislation exempting Social Security benefits.

Exemption of Social Security benefits would treat these benefits in the same way as other retirement benefits. The following pension plans are currently deducted from federal adjusted gross income:

- a) Kansas Public Employee's Retirement Annuities;
- b) Kansas Teacher's Retirement Annuities;
- c) Kansas Police and Firemen's Retirement System Pensions;
- d) Kansas Highway Patrol Pensions

- e) Justices and Judges Retirement System;
- f) Certain pensions received from first class cities that are not covered by KPERS; and
- g) Federal Civil Service Retirement Annuities paid from the Federal Civil Service Retirement or Disability Fund.

Tier One Benefits for railway retirees are exempt from Kansas taxation by federal law.

The exemption proposed in H.B. 2035 would maintain the policy of not taxing pension benefits in determining state taxes.

Approximately 10% of Social Security beneficiaries will be paying income tax this year. But the ratio of recipients who must pay the new federal tax is expected to rise since the \$25,000 and \$32,000 thresholds are not indexed for inflation. Unless H.B. 2035 is adopted even more older Kansans will be required to pay state income tax as well. Taxation of benefits for some individuals establishes a dangerous precedent for taxing all Social Security benefits.

H.B. 2035 would insure that all recipients of Kansas pension plans are treated equally. Social Security benefits should be exempted from taxation at the state level.

2/4/85
JH:mj

*2

Testimony before the House Assessment and Taxation Committee by
Representative Clint Acheson

The purpose of HB 2035 is to remove from taxable income Title II Social Security benefits. Kansas being an Income Tax conformity state, one half of these benefits are taxable in Kansas as a result of Congress having passed PL 98-21 in 1983. This was part of the overall program to help bail out the Social Security program. Taxing Social Security benefits at the state level means nothing to the Social Security program but instead is an additional burden on the backs of approximately 38,000 elderly retired Kansans.

PL 98-21 requires that all of the Social Security benefits are used to reach the \$25,000 threshold for an individual return, and one half the benefits will be used for a joint return to reach the \$32,000 threshold. In addition, all income from state and local tax exempt securities will be added to reach these two thresholds. Benefits over and above these two amounts are subject to the tax in each case. Using the income from these tax exempt securities is a bad precedent and will in effect, repeal the tax exempt status of these securities and make them less marketable.

Tier I railroad Retirement benefits which are essentially the same as Social Security, but are under the Railroad Retirement act, were originally included to be taxed but have since been ruled not taxable. This is inconsistent.

A majority of those initially penalized are those who have been paying into the Social Security program since its inception in the late 30's. Most of these people have been in the lower end of the middle income bracket--they have skimped and saved during their productive years knowing fully that the benefits from Social Security or other retirement programs alone would not sustain them. These

are the same people who for most of their productive lives have been counted in the group that has borne the greatest share of the tax burden for this nation as well as Kansas, and continue to pay taxes of all kinds.

Last year, I believe there were 27 states which were either already exempt or had removed themselves from taxing Social Security. Today 38 states have exempted themselves from this tax. In Kansas, this tax is borne entirely by retired people.

The Social Security program did not get in trouble because of excess benefits paid to eligible retirees--the problem resulted from bad management at the federal level. People who were never intended to become beneficiaries are now beneficiaries.

Finally when the Social Security program was first enacted, it was designed to treat all Americans equal, but the Congress defaulted on that promise in 1983--by not removing Kansas from this tax, Kansas is a party to that default. This bill will help return a little integrity to the program. I will appreciate your favorable consideration and thank you for listening. I'll be glad to stand for questions.



Kansas Retired Teachers Association



1984-1985

ELECTIVE OFFICERS

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

President Elect
Mr. Morris J. Thompson
412 E. 13th
Hutchinson, Ks. 67114
Phone 316-662-3002

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

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

DISTRICT DIRECTORS

District 1
Mr. Arnold J. Lehmann
216 W. Wilson
Salina, Ks. 67401
Phone 913-827-1913

District 2
Mr. Jack Rose
808 Iowa St.
Holton, Ks. 66436
Phone 913-364-2965

District 3
Mr. Willis Jordan
933 Maple
Ottawa, Ks. 66067
Phone 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

February 5, 1985

To Members of the House Assessment and Taxation Committee:

My name is Basil Covey and I represent the Kansas Retired Teachers Association.

I want to speak in support of HB 2035.

This bill excludes Social Security funds from Kansas income tax. This bill gives relief for approximately 38,000 retired citizens in Kansas, many of which are retired teachers. A planned retirement program for these citizens will be damaged if this bill is not passed. A tax on social security funds by the state of Kansas can easily lead to lowering the standard of living of retired citizens that have had productive careers, and have planned for their retirement.

The Federal government found it necessary to tax social security to save the system, but quoting a state legislation counselor, "Certainly it was not Congress' intent to broaden the states' tax base at the expense of Social Security beneficiaries."

If Kansas taxes Social Security funds it will be by default, not by proper legislation.

As of this date thirty-eight states will not tax social security funds. Kansas is one of twelve that plans to do so unless this bill prevents it.

We recommend that HB 2035 be approved for passage by the legislature. It will serve in the best interests of retired citizens in Kansas.

Sincerely,

Basil Covey
BASIL COVEY
KRTA

APPOINTIVE OFFICERS

Legislative Committee
Mr. Fayette Fields
1956 N. Tyler Rd.
Wichita, Ks. 67212
Phone 316-722-4458

Mr. Earl Ludlum
Route #3 - Box 108
Pittsburg, Ks. 68762
Phone 316-231-5842

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

Basil R. Covey
3119 W. 31st Ct.
Topeka, Ks. 66614
Phone 913-272-5914

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

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

Community Participation Chairman
Mr. Frank Rosser
S. Topeka
Holton, Ks. 66436
Phone 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. Wilda Novotny
2310 Maple Dr.
Belleville, Ks. 66935
Phone 913-527-2964

Retirement Planning Chairman
Mr. Milton Senti
708 Stout
Pratt, Ks. 67124
Phone 316-672-6183

Membership Chairman
Mrs. Irma Minden
4 Crestview Dr.
Paola, Ks. 66071
Phone 913-294-4055

NRTA Coordinator
Dr. George Goebel
711 Crest Dr.
Topeka, Ks. 66606
Phone 913-272-8777

Corresponding Secretary
Mr. Lester Ramsey
7923 Walker Ave.
Kansas City, Ks. 66112
Phone 913-786-3866

Parliamentarian
Mr. Harry McLeod
1214 McAdams Rd.
Salina, Ks. 67401
Phone 913-823-3993

STATE TAX TREATMENT OF SOCIAL SECURITY BENEFITS

	<u>No State Personal Income Tax</u>	<u>Specific Exemption for Social Security Benefits Enacted</u>	<u>Exempt Because Current Federal AGI Not Used As Starting Point</u>	<u>Social Security Benefits Taxable Same Extent As Federal</u>
Alabama			X	
Alaska	X			
Arizona			X (1983)	
Arkansas			X	
California				Taxable
Colorado				Taxable
Connecticut			X	
Delaware		X		
Florida	X			
Georgia			X (1981)	
Hawaii		X		
Idaho		X		
Illinois		X		
Indiana		X		
Iowa				Taxable
KANSAS				Taxable
Kentucky			X (1981)	
Louisiana		X		
Maine		X		
Maryland				Taxable
Massachusetts				
Michigan		X		
Minnesota			X (1983)	
Mississippi			X	
Missouri				Taxable
Montana				Taxable
Nebraska				Taxable
Nevada	X			
New Hampshire			X	
New Jersey		X		
New Mexico		X		
New York		X		
North Carolina			X	
North Dakota			X (1983)	
Ohio		X		
Oklahoma				Taxable
Oregon		X		
Pennsylvania			X	
Rhode Island				Taxable
South Carolina		X	X	
South Dakota	X			
Tennessee			X	
Texas	X			
Utah				Taxable
Vermont				Taxable
Virginia		X		
Washington	X			
West Virginia		X		
Wisconsin		X		
Wyoming	X			
TOTAL	7	17	14	12

Kansas Legislative Research Department
January 8, 1985

Testimony Before House A & T Committee
House Bill 2035
February 5, 1985

4

Mr. Chairman & Members of the Committee:

I appear before you strictly as a private citizen, and as a 10-year member of this committee. I know how seldom you hear from anyone who thinks a tax increase for them might not be so bad.

It seems to me this committee should ask itself some simple questions:

Does the state need this money? If your answer is "no", please pass this bill. I can do without the extra tax in that case.

Is decoupling a good idea?

Who is affected? Do you decouple for 9 percent of those affected?

Can those affected afford to pay?

Comparison of our expenses now with 10 or 20 years ago:

- Mortgage burned
- Cars down to two
- Food bill down
- Clothing incredibly down
(we had 3 girls)
- No tuition, dormitory or fraternity expenses

Is it a fair tax?

We did not think social security benefits would be taxed.
Neither did we think they would be indexed to a cost of living.
We never dreamed back in 1940 it would expand as it has.
We've paid very little compared to what we will receive

Do we as senior citizens have any obligations to Kansas?

We are both graduates of Kansas state universities.
Taxpayers helped us gain an education.
Possibly why we are in 9% group.

Our children graduated from Kansas universities.
Taxpayers helped us educate our children.
Unfortunately they aren't here to repay, so they must
help other states

Do health care expenses of elders come into consideration?

Kansas has a very generous deduction for health care.

If Kansas needs this revenue, it seems to me it is better for it to come from senior citizens with income over \$25,000 or \$32,000 than from those with a similar income and raising families.

BOB DOLE



(R - Kansas)

SH 141 Hart Building, Washington, D.C. 20510

IMPORTANT SOCIAL SECURITY NEWS

Dear Kansans,

In the next few days, some 382,850 Kansans, and more than 40 million Americans nationwide, will receive forms from the Social Security Administration (SSA) that may seem complicated and cause for concern.

-- But don't let these forms scare you.

The fact is, for about 90 percent of Kansans receiving Social Security benefits, these notices will mean nothing.

The documents -- Form 1099 -- Social Security Benefit Statement and the Department of Treasury Internal Revenue Service's Notice 730 (August 1984) -- explain a provision of the Social Security Amendments of 1983. Under this new law, a portion of Social Security benefits will be subject to federal income tax -- but only for recipients with non-Social Security incomes above \$25,000 as individuals or \$32,000 as couples.

The Social Security Administration has advised me that at least 91 percent of all Social Security beneficiaries in our state will not be affected by this provision. Social Security Administration and Internal Revenue Service officials are obliged to provide you with the forms. Samples of these forms are reproduced here.

If you are among the overwhelming majority of Kansans receiving less than \$25,000 as a single taxpayer, or \$32,000 if you are married and filing a joint return, this material is strictly informational. You will not owe any tax on your benefits.

So far, the 1983 changes have proven effective. The Social Security actuaries estimate that there is a high probability that Social Security will be in excellent financial shape through the 1980s and thereafter.

This is good news for all Americans -- taxpayers and beneficiaries alike.

This is due not only to the responsible provisions of the 1983 Amendments, but also to our robust economic recovery and low inflation. We cannot underestimate the importance of this low inflation rate -- not only to the Social Security system, but also to the purchasing power of Social Security benefits for the 36 million Americans -- including more than 382,000 Kansans -- who receive a Social Security check every month.

Special Phone Numbers to Answer Questions

If you have questions about the tax provisions, the Social Security Administration has developed a plan to provide help by a network of toll-free telephoning.

For a taped message, dial 1-900-200-1099, 24 hours a day, seven days a week, beginning January 1. For this call, there is a 50¢ charge.

If you are not satisfied with the information contained on the tape, additional details are available by calling 1-800-772-1099. This service is available 8 a.m. to 4:30 p.m. daily, five days a week, at no charge.

And, of course, our local Social Security offices throughout Kansas will be happy to answer your questions of concern.

However, if you are among that 9 or 10 percent in the higher income tax bracket, you will need this information in order to complete your tax returns accurately by the April 15, 1985, deadline.

As I noted earlier, more than 40 million Form 1099's are being mailed throughout the country between January 5 and January 29, 1985. SSA is expecting some 9.2 million Americans to inquire about these changes. This newsletter is intended to try to answer some of the questions you may have about these changes.

1983 Amendments Restored the System

The Social Security Amendments of 1983 were the result of a bipartisan consensus reached first, by the National Commission on Social Security Reform and second, by the U.S. Congress and President Ronald Reagan. The amendments have been in place since April of 1983 and have had a positive impact on the financial health of the Social Security system.

The amendments were intended to restore the financial solvency of the Social Security programs in both the short term (meaning the 1980s) and the long term (the next 75 years). The legislation called for changes in the program and its funding to assure that benefits would be paid on time even if economic conditions seriously deteriorate.

Read This To See If Your Benefits May Be Taxable

For 1984, people with high incomes may have to include part of their social security benefits on their Federal income tax return. If your social security and/or SSI (supplemental security income) benefits were your only source of income for 1984, you probably will not have to file a Federal income tax return.

To see if part of your benefits may be taxable, fill in lines A through E below.

Notes: If you would file a joint income tax return, and your spouse also received a Form(s) SSA-1099, add your spouse's amounts to yours on lines A, C, and D below. Even if your spouse did not receive a Form(s) SSA-1099, include his or her income on lines C and D.

A Write in the amount from Box 5 of all your Forms SSA-1099. (If both you and your spouse received a Form SSA-1099, see the "Notes" above.) A _____
 If the amount on line A above is zero or less, stop here; none of your benefits are taxable this year.

B Divide the amount on line A above by 2 and write in the result. B _____

C Add up your pensions, wages, interest, dividends, and other taxable income and write in the total. C _____

D Write in any tax-exempt interest, such as interest on municipal bonds. D _____

E Add lines B, C, and D above, and write in the total. Read the information below. E _____

Part of your social security benefits may be taxable if, for 1984, you were:
 • Single and line E above is more than \$25,000.
 • Married and
 — you would file a joint return, and line E above is more than \$32,000, or
 — you would not file a joint return, you did not live with your spouse at any time during the year, and line E above is more than \$25,000, or
 — you would not file a joint return, you lived with your spouse for some part of the year, and line E above is more than zero.

If your figures show that part of your benefits may be taxable, see your Federal Income Tax Return Instructions under "Social Security Benefits." If they do not, none of your benefits are taxable this year unless you exclude income from sources outside the United States.
 For more details, get IRS Publication 915, Tax Information on Social Security Benefits (and Tier 1 Railroad Retirement Benefits), or call the toll-free number on the back of this notice.

FORM SSA-1099 — SOCIAL SECURITY BENEFIT STATEMENT

1984 • PART OF YOUR SOCIAL SECURITY BENEFITS AS SHOWN IN BOX 5 MAY BE TAXABLE INCOME FOR 1984.
 • USE THE FIGURE FROM BOX 5 OF THIS STATEMENT AND THE ENCLOSED NOTICE 703 FROM IRS TO SEE IF ANY PART OF YOUR BENEFITS MAY BE TAXABLE ON YOUR FEDERAL INCOME TAX RETURN.
 • ALSO, SEE GENERAL INFORMATION TO THE RIGHT

Box 1. Name		Box 2. Social Security Number	
Box 3. Benefits for 1984 \$	Box 4. Benefits Repaid to SSA in 1984 \$	Box 5. Net Benefits (Box 3 minus Box 4) for 1984 \$	
DESCRIPTION OF AMOUNT IN BOX 3 Amounts paid by check or direct deposit Add: Medicare premiums withheld Workers' compensation offset Fees paid to an attorney or other legal obligation. Amounts withheld to recover an overpayment Amounts paid to another family member Amounts withheld to recover SSI payments Total Additions _____ Subtract: Payments due before 1984 Amounts for other family members paid to you Lump sum death payment Excess Medicare premiums Total Subtractions _____ Benefits for 1984 \$ _____		DESCRIPTION OF AMOUNT IN BOX 4 Amounts of any of your Social Security checks that were returned to SSA Add: Amounts withheld to recover an overpayment Amounts paid to SSA in cash, or by personal check or money order, etc., excluding Medicare premiums Benefits Repaid to SSA in 1984 \$ _____ Box 6. Address _____ Box 7. Claim Number (Use this number if you need to contact SSA.)	

I also invite you to contact any of my offices if we can, in some way, be of further aid to you. The locations of my Kansas field offices follow:

KANSAS CITY
 (913) 287-4545
 636 Minnesota
 Kansas City, Kansas, 66101

TOPEKA
 (913) 295-2745
 444 S.E. Quincy Street
 Topeka, Kansas, 66603

WICHITA
 (316) 263-4956
 Fourth Financial Center
 100 North Broadway
 Wichita, Kansas, 67202

PARSONS
 (316) 421-5380
 76 Parsons Plaza
 Parsons, Kansas, 67357

MOBILE OFFICE
 ...traveling through Kansas.

United States Senate
 WASHINGTON, D.C. 20510

Bob Dole
 U.S.S.

BLK. RT.

Return Postage Guaranteed
 ATTENTION POSTMASTER — OCR — PLEASE
 DO NOT MARK ON OR ABOVE THE LABEL.

344152-4LR XX
 HONORABLE RUTH W. WILKIN
 KANSAS HOUSE OF REPRESENTATIVE
 STATE CAPITOL BLDG.
 TOPEKA, KS 66612

*1610 Willow
 Topeka, Ks 66606*