Approved March 19, 1985
Date

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation.

The meeting was called to order by Senator Fred A. Kerr (Chairperson) at

11:00 a.m./~~p.m.~~ on Friday, March 8, 1985 in room 526-S of the Capitol.

All members were present except:
Senators Burke (Excused), Frey (Excused), Hayden (Excused), Karr (Excused) and Montgomery (Excused)

Committee staff present:
Tom Severn, Research Department
Melinda Hanson, Research Department
Don Hayward, Revisor's Office
LaVonne Mumert, Secretary to the Committee

Conferees appearing before the committee:
Senator Eric Yost
Representative Clint Acheson
Basil Covey, Kansas Retired Teachers Association
Guy Gibson, American Association of Retired Persons
Gerald Duree, American Association of Retired Persons
Dr. Ron Harper, Kansas Department on Aging
Earl Flickinger, Kansas Association of Public Employees
Gilbert Green, National Association of Retired Federal Employees
John Miller, American Association of Retired Persons

S.B. 104 - Exclusion of social security benefits from Kansas adjusted gross income

Senator Eric Yost explained that the bill would exclude social security benefits from being taxed by the state. He said that the fiscal note is 3.5 million dollars plus administrative costs. Answering a question from Senator Allen, Senator Yost said that single taxpayers who are social security recipients having over $25,000 income and joint taxpayers having over $32,000 income would be taxed if this bill doesn't become law.

Representative Clint Acheson summarized his written testimony (Attachment 1). He pointed out that tax exempt securities are subject to tax for persons in this bracket. Representative Acheson compared the 3.5 million dollar fiscal note of S.B. 104 to the some 49 million dollars generated by the booster tax.

Basil Covey read his written testimony in support of the bill (Attachment 2). He raised concerns that tax on social security funds may become a progressive tax. Mr. Covey pointed out the chart indicating the tax treatment of social security benefits by various states and stressed that Kansas is only one of some eleven states taxing the social security benefits.

Guy Gibson read his statement in support of the bill (Attachment 3). He said this social security tax was not intended to be a windfall to the states. Mr. Gibson discussed the inclusion of interest from tax-exempt securities. In questioning, it was pointed out that lower income retired persons might be hurt by the passage of this bill because they receive program benefits from the state which might be reduced if the expected 3.5 million dollars is not received.

Gerald Duree testified in favor of the bill. He talked about costs of medical and dental care, insurance, home repairs, etc. and the effect on persons living on a fixed income. Mr. Duree said that the 3.5 million dollars is money that the state hasn't had before. He is of the opinion that the bill may involve more than 10% of the social security recipients.

Dr. Ron Harper reviewed his statement in support of the bill (Attachment 4). He mentioned various pension and retirement plans that are currently exempt from federal adjusted gross income. He said this tax really represents a new tax. In answer to a question from Chairman Kerr, Dr. Harper said that the 3.5 million dollars was included as revenue in the Governor's budget.

Earl Flickinger testified in support of the bill.

Gilbert Green testified in favor of the bill. He said that the federal legislation was intended to assist the Social Security Trust Fund and the states should not be beneficiaries. He stated that such a tax makes social security a welfare program.

John Miller spoke in support of the bill. He pointed out that the social security beneficiaries have been through economic hardships, just as people are suffering at the present. He discussed the inclusion of tax-exempt bonds and costs of medical care.

Written testimony received from Marian Warriner, League of Women Voters of Kansas, (Attachment 5) in opposition to S.B. 104 was distributed to the Committee.

The Committee was advised that H.B. 2035 (identical to S.B. 104) was killed in the House Assessment and Taxation Committee. A motion to reconsider the Committee's action was defeated in the full House.

S.B. 320 - Annual tax levy for watershed districts

Senator Thiessen moved that the bill be amended to provide for a levy up to 4 mills rather than 6 mills. Senator Mulich seconded the motion, and the motion carried. Senator Thiessen moved that the bill include a 5% protest provision for the additional levy above 2 mills. Senator Mulich seconded the motion, and the motion carried. Senator Thiessen moved that the bill, as amended, be recommended favorably for passage. Senator Mulich seconded the motion, and the motion carried.

Senator Parrish moved that the President of the Senate be contacted to see if he might consider referring S.B. 201 to the Ways and Means Committee for purposes of keeping the bill alive past the deadline. Senator Mulich seconded the motion, and the motion carried.

Chairman Kerr said that he had received no further requests by Committee members to take further action on bills in Committee. He noted that S.B. 104 had been rejected by the House Taxation Committee and by the full House of Representatives and that the Governor had not recommended the passage of the bill. He said that all bills not acted on, including S.B. 104, would remain alive and could thus be considered next year.

Senator Allen moved that the minutes of the March 7, 1985 meeting be approved. Senator Thiessen seconded the motion, and the motion carried.

Meeting adjourned.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
3/8/85	CLARK R. YOUNG	TOPEKA	intern Sen Fred Kerr
	Basil Covey	Topeka	KRTA
	Guy Gibson	"	AARP
	Harold H. Duree	Topeka	AARP
	Earl D. Flickinger	Topeka	KAPE
	Ken Cox	Topeka	KAPE
	Bob Wade	Topeka	AARP.
	Mr + Mrs A. J. Pottinger	Topeka	AARP
	Louis Cagle	Topeka	KRTA
	Lyle Kruger	Topeka	Retired
	Naomi Kruger	Topeka	Retired Citizen
	[illegible]	Topeka	Kansas Motor Carriers Assn.
	JANET STUBBS	"	HBAK
	[illegible]	"	KCCI
	D. WAYNE ZIMMERMAN	TOPEKA	THE ELECTRIC CO's. ASSOC. OF KS.
	Ralph T. Newman	"	Tarta
	L. John Burke	"	TARTA
	Harold Potts	"	TARTA
	Leon K. Robertson	✓	AARP
	[illegible]	Topeka	NARFE
	Ralph A. Kingman	✓	NARFE
	Ronald Musser	✓	NARFE
	Al V. Bramble	Lawrence	SHL, KCCA, AARP
	Jim McBride	Topeka	United Way AARP
	Jan Freeby	Manhattan	A.A.U.W.
	Barbara Shinkle	Pratt	A.A.U.W.
	Jessie Lehman	Topeka, Ks.	AARP
	Irvin A. Lehman	Topeka	AARP
	Edith K. Copenhafer	Topeka	TARTA
	Lloyd M. Copenhafer	Topeka	TARTA

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
8/14/85	Dr Ronald L. Harper		KDOA
3/8/85	John O. Miller	5230 W. 24th Topeka	AARP
3-8-85	Ron Calbert	Newton	U.T.U.
✓	Bryan Whitehead	KCK	BRAC

Testimony before the Senate Assessment and Taxation Committee on Senate Bill 104, by Representative Clint Acheson, March 8, 1985.

The purpose of SB 104 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 ½ of the Social Security benefits are used to reach the $25,000 threshhold for an individual return, and ½ 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. It seems incredible that <u>this is the only group of taxpayers where income from tax exempt securities is used in computing taxable income.</u>

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 inconsistant.

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. It seems perfectly feasible that we should give favorable consideration to repealing this tax on elderly retired Kansans, especially since it seems to be our intention to not renew the so-called booster tax on the states wealthiest citizens. The booster tax has a price tag of $49 million compared to this tax which is only $3.5 million.

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 by the thousands.

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 I thank you for your attention.

Kansas Retired Teachers Association

1984-1985

March 8, 1985

Members of the Senate Assessment and Taxation Committee:

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

We support SB104 which excludes Social Security retirement funds from Kansas income tax.

Social Security funds were never intended to be taxed as income from its beginning in 1935. Rather Social Security funds make up a vast retirement security net for those retired citizens in Kansas that have planned well and learned to manage their finances.

The federal government found it necessary to tax a portion of Social Security funds to save the system, but it does not follow that the states have the legal right to do the same. Thirty-nine states have recognized the lack of authority to tax Social Security funds but Kansas is one of eleven states that have not recognized that fact.

Unless SB104 is passed 10% or 38,000 retired citizens in Kansas will be paying income tax on their Social Security funds. The legislature is on record that no new taxes are necessary this session. For these 38,000 retired citizens who have not paid this tax before, this will be a new tax, unless SB104 is passed.

For the other 90% of retired citizens in Kansas that may not be paying income tax on their Social Security funds, SB104 removes the psychological threat that it may become a progressive tax on income. Like the Arabian camel train driver said, "Never let a camel get his head in your tent for he will want to go all the way, and if the first hump does not knock your tent down the second hump will--then there goes your security!"

This generation of retired citizens never enjoyed great wealth and learned to do with

Kansas Retired Teachers Association

1984-1985

what they had. They built lives without running water, without automatic heat, trying to raise families on fifteen cent wheat. In spite of living through the Great Depression of the Thirties, they had productive careers and planned for their retirement.

The Wall Street Journal reported recently that states that have not excluded Social Security from income tax have bills pending to ditch the tax on Social Security.

SB104 expresses the wishes of retired citizens in Kansas and we ask that you give SB104 a positive vote.

The attached sheet will give information on the fifty states.

Sincerely,

Basil Covey

Basil Covey
KRTA

STATE TAX TREATMENT OF SOCIAL SECURITY BENEFITS

	No State Personal Income Tax	Specific Exemption for Social Security Benefits Enacted	Exempt Because Current Federal AGI Not Used As Starting Point	Social Security Benefits Taxable Same Extent As Federal
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		X (1985)		~~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~~ 18	14	~~12~~ 11

Kansas Legislative Research Department
January 8, 1985

K84-167

Statement of
Guy E. Gibson
Member, State Legislative Committee
American Association of Retired Persons
to
Senate Committee on Assessment and Taxation

Attachment 3

March 8, 1985

The federal legislation taxing some Social Security benefits was designed to shore up the Social Security Trust Fund, not to serve as an unexpected windfall to the states by imposing an additional tax on affected Social Security recipients.

Older citizens accepted the taxing as a part of their Social Security benefits to shore up the Social Security Trust Fund. AARP does not support this windfall tax to the states.

From the beginning of the Social Security program, beneficiaries have believed that their benefits would not be taxed.

The unfair inclusion of interest from tax-exempt securities in the computation of one's income level in figuring the tax on certain Social Security benefits is discriminatory and also in effect repeals the tax exemption on these securities.

Taxing Social Security benefits can easily lead to the cancellation of long planned traveling and in many respects lower the standard of living for many retirees.

AARP opposes the taxation of Social Security benefits as a dangerous precedent. The threshholds of $25,000 and $32,000 are not set in concrete. Congress, in looking for additional revenue, may well lower these threshholds. Because of an anticipated rate of inflation during the coming years, this tax will have an adverse impact on an increasing number of pensioners.

This issue is not simply one for the middle and upper income elderly but one concerning all present and future beneficiaries.

We ask this committee to give favorable consideration to Senate Bill 104.

Attachment 3

TESTIMONY ON S.B. 104
EXCLUSION OF SOCIAL SECURITY BENEFITS FROM TAXATION

BY KANSAS DEPARTMENT ON AGING

MARCH 8, 1985

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. Eighteen states have passed legislation excluding Social Security benefits from state taxation.

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:

Attachment 4

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 S.B. 104 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 S.B. 104 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.

S.B. 104 would insure that all recipients of Kansas pension plans are treated equally. Social Security benefits should be exempted from taxation at the state level.

JH
3/5/85

Attachment 5

LEAGUE OF WOMEN VOTERS OF KANSAS

909 Topeka Boulevard-Annex 913/354-7478 Topeka, Kansas 66612

March 8, 1985

STATEMENT TO THE SENATE ASSESSMENT & TAXATION COMMITTEE IN OPPOSITION TO SB 104 -- EXCLUSION OF SOCIAL SECURITY BENEFITS FROM KANSAS ADJUSTED GROSS INCOME.

Mr. Chairman and Members of the Committee:

I am Marian Warriner speaking for the League of Women Voters of Kansas. We oppose the exclusion of the half of social security benefits from the Kansas Income Tax by those whose incomes are at high levels.

The basis for opposition is in our position in favor of a progressive broad-based tax system with the major measure the ability to pay.

We believe that senior citizens, retired Kansans, will not be harmed by taxing these benefits. In fact, the revenue received could provide more services for this very group, for example, twenty-four hour nursing care in our nursing homes.

Thank you.

Marian Warriner

Marian Warriner, Lobbyist
State Finance

Attachment 5