

Approved On: 2/18/87

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 17, 1987 in room 519 South at the Capitol of the State of Kansas.

The following members were absent (excused):

Representatives Pottorff

Committee staff present:

Tom Severn, Legislative Research
Chris Courtright, Legislative Research
Don Hayward, Reviser of Statutes
Millie Foose, Committee Secretary

Chris Courtright, representing Kansas Legislative Research Department, presented a memorandum and table showing the state tax treatment of Social Security benefits in all the states. (Attachment 1)

Etta Blanche Dahlgren spoke as a proponent of HB-2087 as she believes that tax on Social Security is an additional tax for a select group of individuals. (Attachment 2)

Basil Covey, representing Kansas Retired Teachers Association, spoke in support of HB-2087. (Attachment 3) He reported that an estimated 3-1/2 million dollars have been taken out of the Kansas economy each year for use by the state. His organization believes this should have been used for goods and services that would have stimulated the economy.

Mr. Covey was questioned by committee members - especially concerning whether he thinks the tax should be eliminated instead of being used for health services that would help the really needy.

Mr. Gerald Duree also spoke as a proponent and said that Social Security was never intended to be a source of revenue for the federal government or the state. (Attachment 4)

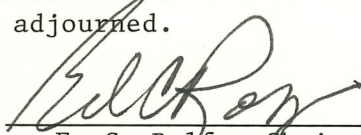
Mr. Ron Calbert, representing United Transportation Union, said that his organization supports excluding Social Security and Railroad Retirement benefits from Kansas Adjusted Gross income. (Attachment 5)

Mr. George Dugger, representing Kansas Department on Aging, said his organization supports uniform state tax treatment of governmental retirement benefits. He said that only eleven states currently tax such benefits to the same extent as the federal level. (Attachment 6)

Mrs. Ruth Wilkin spoke as an opponent of HB-2087. She believes that the 10% that are affected by the tax can afford to pay it and should be willing to help repay the taxpayers for the many blessings of living in Kansas. (Attachment 7)

Written testimony regarding HB 2087 submitted by Frank Lawler. (Attach. 8)
The minutes of the February 11 meeting were approved.

There being no further business to come before the Committee, the meeting was adjourned.


E. C. Rolfs, Chairman

September 2, 1986

MEMORANDUM

Beginning in tax year 1984, some Social Security benefits were included in federal adjusted gross income (AGI). The amount included is 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 taxpayers filing jointly or zero for certain married taxpayers not filing joint returns.

According to information obtained from The State Tax Guide and State Tax Review by Commerce Clearing House, Social Security benefits are also taxable in 11 states, including Kansas, to the same extent that such benefits are taxable on the federal level. Seven states have no individual income tax, 23 states and the District of Columbia have enacted a specific exemption for Social Security benefits, and 9 states do not start computation of their state tax with federal AGI.

The attached table lists the state tax treatment of Social Security benefits.

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		
Arkansas				
California		X	X	
Colorado				
Connecticut				Taxable
Delaware		X	X	
Florida	X			
Georgia		X		
Hawaii		X		
Idaho		X		
Illinois		X		
Indiana		X		
Iowa				
KANSAS				Taxable
Kentucky		X		Taxable
Louisiana		X		
Maine		X		
Maryland		X		
Massachusetts				
Michigan		X		
Minnesota		X		
Mississippi				
Missouri			X	
Montana				Taxable
Nebraska				Taxable
Nevada	X			Taxable
New Hampshire				
New Jersey		X	X	
New Mexico		X		
New York		X		
North Carolina				
North Dakota			X	
Ohio		X		Taxable
Oklahoma		X		
Oregon		X		
Pennsylvania			X	
Rhode Island				
South Carolina		X	X	Taxable
South Dakota	X			
Tennessee			X	
Texas	X			
Utah				
Vermont				Taxable
Virginia		X		Taxable
Washington	X			
West Virginia		X		
Wisconsin				Taxable
Wyoming	X			
TOTAL	7	23	9	11

Kansas Legislative Research Department
September 2, 1986

ITEMIZED DEDUCTIONS To simplify preparation of returns and the administration of the tax and to improve the equity of the tax structure, the bill closely conforms the Kansas itemized deductions to the federal. The deduction for social security and railroad retirement contributions and self-employment tax will be phased out over a five year period.

STANDARD DEDUCTION The bill conforms to federal standard deduction amounts. These are compared to the maximum amounts under current law below:

	<u>Current Law</u>	<u>TY87</u>	<u>TY88</u>
Single	\$2,400	\$2,540	\$3,000
Joint	2,800	3,760	5,000

Taxpayers and dependents who are blind or over 65 will receive a larger standard deduction beginning in 1987. They will no longer receive an additional personal exemption under federal law.

PERSONAL EXEMPTION The Kansas personal exemption is increased by \$300 per year for each of the next three years. In 1989, the federal personal exemption will be \$2,000, and the Kansas personal exemption will be \$1,900. A future legislature may decide to conform in 1990. Indexing of the federal amount will begin in 1990.

RATES The bill eliminates the top bracket of the current rate structure, lowering the top Kansas rate from 9% to 8 1/2%.

SOCIAL SECURITY INCOME The bill exempts from Kansas income tax any amounts received as social security benefits. As of last fall, only eleven states attempted to tax such income. The fact that similar income received as railroad retirement benefits may not be taxed by the states creates a serious equity problem when the Social Security benefits are taxed.

FISCAL EFFECT The bill responsibly addresses the current fiscal situation by retaining in the short run a portion of the windfall, while in the long run returning to Kansas taxpayers the major portion. Future legislatures may address the small remaining portion when more reliable estimates are available.

TOTALS	TY87 (16)	TY88 (64)	TY89 (94)
1 Exempt Social Security Income	(4)	(4)	(4)
2 Increase Personal Exemptions			
TY87-- \$1,300	(40)		
TY88-- \$1,600		(81)	
TY89-- \$1,900			(120)
TY90?-- \$2,000???			
3 Conform on Medical Deductions	30	30	30
4 Phase Out Social Security Deduction			
(Allow 80% for TY87)	11		
(Allow 60% for TY88)		21	
(Allow 40% in TY89)			32
(Allow 20% in TY90)			
(Gone in TY91)			
5 Elim Gas Tax, other minor conf items	3	3	3
6 Allow Moving Expenses as Deduction	(3)	(3)	(3)
7 Allow Employee Business Exp as Deduct	(7)	(7)	(8)
8 Conform on "Other Misc"	9	9	9
9 STANDARD DEDUCTION			
Conform Totally	(15)	(32)	(33)
10 Reduce Top Rate to 8.5%	*	*	*

* Fiscal Note unavailable.

EXEMPTION OF SOCIAL SECURITY BENEFITS FROM TAXATION IN KANSAS

HOUSE BILL No. 2087

Mr. Chairman and Members of the House Taxation Committee:

Thank you for permitting us to present this testimony for House Bill No. 2087 regarding the exemption of benefits under the Federal Social Security Act from the adjusted gross income for Kansas taxation.

Social Security was never meant to be taxed. The law passed by the federal government provides that money received there goes back into the Social Security Trust Fund. It was not meant to be an income producing tax. It was not passed by the federal government to build up state money.

Any tax on Social Security should be fair to the retirees. The present law taxes "tax-free bonds", as income from such bonds is included in determining the tax on Social Security benefits. This is unfair. No one but the retirees on Social Security pays such a tax. That makes this double taxation questionable.

The exemption provided by this bill would maintain the states historic policy of not taxing unfairly. It would return Kansas's historic policy of not including interest from Kansas school and municipal bonds in determining state taxes.

Exemption would treat Social Security benefits in the same way that state employees retirement benefits are treated.

Since Kansas uses the federal adjusted gross income figure, Kansas taxes a segment of its retired citizens, by default. The taxation of benefits for some individuals established a dangerous precedent for taxing all Social Security benefits. People fear that Social Security will be taxed more in the future.

Taxation destroys the incentive to save. Senior citizens are on fixed incomes. We would not want people to move from Kansas to states that do not require payment of this tax.

Receipt of Social Security benefits enables older Americans to have independent lives and, in some cases, continue contributing to society.

The power to act on this matter is vested in the legislature.

The real issue is that this is an additional tax for a select group of individuals.

We urge the passage of House Bill No. 2087.

Thank you,

Etta Blanche Dahlgren

Etta Blanche Dahlgren

TAXATION OF SOCIAL SECURITY BENEFITS BY STATES

I. STATE WILL NOT TAX SOCIAL SECURITY BENEFITS

A. No State Personal Income Tax :

Alaska	South Dakota
Connecticut	Tennessee
Florida	Texas
Nevada	Washington
New Hampshire	Wyoming

B. State Income Tax Policy Does Not Conform to Present IRS Standard :

Alabama	Georgia
Arizona	Massachusetts
California	Mississippi
District of Columbia	Pennsylvania

C. State Exempts Social Security Benefits From Taxation -- Has Passed Legislation :

Arkansas	New Mexico
Delaware	New York
Hawaii	North Carolina
Idaho	Ohio
Indiana	Oklahoma
Kentucky	Oregon
Louisiana	South Carolina
Maine	Virginia
Maryland	West Virginia
Michigan	Wisconsin
Minnesota	Illinois
New Jersey	

II. STATE WILL TAX SOCIAL SECURITY BENEFITS

State Defeated Social Security Benefits Exemption Bills

Colorado	Nebraska
Iowa	North Dakota
Kansas	Rhode Island
Missouri	Utah
Montana	Vermont

September, 1986



Kansas Retired Teachers Association

Together We Can

1986-1987



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February 17, 1987

To Members of the House Taxation Committee:

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

We support HB 2087 that excludes Social Security funds from Kansas income tax.

Social Security funds provides part of the retiree's plan to carry on a standard of living necessary to meet his or her needs after the career is over.

The 1935 Social Security law was a partnership between the federal government and the citizens to help plan for their retirement following the Great Depression. It was generally known that these retirement dollars would not be taxed. When it was necessary to preserve the federal program Congress passed legislation to tax a portion of the funds.

Forty states do not tax Social Security retirement dollars. The states that used the federal adjusted gross income figure passed legislation that excluded Social Security funds from the federal gross income figure. Kansas did not pass legislation to exclude these retirement dollars but continued to tax by default.

An estimated three and a half million retirement dollars have been taken out of the Kansas economy each year for use by the state. These retirement dollars might very well have been used for goods and services thus stimulating the economy.

An estimated 10% of Kansas retired citizens have been taxed. This is not a valid figure--only an estimate. A true figure is not available.

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This group being taxed has been referred to as the "wealthy retired" and can afford to pay the tax. They can also afford to move out of the state to a state that does not tax Social Security retirement dollars. Governor Hayden pointed this out in his address to the legislature. Kansas is losing young people--surely we do not want to lose the retired and elderly.

Some of your constituents may feel that this bill should not be passed. This is a minority opinion and should be treated as such. This bill has statewide support and represents the majority opinion.

In KRTA district meetings in Ford, Wichita, Iola, Manhattan, Ottawa and Salina an over-whelming opinion to exclude Social Security retirement dollars from Kansas income tax was expressed.

We join the administration in urging you to support HB 2087.

SOCIAL SECURITY ACT	
ACCOUNT NUMBER	
512-05-5362	
HAS BEEN	ESTABLISHED FOR
Basil R. Covey.	
6-26-57	<i>Basil R. Covey</i>
DATE OF ISSUE	EMPLOYEE'S SIGNATURE

Sincerely,

Basil Covey
Basil Covey
KRTA

HOUSE BILL No. 2087
Exemption of Social Security from Kansas Taxation

HOUSE TAXATION COMMITTEE

Social Security was never intended to be for ones complete care after retirement. It was intended to help supplement whatever other income one had planned and accrued for himself during working years. It was never intended to be a source of tax revenue for the federal government or the state.

This is not a discretionary bill, retired versus working people. It is a bill that will benefit all Kansans as they become retirement age.

This bill does not ask for us to be exempt from all taxes. Social Security retired people pay taxes on their income and business accomplishments as all other Kansans do.

We are asking you to not tax something that we were taxed for all our working years. It was deducted from our earnings and was put in trust to the federal government which was to pay it back to us in our retirement years as a supplement to other accrued income.

We retired Kansans are more than willing to pay our fair share of the taxes needed to make Kansas financially sound and a prosperous state.

With all but 10 states removing this tax, we are asking you, as legislators, to weigh the checks and balances of a yea or nay vote on this bill. Older Kansans may look to other states for a place of retirement.

The group in the lowest end of this tax bracket is getting hit the hardest. The federal tax reform raises our state tax about 20%. We are the group hit hardest on the federal tax reform. We get less credit for medical deductions. Medical insurance we counted on is paying less of our bills and the cost of the insurance continues to increase. Utility bills are increasing. Numerous items of deductions have been removed.

Ladies and gentlemen, we are on a fixed income which only goes down not up.

This money put back in the pocket books of the elderly retired will be spent mostly in Kansas. Kansas business people and the state will still receive a goodly sum of this money back in tax revenue. Money is spent by the elderly for every day needs.

Mr. Gerald Duree

R. E. (RON) CALBERT
DIRECTOR/CHAIRMAN

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KANSAS STATE LEGISLATIVE BOARD

STATEMENT RE: HOUSE BILL No. 2087

An Act relating to income taxation;
excluding amounts received as social security benefits from adjusted gross income

Presented to: House Taxation Committee

February 17, 1987

Mr. Chairman and members of the Committee, I am Ron Calbert, Director/Chairman, Kansas State Legislative Board, **United Transportation Union**. I am authorized to speak for our some seven thousand (7,000) active and retired railroad and bus members and their families who reside in Kansas.

Mr. Chairman, we rise in support of House Bill No. 2087, which proposes to amend the Kansas Income Tax Act by excluding amounts received as Social Security benefits from Kansas adjusted gross income. The amendment is a new Paragraph XIV of Sub Section (C) of Section 1 at line 0159;

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

(XIV) Amounts received as benefits under the federal social security act which are included in federal adjusted gross income.

Mr. Chairman and Committee members, this is not new legislation; this concept

was introduced in the 1984 Legislature as House Bill No. 2821 and Senate Bill No. 624, in 1985 as Senate Bill No. 104 and House Bill No. 2035, and again in 1986 as House Bill No. 2848 and House Bill 2913.

The enactment of the Social Security Amendments Act of 1983 (P.L. 98-21, April 20, 1983) made a portion of social security benefits subject to federal income taxes. For states that use the Internal Revenue Code as a starting point, this means that the same amount of social security benefits will be subject to state taxation unless the state law specifically exempts social security benefits. While some states passed legislation during 1984 and 1985 to exempt social security benefits from state income taxation, Kansas did not.

Imposing a state income tax on social security benefits should be a policy decision of the Legislature. Some Committee members believe the threshold of \$25,000 for single taxpayers and \$32,000 for a married couple filing jointly should pay taxes on their social security benefits because they can afford it. If that is the feeling of the Legislature, then let's tax everyone on their ability to pay. A taxpayer receiving social security 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 deductions taken for two earner married couples;
- amounts excluded as foreign-earned income; and
- amounts excluded as possessions or Puerto Rican source income.

Mr. Chairman and Committee members, Senate Bill No. 624 of the 1984 Legislative Session also included exempting Railroad Retirement Tier I benefits which are treated the same as social security benefits; the **United Transportation Union** testified in support of exempting from state income tax on both of these retirement programs.

However, in September 1984 the Kansas Department of Revenue conferred with the U.S. Railroad Retirement Board and the Internal Revenue Service on states taxing Railroad Retirement benefits. It is the position of the Department of Revenue that the provisions of section 231M (which is attached) are controlling on Kansas, and that any Tier I Railroad Retirement benefits included in Federal Adjusted Gross Income must be deducted in arriving at Kansas Adjusted Gross Income.

I am asking the Committee to amend House Bill No. 2087 to include Tier I Railroad Retirement. Even though the Department of Revenue has taken the exempt position on Tier I Railroad Retirement, a future Secretary may not.

Working and Retired employees of the railroad and bus industry, whom I represent in Kansas, are covered by Railroad Retirement and Social Security. On their behalf, I support excluding these benefits from Kansas adjusted gross income.

Thank you for the opportunity to testify before you today.

Title 45, United States Code Annotated (Railroad Retirement)

§ 231m. Assignability; exemption from levy

(a) Except as provided in subsection (b) of this section and the Internal Revenue Code of 1954 [26 U.S.C.A. § 1 et seq.], notwithstanding any other law of the United States, or of any State, territory, or the District of Columbia, no annuity or supplemental annuity shall be assignable or be subject to any tax or to garnishment, attachment, or other legal process under any circumstances whatsoever, nor shall the payment thereof be anticipated.

(b)(1) This section shall not operate to exclude the amount of any supplemental annuity paid to an individual under section 231a(b) of this title from income taxable pursuant to the Federal income tax provisions of the Internal Revenue Code of 1954 [26 U.S.C.A. § 1 et seq.].

(2) This section shall not operate to prohibit the characterization or treatment of that portion of an annuity under this subchapter which is not computed under section 231(b), 231(c), or 231(d) of this title, or any portion of a supplemental annuity under this subchapter, as community property for the purposes of, or property subject to, distribution in accordance with a court decree of divorce, annulment, or legal separation or the terms of any court-approved property settlement incident to any such court decree. The Board shall make payments of such portions in accordance with any such characterization or treatment or any such decree or settlement.

(Aug. 29, 1935, c. 512, § 14, as added Oct. 16, 1974, Pub. L. 93-445, Title I, § 101, 88 Stat. 1345, and amended Aug. 12, 1985, Pub. L. 98-76, Title IV, § 419(a), 97 Stat. 435.)

TESTIMONY ON H.B. 2087
TO THE
HOUSE COMMITTEE ON TAXATION
BY THE
KANSAS DEPARTMENT ON AGING
FEBRUARY 17, 1987

Bill Summary:

Excludes Social Security benefits from adjusted gross income.

Bill Brief:

1. Excludes from state taxable income amounts received as benefits under the federal Social Security Act which are included in federal adjusted gross income.
2. Becomes effective with all taxable years starting after December 31, 1986.

Bill Testimony:

The Kansas Department on Aging supports the uniform state tax treatment of governmental retirement benefits. Current Kansas tax law excludes most kinds of governmental retirement income from taxation. Social Security benefits and military pensions are currently included though an offsetting tax credit is provided to military retirees. Equity would seem to dictate that Social Security benefits likewise be excluded. Indeed only 11 states currently tax such benefits to the same extent as the federal level.

The intent of the 1983 federal decision to apply federal income tax to a portion of Social Security benefits for certain individuals was to ensure the financial soundness of the Social Security system. An unintended consequence was the enhancement of revenues for states whose income tax system was coupled to the federal system.

Older Kansans' whose state tax liability was increased by this federal policy change will now often see their state tax liability increased further by the recent federal tax reform. Now seems to be an appropriate time to remedy this situation and move towards equal tax treatment of governmental retirement income in Kansas.

Recommended Action:

KDOA supports the enactment of H.B. 2087.

LD:mj
2/16/87

George Dugger

Mr. Chairman and Members of the Committee:

I testified against a similar bill a couple of years ago, and for those of you who were on the committee then, I don't want to bore you, but as a concerned individual I feel I must again oppose this legislation.

I am Ruth Wilkin, and I am speaking today solely for myself. This bill affects my husband and me because we are fortunate enough to be one in 10 of the senior citizens of Kansas required to pay income tax on one-half of our social security. It is my opinion that those who can pay should pay, and why would you want to give a tax break to those with the most income? Why cut benefits to our friends in nursing homes who have run out of money, and to children born to poor parents, and give it back to the top ten percent of those most able to pay? I believe most older Kansans would tell you to keep the amount of our income tax on our social security and use it for those less fortunate.

As Tax Committee members you also know we did not pay state tax on the social security we paid, because it is deductible in Kansas. So you are not taxing income twice.

Certainly, a federal gross income of \$25,000 for an individual or \$32,000 for a couple does not translate to "wealthy", but it goes a lot further for a couple over 65 than one 45. In our own case--our home is paid for, our cars are reduced to 2 as opposed to 5 when all of the children were around home, our food cost is modest, and our clothing budget seems slim after raising three daughters. The greatest difference, however, is in the cost of education. We no longer have college tuition, books, and dorm, apartment or sorority fees. The girls all graduated and got jobs. If you haven't experienced that happy event, you have something to look forward to. You will probably have more disposable income after 65 than before, even though the total income may be much less.

Many of our friends go south in the winter. Most come back in the spring and keep their Kansas residence. A few have moved to warmer climates, but no one has gone because of our income tax. If we had no taxes, those folks would still prefer the climates of Arizona, Texas or Florida in winter.

If every senior citizen had to pay taxes on social security, I would be here supporting this bill, because many would be hurt, but let those of us to whom the bill applies do our share in repaying the taxpayers of Kansas for their contribution to our education, our children's education, and the other blessings of living in Kansas.

As an aside, may I comment that if you want to do something for senior citizens, keep the medical deductions we now have. Every senior citizen has great fear of experiencing a long, costly illness that will drain us of our savings. Illness is something we cannot prevent, and of all the deductions we can take, I expect Kansans silently thank you most for that medical deduction. That in itself will not solve the problem we face, but it is a help.

Thank you for allowing me to express my feelings.



1986-1987
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Tuesday, February 17, 1987

The Hon. Edward C. Rolfs, Chairman
And Members of the House Committee on Taxation
Room No. 519-S, Capitol Building
Topeka, Kansas 66612

SUBJECT: Hearing on H.B. No. 2087, Excluding Social Security
Benefits from Kansas Adjusted Gross Income.

Chairman Rolfs and Committee Members:

My name is Frank Lawler and I am Vice Chairman of the State
Legislative Committee of the American Association of Retired Per-
sons with some 311,000 members in 49 chapters in Kansas, including
Chapter No. 2333 of Overland Park, Kansas of which I am President.
And, let me add, we have members very much interested in this bill.

I thank you for the opportunity to present this testimony
and recommending your favorable action on H.B. No. 2087.

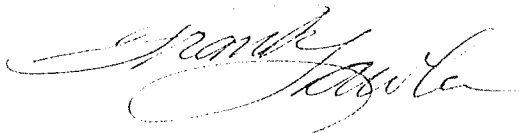
Consistent with AARP's opposition with unfair taxes, there
is a feeling among many AARP members that the "piggy-backing" of
Social Security benefits into Kansas adjusted gross income for
income tax purposes has tainted the view of the tax as one which
could not have been approved by the legislature had it been in-
troduced as a taxing bill to tax those benefits and therefore
leaves the feeling of being taxed without representation. That
perception could be eliminated by enactment of this bill.

With federal revisions in the income tax law there has
developed a concern among the elderly of tax increases which
would further erode their income and life style. Repeal of the
present inclusion of Social Security benefits in adjusted gross
American Association of Retired Persons 1909 K Street, N.W., Washington, D.C. 20049 (202) 872-4700

could help considerably to counter the fears of the elderly relative to the impact of any additional taxes.

Closely associated with the preceding comments is the consequence of the elderly's fears concerning taxation and any other disturbance of their lifestyle. In fact, researchers have determined that injection of stress matters into the elder person lifestyle can induce greater risk of disease for such individuals. Some persons, particularly Type A personalities, may find stress and trauma contributing to heart conditions. Enactment of H.B. No. 2087 could be reassuring and a comfort for many of our elderly citizens.

Thank you,

A handwritten signature in cursive script, appearing to read "Frank Lawler", written in dark ink. The signature is fluid and somewhat stylized, with a long horizontal flourish at the end.

Frank Lawler, Vice Chairman
State Legislative Committee
American Association of Retired Persons