

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Kenny Wilk at 9:00 A.M. on February 7, 2007 in Room 519-S of the Capitol.

All members were present except:
Representative Davis - E

Committee staff present:
Chris Courtwright, Legislative Research Department
Martha Dorsey, Legislative Research Department
Gordon Self, Office of Revisor of Statutes
Richard Cram, Department of Revenue
Rose Marie Glatt, Committee Secretary

Conferees appearing before the committee:
Representative Judy Morrison
Senator Peggy Palmer
Representative Mario Goico
Jim Snyder, Senior Advocate
Karl Peterjohn, KS Taxpayers Network
Paul Fleener, Citizen of Kansas (written only)
Richard Cram, KDOR
Mark Tallman, KS Association of School Boards
Mark Desetti, KNEA (written only)
Alan Cobb, Americans For Prosperity

Others attending:
See attached list.

It was noted that the minutes from the January 19, 23, 24, and 25, 2007 were sent electronically to the Committee on January 30 and, by consensus, approved on February 6, 2007.

HB 2264 - Exclusion of social security benefits from Kansas adjusted gross income for income tax liability purposes.

Chris Courtwright, Legislative Research Department, Since the mid 1980's a portion of social security benefits has been subject to the federal income tax, under certain circumstances (Attachment 1). For many taxpayers, there is not liability, but beginning at a certain threshold level, up to 50% of the benefits received are subject to taxation, and under other circumstances up to 85% of social security flow through to the tax base and are subject to taxes at the federal level. This federally adjusted gross income is important, to the extent which social security benefits may not flow into that, because Kansas, like most states, starts calculation of KS income tax with the federal. The federal adjusted gross income in Kansas is adjusted, and Kansas makes its own subtractions, modifications and adjustments, after which the Kansas tax is computed. States have made their own policy to tax or exclude from the federal figure. Twenty-seven states have opted to exclude this from their state base, 9 states do not tax because they do not have an income tax, however, there are 8 states, including Kansas, that fully tax this amount. **HB 2264** would eliminate taxing the income received by seniors from social security benefits. The fiscal note would reduce receipts FY08 by \$18.9 million and would affect approximately 115,000 Kansas filers, which would provide an average tax cut of \$164.00.

The Chairman opened the public hearing.

PROPOSERS:

Representative Judy Morrison, appeared in support of **HB 2264**. She said this bill is the brainchild of Senator Peggy Palmer and it was her pleasure to join Representative Goico in introducing this house bill (No written testimony).

CONTINUATION SHEET

MINUTES OF THE House Taxation Committee at 9:00 A.M. on February 7, 2007 in Room 519-S of the Capitol.

Senator Peggy Palmer said **HB 2264** is identical to **SB 29**. She reiterated the details of the bill and stated that this bill would provide a consistent, fair and simple income tax program for Kansas seniors. It would provide a positive growth policy, and a balance for Kansas' high property and gasoline taxes. Kansas is currently ranked 44th with a D+ Grade in friendliness toward retirees and this bill would be a move toward changing that perception (Attachment 2).

Representative Mario Goico, rose in support of **HB 2264**. He reviewed the background on social security benefits and its original intent. He said that there are inequalities in the current state income tax. He gave several examples of discrimination against citizens who spent their careers working in the private sector. He concluded by stating that this bill would not completely correct all the stated problems, but it is a good start. He urged passage of the bill (Attachment 3).

Jim Snyder, Senior Advocate, testified in favor of passage of **HB 2264**. He related his experiences as a senior dealing with social security benefits and mandatory investment payout of deferred income at the age of 70 ½. This bill stops at least one tax payment currently required of seniors, who in many cases, are the least able to pay (Attachment 4). Included in his testimony was a list of counties that reflected their 2005 population and the percent and numbers of people over 65.

Karl Peterjohn, KS Taxpayers Network, said that **HB 2264** would correct a significant flaw that has existed for quite a while in Kansas personal income tax laws and a tax cut is needed for equity reasons. He explained that Oklahoma has recently lowered their rate on all income taxes again this year and the economic effect it has had on their state (Attachment 5). The Chairman asked if there were models for dynamic scoring that rate various state tax policies. He responded that there were several models nationally, and Beacon Hill Institute had done one in the past.

It was noted that written testimony, from Paul Fleener, Citizen of Kansas, in support of **HB 2264**, was received and distributed (Attachment 6).

OPPONENTS:

Richard Cram, KDOR, testified that this proposal would have a significant negative fiscal impact against the State of \$18.9 million in FY 08, with the impact growing in out years (Attachment 7). He called attention and explained data on the filing status, base income and additional amounts on page 2 and the spreadsheet on KAGI brackets, total number of returns/estimated returns on page 4.

Mark Tallman, KS Association of School Boards, rose in opposition to **HB 2264** (Attachment 8). He called attention to the written testimony of Mark Desetti, KNEA, that raised concerns over the bill. He said that they do not oppose this particular bill, however, once again, raise concern over the decline of non-property revenue sources.

Alan Cobb, Americans For Prosperity, suggested that one way to control tax shift, if the Legislature would control spending. It is important for the Committee to establish dynamic tax model for both tax cuts and tax increases. He recommended the Committee read a memorandum by Chris Courtwright, posted on the Legislative Research website, that addressed the question of why it would be, if you increase state sales tax by 1 cent, it does not raise the same amount as an earlier 1 cent increase (**No written testimony**).

The Chairman requested more information on tools or dynamic models currently being used in other states. Mr. Cobb suggested Dr. Hall would be a good resource for those examples.

The Chairman closed the hearing on **HB 2264**.

The meeting was adjourned at 10:25 a.m. The next meeting is February 8, 2007.

TAXATION COMMITTEE

DATE: FEBRUARY 7

NAME	REPRESENTING
Juni Snyder	SELF
Karl Peterjohn	KS Taxpayers Network
RONALD RICHEY	ME
ROBYN HORTON	KMCIA
Mark Tallman	KASB
Derek Hein	Hein Law Firm
Michelle Peterson	Capitol Strategies
Ben Cleaves	DOJ
Brend Harrison	KFB

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January 17, 2007

To: Senator Janis Lee

Office No.: 162-E

From: Chris W. Courtwright, Principal Economist

Re: Taxability of Social Security Benefits

This memorandum is in response to your request for information on the extent to which Social Security benefits are taxable at the federal and state levels.

Federal Law

Since the mid-1980s, a portion of Social Security benefits has been subject to the federal income tax under certain limited circumstances. For most taxpayers receiving only Social Security benefits, there is no tax liability. Beginning at certain threshold levels, up to 50 percent of the benefits received are subject to taxation. The maximum amount of benefits that can be subject to taxation under any circumstances is 85 percent.

Social Security benefits subject to tax include monthly survivor and disability benefits. They do not include supplemental security income (SSI) payments, which are not taxable.

If "provisional income" (which includes adjusted gross income (AGI), one half of the Social Security benefits, certain tax-exempt interest, employer-provided adoption benefits, and certain foreign income and housing benefits) is less than the "base" amounts in the following table, then the Social Security benefits are exempt from tax. If provisional income is between the "base" amount and the "additional" amount, the lesser of 50 percent of the excess over the base amount, or 50 percent of the Social Security benefits, must be included within federal AGI and is subject to taxation. To the extent that any provisional income is over the "additional" amount, the lesser of 85 percent of that excess, or 85 percent of the Social Security benefits, is subject to taxation and must be added to federal AGI.

<u>Filing Status</u>	<u>Base</u>	<u>Additional</u>
Single	\$ 25,000	\$ 34,000
Head of Household	25,000	34,000
Married Filing Jointly	32,000	44,000
Married Filing Separately	0	0
Qualifying Widow(er)	25,000	34,000

Kansas and Other States

Kansas, like most states with an individual income tax, relies fairly heavily on federal law to determine its state tax structure. Federal AGI is utilized as the starting point before certain additions

and subtractions are made to arrive at Kansas AGI. Since a specific subtraction was not authorized for Social Security benefits, to the extent that a portion of those benefits began flowing into federal AGI in the mid-1980s, they also began flowing into Kansas AGI.

According to the AARP, some 28 states with income taxes do decouple completely from the federal tax treatment and fully exempt all Social Security benefits. Kansas is among 12 states that adhere directly to the federal tax treatment (the others are Iowa, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont, and West Virginia). The other states either do not utilize a federal starting point for their taxes; do not impose income taxes at all; or only partially decouple from the federal tax treatment of Social Security benefits. (See table)

Sample Taxpayers

Taxpayer A

The IRS notes in Tax Tip 2006-30:

"Generally, if Social Security benefits were your only income, your benefits are not taxable and you probably do not need to file a federal income tax return."

A taxpayer with no federal liability on Social Security benefits also would have no state liability.

A local CPA here in Topeka confirmed that many senior citizens who receive Social Security in fact do not pay any federal or state taxes on the benefits, including those with Social Security and a small-to-medium pension.

Taxpayer B

For an example of a taxpayer subject to taxation of a portion of Social Security benefits, consider a married couple filing jointly with a total of \$30,000 of AGI and tax-exempt interest from a municipal bond portfolio and receiving \$7,200 in Social Security benefits. This couple would then need to add one-half of the benefits, or \$3,600, to arrive at provisional income of \$33,600. Since this amount is greater than the base amount of \$32,000, they would compare one-half of the \$1,600 excess, or \$800, with one half of their Social Security benefits, or \$3,600. The lesser of these two amounts, \$800, would then be included in their AGI. (In this example, slightly more than 11 percent of their Social Security benefits ended up being subject to taxation.) Assuming this taxpayer is in the 15 percent marginal federal bracket, the federal tax liability on the additional income (which includes some Social Security benefits) would be \$120. If the same \$800 flows through to Kansas AGI and the taxpayer is in the 3.5 percent marginal Kansas bracket, the state tax liability is \$28.

Taxpayer C

Consider another couple with provisional income of \$53,600 and receiving \$11,500 of Social Security benefits. The first computation would take 85 percent of the \$9,600 excess over the base amount of \$44,000, or \$8,160. This amount then would be added to the lesser of (i) 50 percent of the Social Security benefits, or \$5,750; or (ii) \$6,000 for a married couple filing jointly in these circumstances. Since the \$5,750 is the lesser amount, it would be added to the \$8,160 to get a figure of \$13,910. This latter figure then would be compared to 85 percent of the Social Security benefits, or \$9,775. The lesser amount (\$9,775) then would be included in AGI. (In this example,

the maximum of 85 percent of Social Security benefits ended up being subject to taxation.) Assuming this taxpayer is in the 25 percent marginal federal bracket, the federal tax liability on the additional income (which includes Social Security benefits) would be \$2,444. If the additional \$9,775 also flows through to Kansas AGI and the taxpayer is in the 6.25 percent marginal bracket, the state tax liability is \$611.

Fiscal Impact

According to the Department of Revenue, the enactment of SB 29 would reduce SGF receipts by the following amounts:

(\$ in millions)

FY 2008	\$ (18.9)
FY 2009	(20.8)
FY 2010	(22.9)
FY 2011	(25.2)
FY 2012	(27.7)
5-yr total	(115.4)

According to the Department of Revenue, the most recent federal data show about 115,000 Kansas filers had some portion of their Social Security benefits included in federal AGI. Based on that number and the \$18.9 million fiscal note for FY 2008, the average tax cut for each affected taxpayer would be about \$164. About 8.7 percent of all individual income tax returns filed currently have some taxable Social Security benefits.

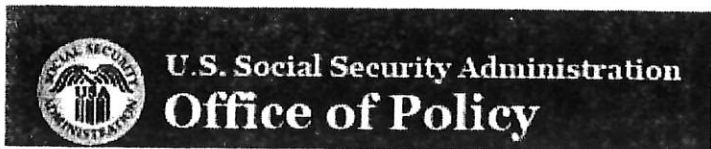
**Kansas Department of Revenue
Individual Income Tax**

		Tax Year 2007						
Changes:		Exempt Taxable Social Security Benefits						
	<u>KAGI Brackets</u>	<u>Total Returns</u>	<u>Est Returns with Taxable Soc Security</u>	<u>Pct Returns with Taxable Soc Security</u>	<u>Dollar Chng in Thousands</u>	<u>Avg Dollar Chng per Return</u>	<u>Avg Dollar Chng per Affected Rtn</u>	
\$	0	\$ 30,000	\$ 682,900	\$ 24,546	3.59%	\$ (1,775)	\$ (72.29)	
	30,000	50,000	254,000	36,235	14.27	(4,754)	(131.21)	
	50,000	75,000	194,900	26,897	13.80	(6,925)	(257.47)	
	75,000	100,000	99,700	13,292	13.33	(2,111)	(158.83)	
	100,000	200,000	65,900	10,608	16.10	(2,141)	(201.84)	
	200,000	Over	22,400	3,413	15.24	(1,167)	(341.87)	
Total		\$ 1,319,800	\$ 114,991	8.71%	\$ (18,873)	(14.30)	\$ (164.13)	

TABLE 2: TREATMENT OF SOCIAL SECURITY INCOME	
	Exemption
Alabama	Full
Alaska	NA
Arizona	Full
Arkansas	Full
California	Full
Colorado	Partial (see note)
Connecticut	Full if income below \$50,000/\$60,000
Delaware	Full
District of Columbia	Full
Florida	NA
Georgia	Full
Hawaii	Full
Idaho	Full
Illinois	Full
Indiana	Full
Iowa	Partial (Same as federal except that only 50% is taxable at all income levels)
Kansas	Same as federal
Kentucky	Full
Louisiana	Full
Maine	Full
Maryland	Full
Massachusetts	Full
Michigan	Full
Minnesota	Partial (Same as federal)
Mississippi	Full
Missouri	Partial (Same as federal)
Montana	Partial (Same as federal)
Nebraska	Partial (Same as federal)
Nevada	NA
New Hampshire	NA
New Jersey	Full
New Mexico	Partial (Same as federal)
New York	Full
North Carolina	Full
North Dakota	Partial (Same as federal)
Ohio	Full
Oklahoma	Full
Oregon	Full
Pennsylvania	Full
Rhode Island	Partial (Same as federal)
South Carolina	Full
South Dakota	NA
Tennessee	NA
Texas	NA
Utah	Partial (Same as federal)
Vermont	Partial (Same as federal)
Virginia	Full
Washington	NA
West Virginia	Partial (Same as federal)
Wisconsin	Partial (Same as federal except that only 50% is taxable at all income levels)
Wyoming	NA

Source: David Baer, "State Handbook of Economic, Demographic & Fiscal Indicators," AARP Public Policy Institute, 2003. Updated 2005 by CBPP.

Notes: Colorado: Pension exemption applies to all pensions combined including social security. Wisconsin: Will be full starting in 2008.



Monthly Statistical Snapshot, November 2006

On this page:

- [Table 1.](#) Number of people receiving Social Security, Supplemental Security Income, or both, November 2006
- [Table 2.](#) Social Security benefits, November 2006
- [Table 3.](#) Supplemental Security Income benefits, November 2006

Additional details may be found in the [OASDI Monthly Statistics](#) and the [SSI Monthly Statistics](#).

Table 1.
Number of people receiving Social Security, Supplemental Security Income, or both, November 2006 (in thousands)

Type of beneficiary	Total	Social Security only	SSI only	Both Social Security and SSI
All beneficiaries	53,788	46,545	4,697	2,546
Aged 65 or older	35,311	33,299	860	1,152
Disabled, under age 65 ^a	11,359	6,128	3,837	1,394
Other ^b	7,118	7,118

SOURCE: Social Security Administration, Master Beneficiary Record, 100 percent data. Social Security Administration, Supplemental Security Record, 100 percent data.

NOTES: Data are for the end of the specified month. Only Social Security beneficiaries in current-payment status are included.

... = not applicable.

a. Includes children receiving SSI on the basis of their own disability.

b. Social Security beneficiaries who are neither aged nor disabled (for example, early retirees, young survivors).

CONTACT: Art Kahn (410) 965-0186 for further information.

Table 2.
Social Security benefits, November 2006

Type of beneficiary	Beneficiaries		Total monthly benefits (millions of dollars)	Average monthly benefit (dollars)
	Number (thousands)	Percent		
All beneficiaries ^a	49,091	100.0	45,392	924.70
Old-Age Insurance				
Retired workers	30,959	63.1	31,286	1,010.60
Spouses	2,483	5.1	1,244	501.10
Children	488	1.0	244	500.70
Survivors Insurance				
Widow(er)s and parents ^b	4,503	9.2	4,310	957.10
Widowed mothers and fathers ^c	172	0.4	126	733.70
Children	1,890	3.8	1,249	661.10
Disability Insurance				
Disabled workers	6,796	13.8	6,432	946.40
Spouses	156	0.3	39	249.10
Children	1,644	3.3	462	280.80

SOURCE: Social Security Administration, Master Beneficiary Record, 100 percent data.

NOTES: Data are for the end of the specified month. Only beneficiaries in current-payment status are included.

Some Social Security beneficiaries are entitled to more than one type of benefit. In most cases, they are dually entitled to a worker benefit and a higher spouse or widow(er) benefit. If both benefits are financed from the same trust fund, the beneficiary is usually counted only once in the statistics, as a retired-worker or a disabled-worker beneficiary, and the benefit amount recorded is the larger amount associated with the auxiliary benefit. If the benefits are paid from different trust funds the beneficiary is counted twice, and the respective benefit amounts are recorded for each type of benefit.

a. Includes special age-72 beneficiaries.

b. Includes nondisabled widow(er)s aged 60 or older, disabled widow(er)s aged 50 or older, and dependent parents of deceased workers aged 62 or older.

c. A widow(er) or surviving divorced parent caring for the entitled child of a deceased worker who is under age 16 or is disabled.

CONTACT: Rona Blumenthal (410) 965-0163 for further information.

Table 3.
Supplemental Security Income recipients, November 2006

Age	Recipients		Total payments ^a (millions of dollars)	Average monthly payment (dollars)
	Number (thousands)	Percent		
All recipients	7,243	100.0	3,392	452.40
Under 18	1,078	14.9	590	536.50
18-64	4,153	57.3	2,049	468.70
65 or older	2,012	27.8	753	373.80

SOURCE: Social Security Administration, Supplemental Security Record, 100 percent data.

NOTE: Data are for the end of the specified month.

a. Total includes retroactive payments.

CONTACT: Art Kahn (410) 965-0186 for further information.

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for business purposes includes business and personal flights, the excess of the value of all the actual flights over the value of the flights that would have been taken if there had been no personal flights is included in income. If the trip is primarily personal, the value of the personal flights that would have been taken if there had been no business flights is included in income (Reg. § 1.61-21 (g) (4)).

No amount is included in income if the employee takes a personal trip on a noncommercial aircraft and at least one-half of the aircraft's seating capacity is occupied by employees whose flights are primarily business related and excludable from income (Reg. § 1.61-21 (g) (12)).

Golden parachute payments. Golden parachute payments are includible benefits (see ¶ 907).

Moving expense reimbursement. Moving expense reimbursements are excludable as a qualified fringe benefit (see ¶ 1076).

Vacation and club expenses. That portion of an employee's vacation, athletic club, or health resort expenses that is paid by the employer is also taxable to the employee.³⁵

Cafeteria Plans. Employer contributions under written "cafeteria" plans are excludable from the income of participants to the extent that they choose qualified benefits. See ¶ 861.

Occupational Disability or Insurance Benefit. Compensation received under a workers' compensation act for personal injuries or sickness and amounts received by a taxpayer under a policy of accident and health insurance are excluded from gross income (Code Sec. 104(a) (1); Reg. § 1.104-1). See ¶ 851.

714. Compensation of Federal or State Employee. The salaries of all employees or officials of the United States government are taxed the same as those of other individuals (Code Sec. 3401(c)). This is also true for state and local government employees.³⁶

715. Treatment of Excessive Salaries. Although an employer is denied a deduction for compensation paid to the extent that the payment is unreasonable, the full amount of the payment is included in the recipient's income. In the case of an employee-shareholder, excessive compensation may be treated as dividend income. Excessive salaries are taxed only to the extent of the gain if the excess amounts are determined to be payments to the recipient for property rather than compensation (Reg. § 1.162-8).³⁷

716. Social Security and Equivalent Railroad Retirement Benefits. A portion of a taxpayer's social security benefits or an equivalent portion of tier 1 railroad retirement benefits may be taxable (Code Sec. 86). The includible amount is the lesser of one-half of the annual benefits received or one-half of the excess of the taxpayer's provisional income over a specified base amount, at lower provisional income levels. However, at higher provisional income levels, up to 85% of the social security benefits may be included (see "85-Percent Inclusion," below). The Form 1040 instructions contain a worksheet for computing the taxable amount.

Provisional income is the taxpayer's modified adjusted gross income plus one-half of the social security or tier 1 railroad retirement benefits. Modified adjusted gross income is the taxpayer's adjusted gross income plus (a) any tax-exempt interest, including interest earned on savings bonds used to finance higher education, and (b) amounts excluded under an employer's adoption assistance program (¶ 1306), deducted for interest on education loans (¶ 1082) or as a qualified tuition expense (¶ 1082), or earned in a foreign country, a U.S. possession, or Puerto Rico and excluded from gross income (¶ 2401-¶ 2415). The base amount is: (a) \$32,000 for joint filers, (b) \$0 if married filing separately and the taxpayer lived with his or her spouse at any time during the year, and (c) \$25,000 married individuals filing separately who live apart from their spouse for the entire year and individuals filing as single or head-of-household (Code Sec. 86(c)).³⁸

Example 1: John and Jane Mapes have an adjusted gross income of \$24,000 for 2006. John, who is retired, receives social security benefits of \$7,200 per year.

Footnote references are to paragraphs of the 2007 Standard Federal Tax Reports.

³⁵ ¶ 5507.47

³⁶ ¶ 5507.043, ¶ 5507.044

³⁷ ¶ 8639, ¶ 8640.01

³⁸ ¶ 0420, ¶ 6421.03

INCOME **Salaries, Wages and Benefits**

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The couple also receives \$6,000 a year from a mutual fund that invests solely in tax-exempt municipal bonds. On their joint return for 2006, the Mapes would make the following computation to determine how much (if any) of John's social security benefits must be included in their gross income:

(1) Adjusted gross income	\$24,000
(2) Plus: All tax-exempt interest	6,000
(3) Modified adjusted gross income	\$30,000
(4) Plus: One-half of social security benefits	3,600
(5) "Provisional income"	\$33,600
(6) Less: Base amount	32,000
(7) Excess above base amount	<u>\$1,600</u>
(8) One-half of excess above base amount	\$800
(9) One-half of social security benefits	3,600
(10) Amount includible in gross income (lesser of (8) or (9)) . .	<u>\$800</u>

Although tier 2 railroad retirement benefits are not taken into account under the above rules, such benefits are taxed in the same manner as benefits paid under private employer retirement plans (Code Sec. 72(r)).³⁹

85-Percent Inclusion. Up to 85 percent of an individual's social security benefits may be included in gross income. The rules affect married taxpayers filing jointly with provisional income in excess of \$44,000, married taxpayers filing separately and not living apart the entire year with provisional income in excess of \$0, and all other taxpayers with provisional income in excess of \$34,000 (Code Sec. 86).⁴⁰

Those who exceed the higher threshold "adjusted base" amounts must include in income the lesser of: (a) 85 percent of social security benefits or (b) 85 percent of the excess of provisional income over the threshold amount, plus the smaller of (i) the amount that would otherwise be includible if the second threshold did not apply (i.e., the amount calculated under the 50-percent rules discussed above) or (ii) \$4,500 (\$6,000 for joint filers).

Example 2: Assume the same facts as above, except that the Mapes' provisional income is increased from \$33,600 to \$53,600. The includible amount is determined as follows:

(1) Provisional income	\$53,600
(2) Adjusted base amount	44,000
(3) Excess of (1) over (2)	\$9,600
(4) 85% of amount in (3)	<u>\$8,160</u>
(5) Amount otherwise includible (½ of benefits in the Mapes' case)	\$3,600
(6) Base amount for joint filers	\$6,000
(7) Lesser of (5) or (6)	\$3,600
(8) Sum of amounts in (4) and (7)	\$11,760
(9) 85% of social security benefits	6,120
(10) Amount includible in gross income (lesser of (8) or (9)) . .	<u>\$6,120</u>

Supplemental security income (SSI) payments are not treated as social security benefits that may be partially includible in gross income.⁴¹

IRA Contributions. Employed individuals who are covered by a retirement plan and who are receiving social security benefits must make a special computation to determine the amount of an allowable IRA deduction. See ¶ 2170.

717. Tips. Tips received by cab drivers, waiters, barbers, hotel, railroad and cruise ship employees, etc., are taxable.⁴² In the absence of proof of the actual amount of tips received, tip income may be reconstructed on the basis of average tips in a given locality for a given type of service.⁴³

Footnote references are to paragraphs of the 2007 Standard Federal Tax Reports.

³⁹ ¶ 8102, ¶ 8140.046

⁴¹ ¶ 5507.034

⁴³ ¶ 5507.023, ¶ 5507.1651 and following

⁴⁰ ¶ 6420, ¶ 6421.03

⁴² ¶ 5507.023

State of Kansas
Senate Chamber



PEGGY R. PALMER
Sixteenth District

Testimony Supporting House Bill 2264
Elimination of Income Tax on Social Security Benefits

The House Taxation Committee
by Senator Peggy Palmer

February 7, 2007

Good Morning. Thank you for the opportunity to testify in support of House Bill 2264.

The Senate Assessment and Taxation Committee held hearings on Senate Bill 29, a measure that would eliminate taxing the income received by seniors from Social Security benefits. This measure was sponsored by myself and co-sponsored by most of the Republican members of the Senate. In fact, eliminating the income tax on Social Security benefits is one of the legislative agenda items for the Senate Republicans this session. If passed, \$18.9 million would be returned to Kansas Seniors.

House Bill 2264 is identical to Senate Bill 29 with the majority of Republican Representatives co-sponsoring the Bill. I want to thank Representative Judy Morrison and Representative Mario Goico for introducing this bill in the House.

Current Kansas law applies the state income tax to Social Security benefits that are taxable at the federal level. Up to 85% of these benefits are subject to state and federal income tax. Retirees already face federal taxes on their Social Security at the federal level and Kansas currently imposes an additional state income tax on those benefits.

- **Social Security benefits are applied at the state level in only 8 states.**
- **Kansas is 1 of 8 states that apply the state income tax to Social Security benefits: Kansas, Minnesota, Missouri, Nebraska, New Mexico, North Dakota, Rhode Island and Vermont. (Missouri has introduced legislation this year to eliminate this tax.)**

**HS TAXATION COMMITTEE
2-7-2007
ATTACHMENT 2**

(See Attachment) This explains how the Federal Government calculates and taxes benefits. It is fair to note that Social Security benefits are adjusted, the less money you put into the system the higher percentage you get returned to you. Whereas, wealthier workers who contributed will have an even lower return on investment. So those that want to see seniors with a minimal income from retirement plans to pay more in taxes on Social Security benefits, they must realize this is already adjusted.

- **Social Security Benefits are not taxed in 36 states**

27 States do not tax Social Security at the state level

9 States do not tax because they do not have an income tax:

Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming

- **Consistency, Fairness, Simplicity**

There are also relevant precedents for excluding Social Security retirement benefits from Kansas income taxes. Kansas' income taxes are currently exempt from Kansas Retirement Benefits for:

Military

Civil Service

State and Local Governments (KPERs)

Railroad

Regents (TWIA)

Public pensions from the federal and state/local government are not taxed in our state. Social Security benefits are taxed. This is unfair and a significant flaw that has existed in our laws since the 1980's. This is discrimination against folks who spend their careers in the private sector and do not receive a government pension from the federal government or KPERs. It is not a healthy state policy to penalize retirees after they have worked, paid taxes and contributed to the state economy. This legislation will correct that problem.

- **Population Retention and growth**

Eliminating the State income tax on Social Security is a positive growth policy and will be a start in retaining our population and the baby boomers.

Other facts to consider that illustrate the need to give Kansas' retired citizens a fair shake:

- Kansas fully taxes private pensions, out-of-state government and Roth IRA's
(many states do not tax private pensions)
- Some states tax state government pensions (i.e. KPERs)
(Kansas does not)
- Kansas does not means test any of the current retirement pensions

- Kansas property taxes are the highest in the Region and Kansans pay more in property taxes than the average American, despite having lower average incomes than the average American

Kansas	\$1,187
U.S. Average	\$1,086
Colorado	\$1,026
Missouri	\$ 747
Nebraska	\$1,148
Oklahoma	\$ 465

- Kansas ranks 44th with a D+ Grade in Friendliness toward Retirees
- Gasoline taxes are the second highest in the region and 50% higher than Oklahoma and Missouri


This legislation will eliminate state income tax on Social Security benefits and provide consistency, fairness, and simplicity and is a positive growth policy for the State of Kansas.

Passage of this bill will allow Seniors on fixed incomes greater independence and security, help them to cover ever-increasing inflation costs, and allow them to reinvest and continue to give back to the communities in which they are a vital part.

Thank you and I encourage the House Tax Committee to move House Bill 2264 out for favorable passage.

I will be happy to stand for questions.

Respectfully,


Peggy Palmer
Kansas State Senator
16th District



**Minnesota House of Representatives
House Research**

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Taxation of Social Security Benefits

- [How are Social Security benefits taxed?](#)
- [What is provisional income?](#)
- [What is the monthly average benefit for retired workers?](#)
- [How much does it cost the state to forego revenues from taxing Social Security benefits?](#)
- [What is the tax treatment of Social Security benefits in other states?](#)

How are Social Security benefits taxed?

Under current law, up to 85 percent of Social Security benefits are subject to federal and state income tax, depending on the taxpayer's income. For taxpayers with provisional incomes less than \$25,000 (\$32,000 for married joint taxpayers), all Social Security benefits are excluded from taxable income. For provisional incomes between \$25,000 and \$34,000 (\$32,000 and \$44,000 for married joint taxpayers), up to 50 percent of Social Security benefits may be subject to tax. For those with provisional incomes over \$34,000 (\$44,000 for married joint taxpayers), up to 85 percent of Social Security benefits maybe included in taxable income.

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What is provisional income?

In determining the amount of Social Security benefits included in taxable income, the provisional income measure used is adjusted gross income excluding Social Security benefits, plus one-half of Social Security benefits. Tax-exempt interest (e.g., from municipal bonds) is also included in provisional income.

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What is the monthly average benefit for retired workers?

The average monthly benefit for retired workers in 2006 is \$1,002, and the average for couples both receiving benefits is \$1,648. This works out to \$19,776 per year for a retired couple at the average benefit level. For single recipients the average monthly benefit is \$967 or \$11,604 annually.

The following table shows income levels at which Social Security would be fully exempt, subject to inclusion in taxable income at the 50 percent rate, and subject to inclusion in taxable income at the 85 percent rate for an example couple and single retiree with the average level of benefits. Total income refers to the combination of taxable source income and Social Security.

Taxation of Social Security Benefits, Tax Year 2006		
	Retired married couple	Retired single worker
	Annual Social Security income:	Annual Social Security income:

	\$19,776	\$11,604
Social Security exempt	Total income less than \$41,888	Total income less than \$30,802
Social Security included in taxable income at 50% rate	Total income between \$41,888 and \$53,888	Total income between \$30,802 and \$39,802
Social Security included in taxable income at 85% rate	Total income between \$53,888 and \$66,605	Total income between \$39,802 and \$46,112
Social Security subject to full 85% inclusion in taxable income	Total income over \$66,605	Total income over \$46,112

The table shows that a married couple that receives the average Social Security benefit of \$19,776 and has total income from all sources of less than \$41,888 is not subject to tax on any Social Security benefits, while a couple with average benefits and total income over \$66,605 must include 85 percent of the Social Security, or \$16,810, in taxable income. Social Security income included in taxable income is taxed at the same rate as other kinds of income—5.35 percent, 7.05 percent, or 7.85 percent, depending on the total amount of taxable income. [More information on [income tax brackets](#)]

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How much does it cost the state to forego revenues from taxing Social Security benefits?

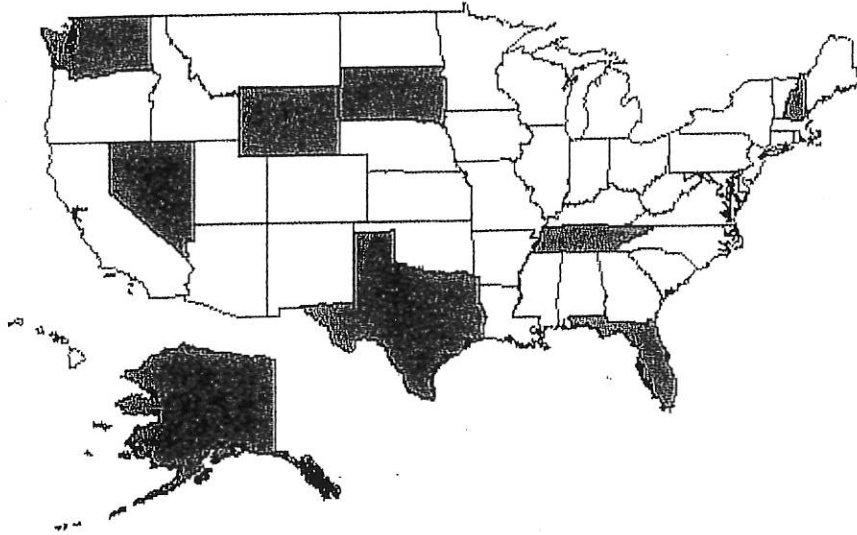
Minnesota conforms to federal law in excluding all or part of Social Security benefits from income tax. The Minnesota Department of Revenue's *Tax Expenditure Budget for 2006-2009* shows an estimated cost of \$153.5 million in foregone tax revenues in fiscal year 2006 as a result of conforming to federal tax treatment of Social Security benefits.

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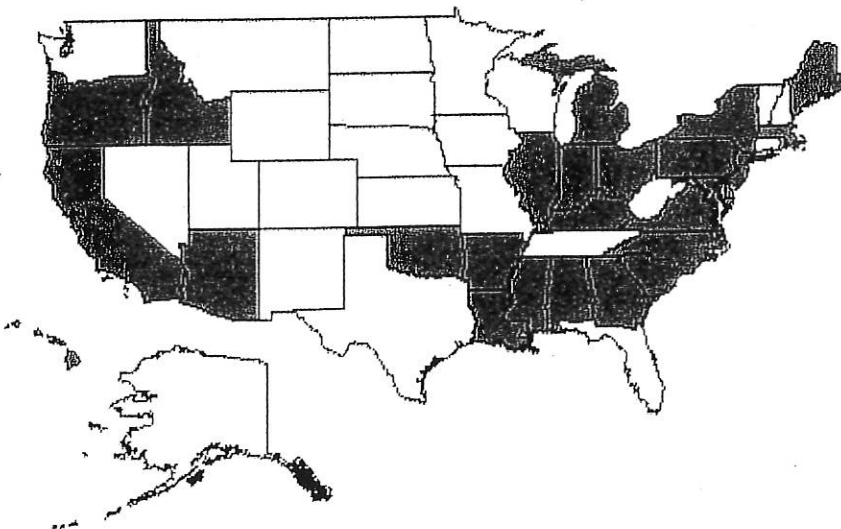
What is the tax treatment of Social Security benefits in other states?

- Nine states do not have an income tax or have a tax limited to specific kinds of unearned income.
- Twenty-seven states with an income tax exempt Social Security benefits from taxation.
- Three states exclude a portion of Social Security benefits that are subject to tax at the federal level.
- Three states provide a general retirement income exclusion that may result in the exclusion from taxation of part or all of Social Security benefits.
- One state subjects Social Security benefits to income tax on the same basis as the federal government, but uses a slightly different income measure to determine the amount of benefits subject to tax.
- Eight states apply the state income tax to Social Security benefits that are taxable at the federal level.

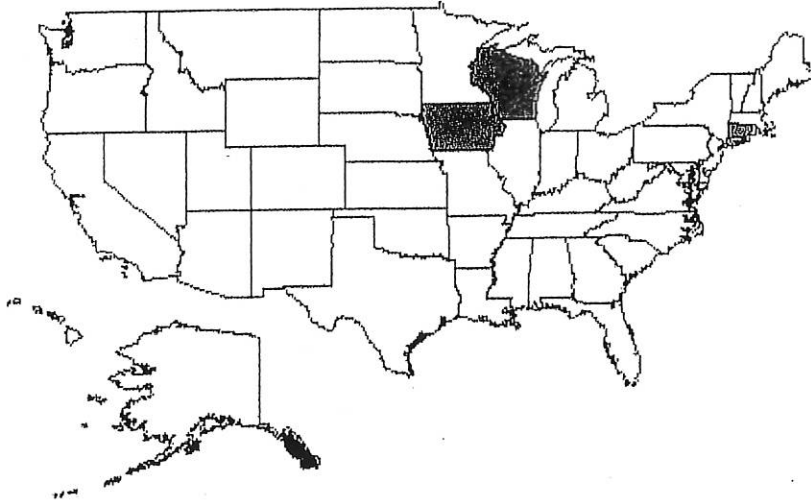
Nine states **do not have an income tax or have a tax limited to specific kinds of unearned income**. The nine states: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.



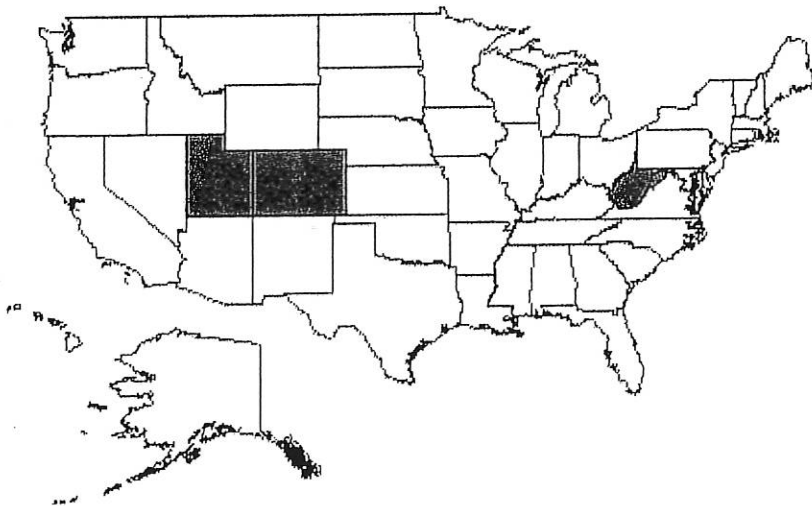
Twenty-seven states with an income tax **exempt Social Security benefits from taxation**. The 27 states: Alabama, Arizona, Arkansas, California, Delaware, District of Columbia, Georgia, Hawaii, Idaho, Illinois, Indiana, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, and Virginia. Wisconsin will also fully exempt Social Security benefits from taxation beginning in tax year 2008.



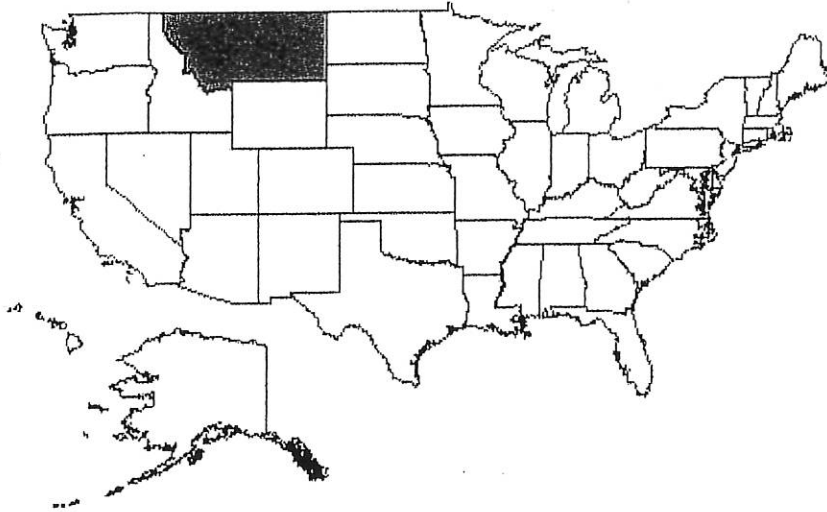
Three states **exclude a portion of Social Security benefits** that are subject to tax at the federal level. The three states: Connecticut, Iowa, and Wisconsin. The amount excluded in Wisconsin will increase in tax year 2007, and in tax year 2008, Wisconsin will fully exempt Social Security benefits from taxation.



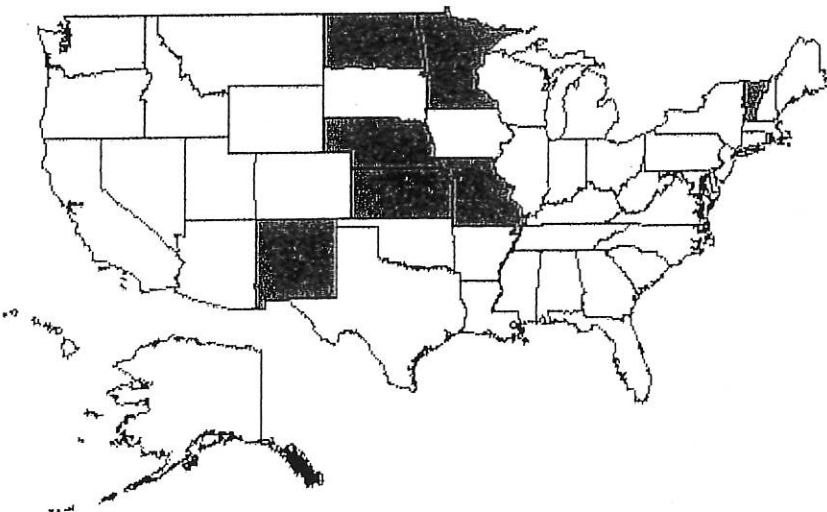
Three states **provide a general retirement income exclusion** that may result in the exclusion from taxation of part or all of Social Security benefits. Three states: Colorado, Utah, and West Virginia.



One state, Montana, **subjects Social Security benefits to income tax** on the same basis as the federal government, but uses a slightly different income measure to determine the amount of benefits subject to tax.



Eight states **apply the state income tax to Social Security benefits** that are taxable at the federal level. The eight states: Kansas, Minnesota, Missouri, Nebraska, New Mexico, North Dakota, Rhode Island, and Vermont.





TOPEKA

HOUSE OF
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Testimony for the
House Taxation Committee in Support of
HB 2264 – Exclusion of Social Security from State Taxes

Social Security in the United States is a social insurance program funded through dedicated payroll taxes called Federal Insurance Contributions Act (FICA). When the Social Security Act was first passed, this social insurance program was concerned with protection against social consequences of old age such as poverty, disability, widows with children, and the elderly losing the quality of life they had enjoyed.

Currently, 27 of the 41 states (including the District of Columbia) that have personal income taxes do not tax Social Security benefits. The remaining 14 states tax Social Security to some extent. Ten states exclude all federal, state and local pension income from taxation. They are Alabama, Hawaii, Illinois, Kansas, Louisiana, Massachusetts, Michigan, Mississippi, New York and Pennsylvania. Among these 10 states, only Kansas taxes any Social Security income. Kansas and Massachusetts do not exclude any private-sector retirement income, but most of the others allow a fairly broad exclusion. In Kansas, military, civil service, state/local government pensions, and railroad retirement are exempt.

There are inequalities in the current state income tax. For example, high income public officials who retire pay lower personal income taxes than private sector persons, and these are people who never earned as much in their working careers. This discriminates against citizens who spend their careers working in the private sector. This is unfair and wrong; HB 2264 would help alleviate this flaw.

This additional tax on Social Security is also an incentive for middle and upper income Kansans who have worked in the private sector to retire elsewhere.

Kansas has not gained the percentage of population that other states have. There are nine states that do not have an income tax. These nine states are enjoying population growth that is more than twice the percentage of the 41 states that do have income taxes. In the 1930s we had eight representatives in congress, after the next census, in 2010; we are probably going to be down to

three. The Tax Foundation reports the effective state and local tax burdens as a percentage of income. Kansas ranks 18 in tax burden with a 10.7 percentage of tax.

One of the reasons for HB 2264 is to try to protect retired homeowners from the skyrocketing property taxes that accompany rising property values. Retirees may face property tax bills that are higher than they can manage. There are numerous bills this year to provide property tax relief for the elderly; some of these are homestead exemptions which exempt a certain amount of a home's value from taxation, credits to rebate a certain percentage of taxes paid, and deferral programs to allow low-income elderly homeowners to defer payment of property taxes until property is sold. HB 2264 is, in my opinion, a more fair way to provide needed assistance to our retirees.

HB 2264 will not completely correct all of the above stated problems, but is a good start. I request that you will give HB 2264 consideration and pass it favorably.

HOUSE BILL 2264
HOUSE TAXATION COMMITTEE
FEBRUARY 7, 2007

Madame Chair, members of the Committee, I am Jim Snyder and I am in favor of passage of House Bill 2264. It would be easy just to say that anyone who is benefiting from Social Security Payments definitely are in favor of ANYTHING which might preclude these from any type of taxation. But that's really not the whole story.

For instance, I paid into Social Security for 51 years before I drew one penny from it. I worked all that time and even was fortunate enough to pay my bills, pay into Social Security and also build up my IRA and 401K programs as well. So, when I retired in 1999, I had Social Security and a small amount with KPERS (having worked my final 8 years with the State), along with some dividends. So, I had a fair income when I retired....especially since my home was paid for and I had no other long-term debts.

I might add, though, that since then, my property taxes have increased 38 percent, my utilities have gone up somewhat, my Plan 65 medical insurance has increased 50 percent and my Medicare has gone up 35 percent....that's just in 7 years. The only increase I have seen in income between age 65 and age 70 1/2 was about \$50 per month from Social Security.

Then, I reached the magical age of 70 1/2. So, suddenly my income increased--because of the mandatory payout--so that now my federal income tax began to require taxation on a portion of my social security benefits....and naturally, this filtered down to the State Income Tax as well.

- What this means is, that Social Security recipients might not have any taxes on social security monies upon retirement, but if they have any deferred income, they might get hit later in life. So, if House Bill 2264 is approved into law, you will have helped stop at least the State's part of this.

I thank you for your consideration.

KANSAS FACTS

City	Population	% >65 yrs	No. > 65
Dodge City	26,000	10.0%	2,609
Emporia	27,000	11.8%	3,186
Garden City	27,000	8.1%	1,377
Hutchinson	40,000	16.9%	6,736
KC, KS	146,000	11.6%	16,936
Manhattan	45,000	7.8%	3,510
Lawrence	82,000	7.2%	5,904
Leavenworth	35,000	9.7%	3,395
Leawood	28,000	12.6%	3,528
Lenexa	42,000	8.6%	3,612
Olathe	106,000	5.2%	5,512
Overland Park	161,000	16.1%	25,921
Salina	46,000	14.3%	6,578
Shawnee	55,000	8.5%	4,675
Topeka	122,000	15.1%	18,422

KDOA Data: Jan. 15, 2007

Estimated there are 358,171 Kansans aged 65 or older. (KDOA)

2005, Estimated Kansas population total = 2,744,687 (KS Facts)

2005, Estimated Johnson Co. Pop total = 506,562 (KS Facts)

2005, Estimated Sedgwick Co Pop total = 354,617 (KS Facts)

2005, Estimated Shawnee Co Pop total = 172,365 (KS Facts)

2005, Estimated # Households in KS = 1,196,211 (KS Facts)

2005, Estimated Persons below poverty level .. 10.4% (KS Facts)

2005, # persons per household >age 65 2.51

wad/code: Kansas Facts

Presented by
Jim Snyder
Senior Advocate

County	2005 Population	% over 65	#over 65
Brown	10239	18.9%	1935
Butler	62354	12.4%	7732
Chatauqua	4109	24.2%	994
Cloud	9759	21.9%	2137
Crawford	38222	14.7%	5619
Douglas	102914	8.5%	8748
Elk	3075	23.7%	729
Finney	38988	7.8%	3041
Franklin	26247	13.5%	3543
Greeley	1349	18.4%	248
Hamilton	2604	17.7%	461
Harvey	33843	16.7%	5652
Haskell	4232	11.0%	466
Johnson	506562	10.2%	51669
Kearny	4516	11.2%	506
Leavenworth	73113	10.1%	7384
Lincoln	3411	21.0%	716
McPherson	29523	16.9%	4989
Miami	30496	11.6%	3538
Montgomery	34570	17.8%	6153
Nemaha	10443	20.9%	2183
Ottawa	6123	16.6%	1016
Pottawatomie	19129	13.0%	2487
Reno	63558	16.5%	10487
Scott	4600	13.7%	630
Sedgwick	466061	11.3%	52665
Wabaunsee	6919	15.3%	1059
	1596959		186787

KANSAS TAXPAYERS NETWORK

**P.O. Box 20050
Wichita, KS 67208
February 7, 2007**

web:www.kansastaxpayers.com

**316-684-0082
Fax 316-684-7527**

**Testimony Supporting HB 2264
By Karl Peterjohn, Executive Director**

HB 2264 would correct a significant flaw that has existed for quite a while in Kansas personal income tax laws. Public pensions from the federal and state/local levels are not taxed in our state. Social security payments are taxed as personal income. This is unfair.

This discriminates against folks who spend their careers working in the private sector and do not receive a government pension from the federal government or KPERS. Why should one type of pension receive preferential treatment? I will state this again: this is unfair. HB 2264 would correct the social security segment of this problem. HB 2264 would also correct some statutory language concerning the state's 529 programs.

There is a long history in the way that Kansas got to the point where both federal and state pensions became excluded from the Kansas personal income tax. This was an extended dispute that ended up in litigation and provided a long legal battle before it was finally resolved. A person with a longer institutional memory is needed to provide this committee with the specific details.

This tax cut is needed for equity reasons. Income taxes are an achievement tax that is placed upon the people in Kansas. That has a marginal tendency to push people with incomes elsewhere. There are nine states that do not tax income. The Census Department's 2005 figures show that these nine states without personal income taxes are enjoying population growth that is more than twice the percentage of the 41 states that do tax incomes. Taxing achievement has a negative demographic impact.

Let me point for a minute to our neighbor to the south. Oklahoma will be reducing their rate on all income taxes again this year. This is the third year that they are doing so and is part of a multi-year effort that will reduce the maximum rate of their state income tax down from 6.65 percent in 2005 that will eventually reduce their maximum rate to 5.25 percent. This bipartisan effort to reduce the maximum rate of their state income tax received support from Oklahoma's Democratic governor and Republic house speaker when the second year of this phase down was enacted last year. A major cause of this Oklahoma tax reduction effort is the economic impact that personal income tax free, and neighboring Texas is having on Oklahoma's economy.

Former Oklahoma Governor Ray Keating had proposed abolishing their state income tax in an effort to become more tax competitive with their larger neighbor to the south. Seniors who are geographically flexible are able to save significantly on their taxes by relocating south of Kansas. HB 2264 will not completely correct this problem, but this bill is a good starting point.

**HS TAXATION COMMITTEE
2-7-2007
ATTACHMENT 5**

Wednesday, 7 February, 2007

TO: Rep. Kenny Wilk, Chairman,
House Committee on Taxation

FROM: Paul E. Fleener, Citizen of Kansas and
Recipient, Social Security Benefits

SUBJ: House Bill No. 2264

Chairman Wilk and Members of the Committee:

Thank you for reviewing and considering my brief written testimony today on H.B. 2264. This legislation mirrors S.B. 29. We testified as a proponent on that bill. My statement today is as a proponent of H.B. 2264. There are 67 co-sponsors of H.B. 2264, a majority of your House colleagues. Following this hearing and Committee discussion, surely a significant number, perhaps all of you will endorse and support this important **tax-fairness measure**.

Kansas is one of a mere handful of States that tax Social Security benefits, or a portion thereof. This bill shows, line 6, page 4: **There shall be subtracted from federal adjusted gross income:** several income items. In keeping with that, a new provision, shown on p. 6, lines 38-39-40, directs subtraction of *"...amounts received as benefits under the federal social security act..."*

Legislative Research and/or the Department of Revenue will certainly share with the Committee a list of, or at least the number of States that still impose this tax. Likewise, either Legislative Research or Revenue will be able to list the states that **exempt from taxation** the benefits paid to retirees and other qualified recipients by Social Security.

There is a modest fiscal note on this bill. Recognizing, but notwithstanding the fiscal note, passage of H.B. 2264 will provide a modicum of fairness for those on Social Security. Favorable action by your Committee, Mr. Chairman, and by the full House and Senate, will be a clear indication you **INTEND** to provide appropriate tax relief for many Kansans who, today are living on a fixed income. Please know my request today includes a sincere "thank you in advance" for your affirmative vote on H.B. 2264.

Paul E. Fleener
728 Brierwood Dr.
Manhattan, Kansas 66502
Tel: (785)537-0472

HS TAXATION COMMITTEE
2-7-2007
ATTACHMENT 6

Testimony to the House Taxation Committee

Richard Cram

February 7, 2007

Department Concerns with House Bill 2264

Representative Wilk, Chair, and Members of the Committee:

House Bill 2264 proposes to exempt social security payments from Kansas income tax. Currently, Kansas begins the calculation of Kansas taxable income with federal adjusted gross income (AGI), and makes various additions or subtractions to determine Kansas taxable income. Social security benefits, to the extent included in the taxpayer's federal AGI, are also included Kansas taxable income.

This proposal would have a significant negative fiscal impact against the State of \$18.9 million in FY 08, with the impact growing in out years. Our fiscal note is attached. The most recent federal data show about 115,000 Kansas filers had some portion of their social security benefits included in federal AGI. Based on that number and the \$18.9 million fiscal note for FY 2008, the average tax cut for each affected taxpayer would be about \$164. About 8.7 percent of all individual income tax returns filed currently have some taxable Social Security benefits. Also attached is a spreadsheet breaking out by Kansas adjusted gross income brackets an estimate of the number of Kansas returns containing taxable social security income that would be exempted under this proposal, the amount of Kansas income tax at issue, and the average dollar change in tax liability per return with the exemption. As the spreadsheet indicates, most of the tax reductions in this proposal will flow to taxpayers at higher income (Kansas AGI in excess of \$50,000) levels.

Federal Law

Social security benefits are partially subject to federal income tax under certain circumstances. For taxpayers receiving only social security benefits, there is no tax liability. Above certain threshold income levels, 50 percent of the benefits received are subject to taxation, with the maximum amount of benefits that can be subject to federal taxation being 85 percent.

Social security benefits subject to tax include monthly survivor and disability benefits. They do not include supplemental security income (SSI) payments, which are not taxable.

If "provisional income" (which includes federal adjusted gross income (AGI), one half of the Social Security benefits, certain tax-exempt interest, employer-provided

adoption benefits, and certain foreign income and housing benefits) is less than the “base” amounts in the following table, then the social security benefits are exempt from tax. If provisional income is between the “base” amount and the “additional” amount, the lesser of 50 percent of the excess over the base amount, or 50 percent of the Social Security benefits, must be included within federal AGI and is subject to taxation. To the extent that any provisional income is over the “additional” threshold amount, the lesser of 85 percent of that excess, or 85 percent of the Social Security benefits, is subject to taxation and must be added to federal AGI.

<u>Filing Status</u>	<u>Base</u>	<u>Additional</u>
Single	\$ 25,000	\$ 34,000
Head of Household	25,000	34,000
Married Filing Jointly	32,000	44,000
Married Filing Separately	0	0
Qualifying Widow(er)	25,000	34,000

Given these thresholds, if social security benefits are a person’s only income, then those benefits generally are not taxable. A taxpayer with no federal liability on social security benefits also would have no state liability. Many senior citizens receiving social security currently do not pay any federal or state income tax on those benefits, including those with social security and a small-to-medium pension. IRS Publication 915 (pages 2 through 9 attached) more fully explains the federal income tax treatment of social security benefits.

2007 House Bill 2264b Fiscal Note

Introduced as a House Bill

Brief of Bill

House Bill 2264, as introduced, would allow a subtraction modification of social security benefits which are included in federal adjusted gross income for tax years beginning after December 31, 2006.

The effective date of this bill is on publication in the statute book.

Fiscal Impact

Passage of this bill would reduce state general fund revenues in fiscal year 2008 by \$18.9 million, and \$20.8 million in fiscal year 2009.

Currently Kansas conforms to the federal tax treatment of social security benefits. The most recent federal data, tax year 2004, indicates that about 115,000 Kansas taxpayers had some portion of their social security benefits included in federal adjusted gross income. Taxpayers with federal AGI less than \$50,000 represent about 53% of total filers and about 29% of the total taxable social security benefits. Taxpayers with federal AGI over \$50,000 represent about 47% of total filers and about 71% of the total taxable social security benefits.

The departments individual income tax simulation model was used to estimate the impact of excluding taxable social security benefits from Kansas adjusted gross income. The estimated impact by fiscal year is shown below:

<u>Fiscal Year</u>	<u>SGF</u>		
2008	\$ (18.9)	million	
2009	\$ (20.8)	million	
2010	\$ (22.9)	million	
2011	\$ (25.2)	million	
2012	\$ (27.7)	million	

Administrative Impact

The estimated costs necessary to implement this bill are \$56,320, or 704 hours, of contract APA programming time. The estimated user testing resources necessary to implement the bill are 608 hours of MSAI time.

Administrative Problems and Comments

Taxpayer/Customer Impact

Kansas Department of Revenue
Individual Income Tax

Tax Year 2007

Changes: Exempt Taxable Social Security Benefits

	<u>KAGI Brackets</u>	<u>Total Returns</u>	<u>Est Returns with Taxable Soc Security</u>	<u>Pct Returns with Taxable Soc Security</u>	<u>Dollar Chng in Thousands</u>	<u>Avg Dollar Chng per Return</u>	<u>Avg Dollar Chng per Affected Rtn</u>
\$ 0	\$ 30,000	682,900	24,546	3.59%	\$ (1,775)	(2.60)	\$ (72.29)
30,000	50,000	254,000	36,235	14.27	(4,754)	(18.72)	(131.21)
50,000	75,000	194,900	26,897	13.80	(6,925)	(35.53)	(257.47)
75,000	100,000	99,700	13,292	13.33	(2,111)	(21.18)	(158.83)
100,000	200,000	65,900	10,608	16.10	(2,141)	(32.49)	(201.84)
200,000	Over	22,400	3,413	15.24	(1,167)	(52.09)	(341.87)
Total		1,319,800	114,991	8.71%	\$ (18,873)	(14.30)	\$ (164.13)

What is covered in this publication. This publication covers the following topics:

- Whether any of your benefits are taxable,
- How much is taxable,
- How to report taxable benefits,
- How to treat lump-sum benefit payments, and
- Deductions related to your benefits, including a deduction or credit you can claim if your repayments are more than your gross benefits.

The *Appendix* at the end of this publication explains items shown on your Form SSA-1099, SSA-1042S, RRB-1099, or RRB-1042S.

What is not covered in this publication. This publication does not cover the tax rules for the following railroad retirement benefits:

- Non-social security equivalent benefit (NSSEB) portion of tier 1 benefits,
- Tier 2 benefits,
- Vested dual benefits, and
- Supplemental annuity benefits.

For information on these taxable pension benefits, see Publication 575, Pension and Annuity Income.

This publication also does not cover the tax rules for foreign social security benefits. These benefits are taxable as annuities, unless they are exempt from U.S. tax or treated as a U.S. social security benefit under a tax treaty.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

Internal Revenue Service
Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
1111 Constitution Ave. NW, IR-6406
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can email us at *taxforms@irs.gov. (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

Tax questions. If you have a tax question, visit www.irs.gov or call 1-800-829-1040. We cannot answer tax questions at either of the addresses listed above.

Ordering forms and publications. Visit www.irs.gov/formspubs to download forms and publications, call 1-800-829-3676, or write to the National Distribution

Center at the address shown under *How To Get Tax Help* in the back of this publication.

Useful Items

You may want to see:

Publication

- 505** Tax Withholding and Estimated Tax
- 575** Pension and Annuity Income
- 590** Individual Retirement Arrangements (IRAs)

Forms (and Instructions)

- 1040-ES** Estimated Tax for Individuals
- SSA-1099** Social Security Benefit Statement
- SSA-1042S** Social Security Benefit Statement
- RRB-1099** Payments by the Railroad Retirement Board
- RRB-1042S** Statement for Nonresident Alien Recipients of: Payments by the Railroad Retirement Board
- W-4V** Voluntary Withholding Request

See *How To Get Tax Help* near the end of this publication for information about getting these publications and forms.

Are Any of Your Benefits Taxable?

To find out whether any of your benefits may be taxable, compare the base amount (explained later) for your filing status with the total of:

1. One-half of your benefits, plus
2. All your other income, including tax-exempt interest.

When making this comparison, do not reduce your other income by any exclusions for:

- Interest from qualified U.S. savings bonds,
- Employer-provided adoption benefits,
- Foreign earned income or foreign housing, or
- Income earned by bona fide residents of American Samoa or Puerto Rico.



The SSA issues Form SSA-1099 and Form SSA-1042S. The RRB issues Form RRB-1099 and Form RRB-1042S. These forms (tax statements) report the amounts paid and repaid, and taxes withheld for a tax year. You may receive more than one of these forms for the same tax year. You should add the amounts shown on all forms you receive from the SSA and/or RRB for the same tax year to determine the "total" amounts paid and repaid, and taxes withheld for that tax

year. See Appendix, at the end of this publication for more information.

Each original Form RRB-1099 is valid unless it has been corrected. The RRB will issue a corrected Form RRB-1099 if there is an error in the original. A corrected Form RRB-1099 is indicated as "CORRECTED" and replaces the corresponding original Form RRB-1099. You must use the latest corrected Form RRB-1099 you received and any original Form RRB-1099 that the RRB has not corrected when you determine what amounts to report on your tax return.

Figuring total income. To figure the total of one-half of your benefits plus your other income, use the worksheet later in this discussion. If the total is more than your base amount, part of your benefits may be taxable.

If you are married and file a joint return for 2005, you and your spouse must combine your incomes and your benefits to figure whether any of your combined benefits are taxable. Even if your spouse did not receive any benefits, you must add your spouse's income to yours to figure whether any of your benefits are taxable.



If the only income you received during 2005 was your social security or the SSEB portion of tier 1 railroad retirement benefits, your benefits generally are not taxable and you probably do not have to file a return. If you have income in addition to your benefits, you may have to file a return even if none of your benefits are taxable.

Base amount. Your base amount is:

- \$25,000 if you are single, head of household, or qualifying widow(er),
- \$25,000 if you are married filing separately and lived apart from your spouse for all of 2005,
- \$32,000 if you are married filing jointly, or
- \$-0- if you are married filing separately and lived with your spouse at any time during 2005.

Worksheet.



You can use the following worksheet to figure the amount of income to compare with your base amount. This is a quick way to check whether some of your benefits may be taxable.

A. Enter the amount from **box 5** of all your Forms SSA-1099 and RRB-1099. Include the full amount of any lump-sum benefit payments received in 2005, for 2005 and earlier years. (If you received more than one form, combine the amounts from box 5 and enter the total.) A. _____

Note. If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.

B. Enter one-half of the amount on line A B. _____

C. Enter your taxable pensions, wages, interest, dividends, and other taxable income C. _____

D. Enter any tax-exempt interest income (such as interest on municipal bonds) plus any exclusions from income (listed earlier) D. _____

E. Add lines B, C, and D E. _____

Note. Compare the amount on line E to your **base amount** for your filing status. If the amount on line E equals or is less than the **base amount** for your filing status, none of your benefits are taxable this year. If the amount on line E is more than your **base amount**, some of your benefits may be taxable. You need to complete Worksheet 1, shown later.

Example. You and your spouse (both over 65) are filing a joint return for 2005 and you both received social security benefits during the year. In January 2006, you received a Form SSA-1099 showing net benefits of \$7,500 in box 5. Your spouse received a Form SSA-1099 showing net benefits of \$3,500 in box 5. You also received a taxable pension of \$19,000 and interest income of \$500. You did not have any tax-exempt interest income. Your benefits are not taxable for 2005 because your income, as figured in the following worksheet, is not more than your base amount (\$32,000) for married filing jointly.

Even though none of your benefits are taxable, you must file a return for 2005 because your taxable gross income (\$19,500) exceeds the minimum filing requirement amount for your filing status.

A. Enter the amount from **box 5** of all your Forms SSA-1099 and RRB-1099. Include the full amount of any lump-sum benefit payments received in 2005, for 2005 and earlier years. (If you received more than one form, combine the amounts from box 5 and enter the total.) A. \$11,000

Note. If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.

B. Enter one-half of the amount on line A B. 5,500

C. Enter your taxable pensions, wages, interest, dividends, and other taxable income C. 19,500

D. Enter any tax-exempt interest income (such as interest on municipal bonds) plus any exclusions from income (listed earlier) D. -0-

E. Add lines B, C, and D E. \$25,000

Note. Compare the amount on line E to your **base amount** for your filing status. If the amount on line E equals or is less than the **base amount** for your filing status, none of your benefits are taxable this year. If the amount on line E is more than your **base amount**, some of your benefits may be taxable. You need to complete Worksheet 1, shown later.

Who is taxed. The person who has the legal right to receive the benefits must determine whether the benefits are taxable. For example, if you and your child receive benefits, but the check for your child is made out in your name, you must use only your part of the benefits to see whether any benefits are taxable to you. One-half of the part that belongs to your child must be added to your child's other income to see whether any of those benefits are taxable to your child.

Repayment of benefits. Any repayment of benefits you made during 2005 must be subtracted from the gross benefits you received in 2005. It does not matter whether the repayment was for a benefit you received in 2005 or in an earlier year. If you repaid more than the gross benefits you received in 2005, see *Repayments More Than Gross Benefits*, later.

Your gross benefits are shown in box 3 of Form SSA-1099 or Form RRB-1099. Your repayments are shown in box 4. The amount in box 5 shows your net benefits for 2005 (box 3 minus box 4). Use the amount in box 5 to figure whether any of your benefits are taxable.

Example. In 2004, you received \$3,000 in social security benefits, and in 2005 you received \$2,700. In March 2005, SSA notified you that you should have received only \$2,500 in benefits in 2004. During 2005, you repaid \$500 to SSA. The Form SSA-1099 you received for 2005 shows \$2,700 in box 3 (gross amount) and \$500 in box 4 (repayment). The amount in box 5 shows your net benefits of \$2,200 (\$2,700 minus \$500).

Tax withholding and estimated tax. You can choose to have federal income tax withheld from your social security benefits and/or the SSEB portion of your tier 1 railroad retirement benefits. If you choose to do this, you must complete a Form W-4V. You can choose withholding at 7%, 10%, 15%, or 25% of your total benefit payment.

If you do not choose to have income tax withheld, you may have to request additional withholding from other income or pay estimated tax during the year. For details, get Publication 505 or the instructions for Form 1040-ES.

U.S. citizens residing abroad. U.S. citizens who reside in the following countries are exempt from U.S. tax on their benefits.

- Canada.
- Egypt.
- Germany.
- Ireland.
- Israel.
- Italy. (You must also be a citizen of Italy for the exemption to apply.)
- Romania.
- United Kingdom.

The SSA will not withhold U.S. tax from your benefits if you are a U.S. citizen.

The RRB will withhold U.S. tax from your benefits unless you file Form RRB-1001, Nonresident Questionnaire, with the RRB to provide citizenship and residency information. If you do not file Form RRB-1001, the RRB will consider you a nonresident alien and withhold tax from your railroad retirement benefits at a 30% rate. Contact the RRB to get this form.

Lawful permanent residents. For U.S. income tax purposes, lawful permanent residents (green card holders) are considered resident aliens until their lawful permanent resident status under the immigration laws is either taken away or is administratively or judicially determined to have been abandoned. Social security benefits paid to a green card holder are not subject to 30% withholding. If you are a green card holder and tax was withheld in error on your social security benefits because you have a foreign ad-

dress, the withholding tax is refundable by the Social Security Administration (SSA) or the IRS. SSA will refund taxes erroneously withheld if the refund can be processed during the same calendar year in which the tax was withheld. If SSA cannot refund the taxes withheld, you must file a Form 1040 or 1040A with the Internal Revenue Service Center, Austin, TX 73301 to determine if you are entitled to a refund. You must also attach the following information to your Form 1040 or 1040A:

- A copy of the Form SSA-1042S, Social Security Benefit Statement,
- A copy of the "green card," and
- A signed declaration that includes the following statements:

The SSA should not have withheld federal income tax from my social security benefits because I am a U.S. lawful permanent resident and my green card has been neither revoked nor administratively or judicially determined to have been abandoned. I am filing a U.S. income tax return for the tax year as a resident alien reporting all of my worldwide income. I have not claimed benefits for the tax year under an income tax treaty as a nonresident alien.

Nonresident aliens. A nonresident alien is an individual who is not a citizen or resident of the United States. If you are a nonresident alien, the rules discussed in this publication do not apply to you. Instead, 85% of your benefits are taxed at a 30% rate, unless exempt (or subject to a lower rate) by treaty. You will receive a Form SSA-1042S or Form RRB-1042S showing the amount of your benefits. These forms will also show the tax rate and the amount of tax withheld from your benefits.

Under tax treaties with the following countries, residents of these countries are exempt from U.S. tax on their benefits.

- Canada.
- Egypt.
- Germany.
- Ireland.
- Israel.
- Italy.
- Japan.
- Romania.
- United Kingdom.

Under a treaty with India, benefits paid to individuals who are both residents and nationals of India are exempt from U.S. tax if the benefits are for services performed for the United States, its subdivisions, or local government authorities.

If you are a resident of Switzerland, your total benefit amount will be taxed at a 15% rate.

For more information on whether you are a nonresident alien, get Publication 519, U.S. Tax Guide for Aliens.

Exemption from withholding. If your social security benefits are exempt from tax because you are a resident of one of the treaty countries listed, the SSA will not withhold U.S. tax from your benefits.

If your railroad retirement benefits are exempt from tax because you are a resident of one of the treaty countries listed, you can claim an exemption from withholding by filing Form RRB-1001 with the RRB. Contact the RRB to get this form.

Canadian or German social security benefits paid to U.S. residents. Under income tax treaties with Canada and Germany, social security benefits paid by those countries to U.S. residents are treated for U.S. income tax purposes as if they were paid under the social security legislation of the United States. If you receive social security benefits from Canada or Germany, include them on line 1 of Worksheet 1, shown later.

How To Report Your Benefits

If part of your benefits are taxable, you must use Form 1040 or Form 1040A. You cannot use Form 1040EZ.

Reporting on Form 1040. Report your net benefits (the amount in box 5 of your Form SSA-1099 or Form RRB-1099) on line 20a and the taxable part on line 20b. If you are married filing separately and you lived apart from your spouse for all of 2005, also enter "D" to the right of the word "benefits" on line 20a.

Reporting on Form 1040A. Report your net benefits (the amount in box 5 of your Form SSA-1099 or Form RRB-1099) on line 14a and the taxable part on line 14b. If you are married filing separately and you lived apart from your spouse for all of 2005, also enter "D" to the right of the word "benefits" on line 14a.

Benefits not taxable. If none of your benefits are taxable, do not report any of them on your tax return. But if you are married filing separately and you lived apart from your spouse for all of 2005, make the following entries. On Form 1040, enter "D" to the right of the word "benefits" on line 20a and "-0-" on line 20b. On Form 1040A, enter "D" to the right of the word "benefits" on line 14a and "-0-" on line 14b.

How Much Is Taxable?

If part of your benefits are taxable, how much is taxable depends on the total amount of your benefits and other

income. Generally, the higher that total amount, the greater the taxable part of your benefits.

Maximum taxable part. Generally, up to 50% of your benefits will be taxable. However, up to 85% of your benefits can be taxable if either of the following situations applies to you.

- The total of one-half of your benefits and all your other income is more than \$34,000 (\$44,000 if you are married filing jointly).
- You are married filing separately and lived with your spouse at any time during 2005.

Which worksheet to use. A worksheet to figure your taxable benefits is in the instructions for your Form 1040 or 1040A. You can use either that worksheet or Worksheet 1 in this publication, unless any of the following situations applies to you.

1. You contributed to a traditional individual retirement arrangement (IRA) and you or your spouse is covered by a retirement plan at work. In this situation you must use the special worksheets in *Appendix B* of Publication 590 to figure both your IRA deduction and your taxable benefits.
2. Situation (1) does not apply and you take an exclusion for interest from qualified U.S. savings bonds (Form 8815), for adoption benefits (Form 8839), for foreign earned income or housing (Form 2555 or Form 2555-EZ), or for income earned in American Samoa (Form 4563) or Puerto Rico by bona fide residents. In this situation, you must use Worksheet 1 in this publication to figure your taxable benefits.
3. You received a lump-sum payment for an earlier year. In this situation, also complete Worksheet 2 or 3 and Worksheet 4 in this publication. See *Lump-Sum Election*, later.

Examples

The following pages contain a few examples you can use as a guide to figure the taxable part of your benefits.

Example 1.

George White is single and files Form 1040 for 2005. In addition to receiving social security payments, he received a fully taxable pension of \$18,600, wages from a part-time job of \$9,400, and taxable interest income of \$990, for a total of \$28,990. He received a Form SSA-1099 in January 2006 that shows his net social security benefits of \$5,980 in box 5. To figure his taxable benefits, George completes Worksheet 1, shown below. On line 20a of his Form 1040, George enters his net benefits of \$5,980. On line 20b, he enters his taxable benefits of \$2,990.

Filled-in Worksheet 1. **Figuring Your Taxable Benefits**

Keep for your records



Before you begin: If you are married filing separately and you lived apart from your spouse for all of 2005, enter "D" to the right of the word "benefits" on Form 1040, line 20a, or Form 1040A, line 14a.

1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099	1.	<u>\$5,980</u>
Note. If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go to line 2.		
2. Enter one-half of line 1	2.	<u>2,990</u>
3. Enter the total of the amounts from: Form 1040: Lines 7, 8a, 8b, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21 Form 1040A: Lines 7, 8a, 8b, 9a, 10, 11b, 12b, and 13	3.	<u>28,990</u>
4. Form 1040 filers: Enter the total of any exclusions/adjustments for: • Qualified U.S. savings bond interest (Form 8815, line 14) • Adoption benefits (Form 8839, line 30) • Foreign earned income or housing (Form 2555, lines 43 and 48, or Form 2555-EZ, line 18), and • Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico Form 1040A filers: Enter the total of any exclusions for: • Qualified U.S. savings bond interest (Form 8815, line 14) • Adoption benefits (Form 8839, line 30)	4.	<u>-0-</u>
5. Add lines 2, 3, and 4	5.	<u>31,980</u>
6. Form 1040 filers: Enter the amount from Form 1040, line 36, minus any amounts on Form 1040, lines 33, 34, and 35. Form 1040A filers: Enter the amount from Form 1040A, line 20, minus any amounts on Form 1040A, lines 18 and 19	6.	<u>-0-</u>
7. Is the amount on line 6 less than the amount on line 5? No. <input checked="" type="radio"/> STOP None of your social security benefits are taxable. Yes. Subtract line 6 from line 5	7.	<u>31,980</u>
8. If you are: • Married filing jointly, enter \$32,000 • Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2005, enter \$25,000	8.	<u>25,000</u>
Note. If you are married filing separately and you lived with your spouse at any time in 2005, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.		
9. Is the amount on line 8 less than the amount on line 7? No. <input checked="" type="radio"/> STOP None of your benefits are taxable. Do not enter any amounts on Form 1040, line 20a or 20b, or on Form 1040A, line 14a or 14b. But if you are married filing separately and you lived apart from your spouse for all of 2005, enter -0- on Form 1040, line 20b, or on Form 1040A, line 14b. Yes. Subtract line 8 from line 7	9.	<u>6,980</u>
10. Enter \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2005	10.	<u>9,000</u>
11. Subtract line 10 from line 9. If zero or less, enter -0-	11.	<u>-0-</u>
12. Enter the smaller of line 9 or line 10	12.	<u>6,980</u>
13. Enter one-half of line 12	13.	<u>3,490</u>
14. Enter the smaller of line 2 or line 13	14.	<u>2,990</u>
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15.	<u>-0-</u>
16. Add lines 14 and 15	16.	<u>2,990</u>
17. Multiply line 1 by 85% (.85)	17.	<u>5,083</u>
18. Taxable benefits. Enter the smaller of line 16 or line 17 • Enter the amount from line 1 above on Form 1040, line 20a, or on Form 1040A, line 14a. • Enter the amount from line 18 above on Form 1040, line 20b, or on Form 1040A, line 14b.	18.	<u>\$2,990</u>



If you received a lump-sum payment in 2005 that was for an earlier year, also complete Worksheet 2 or 3 and Worksheet 4 to see if you can report a lower taxable benefit.

Example 2.

Ray and Alice Hopkins file a joint return on Form 1040A for 2005. Ray is retired and received a fully taxable pension of \$15,500. He also received social security benefits and his Form SSA-1099 for 2005 shows net benefits of \$5,600 in box 5. Alice worked during the year and had wages of \$14,000. She made a deductible payment to her IRA account of \$1,000. Ray and Alice have two savings accounts with a total of \$250 in interest income. They complete Worksheet 1 (below) and find that none of Ray's benefits are taxable. They leave lines 14a and 14b of their Form 1040A blank.

Filled-in Worksheet 1. **Figuring Your Taxable Benefits**

Keep for your records



Before you begin: If you are married filing separately and you lived apart from your spouse for all of 2005, enter "D" to the right of the word "benefits" on Form 1040, line 20a, or Form 1040A, line 14a.

1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099	1.	<u> \$5,600</u>
Note. If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go to line 2.		
2. Enter one-half of line 1	2.	<u> 2,800</u>
3. Enter the total of the amounts from: <i>Form 1040:</i> Lines 7, 8a, 8b, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21 <i>Form 1040A:</i> Lines 7, 8a, 8b, 9a, 10, 11b, 12b, and 13	3.	<u> 29,750</u>
4. Form 1040 filers: Enter the total of any exclusions/adjustments for: • Qualified U.S. savings bond interest (Form 8815, line 14) • Adoption benefits (Form 8839, line 30) • Foreign earned income or housing (Form 2555, lines 43 and 48, or Form 2555-EZ, line 18), and • Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico Form 1040A filers: Enter the total of any exclusions for: • Qualified U.S. savings bond interest (Form 8815, line 14) • Adoption benefits (Form 8839, line 30)	4.	<u> -0-</u>
5. Add lines 2, 3, and 4	5.	<u> 32,550</u>
6. Form 1040 filers: Enter the amount from Form 1040, line 36, minus any amounts on Form 1040, lines 33, 34, and 35. Form 1040A filers: Enter the amount from Form 1040A, line 20, minus any amounts on Form 1040A, lines 18 and 19	6.	<u> 1,000</u>
7. Is the amount on line 6 less than the amount on line 5? No. <input checked="" type="radio"/> STOP None of your social security benefits are taxable. Yes. Subtract line 6 from line 5	7.	<u> 31,550</u>
8. If you are: • Married filing jointly, enter \$32,000 • Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2005, enter \$25,000	8.	<u> 32,000</u>
Note. If you are married filing separately and you lived with your spouse at any time in 2005, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.		
9. Is the amount on line 8 less than the amount on line 7? No. <input checked="" type="radio"/> STOP None of your benefits are taxable. Do not enter any amounts on Form 1040, line 20a or 20b, or on Form 1040A, line 14a or 14b. But if you are married filing separately and you lived apart from your spouse for all of 2005, enter -0- on Form 1040, line 20b, or on Form 1040A, line 14b. Yes. Subtract line 8 from line 7	9.	<u> _____</u>
10. Enter \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2005	10.	<u> _____</u>
11. Subtract line 10 from line 9. If zero or less, enter -0-	11.	<u> _____</u>
12. Enter the smaller of line 9 or line 10	12.	<u> _____</u>
13. Enter one-half of line 12	13.	<u> _____</u>
14. Enter the smaller of line 2 or line 13	14.	<u> _____</u>
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15.	<u> _____</u>
16. Add lines 14 and 15	16.	<u> _____</u>
17. Multiply line 1 by 85% (.85)	17.	<u> _____</u>
18. Taxable benefits. Enter the smaller of line 16 or line 17	18.	<u> _____</u>
• Enter the amount from line 1 above on Form 1040, line 20a, or on Form 1040A, line 14a. • Enter the amount from line 18 above on Form 1040, line 20b, or on Form 1040A, line 14b.		





If you received a lump-sum payment in 2005 that was for an earlier year, also complete Worksheet 2 or 3 and Worksheet 4 to see if you can report a lower taxable benefit.

Example 3.

Joe and Betty Johnson file a joint return on Form 1040 for 2005. Joe is a retired railroad worker and in 2005 received the social security equivalent benefit (SSEB) portion of tier 1 railroad retirement benefits. Joe's Form RRB-1099 shows \$10,000 in box 5. Betty is a retired government worker and received a fully taxable pension of \$38,000. They had \$2,300 in interest income plus interest of \$200 on a qualified U.S. savings bond. The savings bond interest qualified for the exclusion. Thus, they have a total income of \$40,300 (\$38,000 + \$2,300). They figure their taxable benefits by completing Worksheet 1 below. More than 50% of Joe's net benefits are taxable because the income on line 7 of the worksheet (\$45,500) is more than \$44,000. (See *Maximum taxable part* under *How Much Is Taxable* earlier.) Joe and Betty enter \$10,000 on Form 1040, line 20a, and \$6,275 on Form 1040, line 20b.

Filled-in Worksheet 1. **Figuring Your Taxable Benefits**

Keep for your records



<p>Before you begin: If you are married filing separately and you lived apart from your spouse for all of 2005, enter "D" to the right of the word "benefits" on Form 1040, line 20a, or Form 1040A, line 14a.</p>		
1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099	1.	<u>\$10,000</u>
<p>Note. If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go to line 2.</p>		
2. Enter one-half of line 1	2.	<u>5,000</u>
<p>3. Enter the total of the amounts from:</p>		
<p>Form 1040: Lines 7, 8a, 8b, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21</p>		
<p>Form 1040A: Lines 7, 8a, 8b, 9a, 10, 11b, 12b, and 13</p>		
	3.	<u>40,300</u>
<p>4. Form 1040 filers: Enter the total of any exclusions/adjustments for:</p>		
<ul style="list-style-type: none"> • Qualified U.S. savings bond interest (Form 8815, line 14) • Adoption benefits (Form 8839, line 30) • Foreign earned income or housing (Form 2555, lines 43 and 48, or Form 2555-EZ, line 18), and • Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico 		
<p>Form 1040A filers: Enter the total of any exclusions for:</p>		
<ul style="list-style-type: none"> • Qualified U.S. savings bond interest (Form 8815, line 14) • Adoption benefits (Form 8839, line 30) 		
	4.	<u>200</u>
5. Add lines 2, 3, and 4	5.	<u>45,500</u>
<p>6. Form 1040 filers: Enter the amount from Form 1040, line 36, minus any amounts on Form 1040, lines 33, 34, and 35. Form 1040A filers: Enter the amount from Form 1040A, line 20, minus any amounts on Form 1040A, lines 18 and 19</p>		
	6.	<u>-0-</u>
<p>7. Is the amount on line 6 less than the amount on line 5?</p>		
<p>No. <input checked="" type="radio"/> None of your social security benefits are taxable.</p>		
<p>Yes. Subtract line 6 from line 5</p>		
	7.	<u>45,500</u>
<p>8. If you are:</p>		
<ul style="list-style-type: none"> • Married filing jointly, enter \$32,000 • Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2005, enter \$25,000 		
	8.	<u>32,000</u>
<p>Note. If you are married filing separately and you lived with your spouse at any time in 2005, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.</p>		
<p>9. Is the amount on line 8 less than the amount on line 7?</p>		
<p>No. <input checked="" type="radio"/> None of your benefits are taxable. Do not enter any amounts on Form 1040, line 20a or 20b, or on Form 1040A, line 14a or 14b. But if you are married filing separately and you lived apart from your spouse for all of 2005, enter -0- on Form 1040, line 20b, or on Form 1040A, line 14b.</p>		
<p>Yes. Subtract line 8 from line 7</p>		
	9.	<u>13,500</u>
<p>10. Enter \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2005</p>		
	10.	<u>12,000</u>
<p>11. Subtract line 10 from line 9. If zero or less, enter -0-</p>		
	11.	<u>1,500</u>
<p>12. Enter the smaller of line 9 or line 10</p>		
	12.	<u>12,000</u>
<p>13. Enter one-half of line 12</p>		
	13.	<u>6,000</u>
<p>14. Enter the smaller of line 2 or line 13</p>		
	14.	<u>5,000</u>
<p>15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-</p>		
	15.	<u>1,275</u>
<p>16. Add lines 14 and 15</p>		
	16.	<u>6,275</u>
<p>17. Multiply line 1 by 85% (.85)</p>		
	17.	<u>8,500</u>
<p>18. Taxable benefits. Enter the smaller of line 16 or line 17</p>		
	18.	<u>\$6,275</u>
<ul style="list-style-type: none"> • Enter the amount from line 1 above on Form 1040, line 20a, or on Form 1040A, line 14a. • Enter the amount from line 18 above on Form 1040, line 20b, or on Form 1040A, line 14b. 		
	<p><i>If you received a lump-sum payment in 2005 that was for an earlier year, also complete Worksheet 2 or 3 and Worksheet 4 to see if you can report a lower taxable benefit.</i></p>	

Example 4.

Bill and Eileen Jones are married and live together, but file separate Form 1040 returns for 2005. Bill earned \$8,000 during 2005. The only other income he had for the year was \$4,000 net social security benefits (box 5 of his Form SSA-1099). Bill figures his taxable benefits by completing Worksheet 1 below. He must include 85% of his social security benefits in his taxable income because he is married filing separately and lived with his spouse during 2005. See *How Much Is Taxable* earlier. Bill enters \$4,000 on his Form 1040, line 20a, and \$3,400 on Form 1040, line 20b.

Filled-in Worksheet 1. **Figuring Your Taxable Benefits**

Keep for your records

<p>Before you begin: If you are married filing separately and you lived apart from your spouse for all of 2005, enter "D" to the right of the word "benefits" on Form 1040, line 20a, or Form 1040A, line 14a.</p>		
1. Enter the total amount from box 5 of ALL your Forms SSA-1099 and RRB-1099	1.	<u>\$4,000</u>
<p>Note. If line 1 is zero or less, stop here; none of your benefits are taxable. Otherwise, go to line 2.</p>		
2. Enter one-half of line 1	2.	<u>2,000</u>
<p>3. Enter the total of the amounts from:</p>		
<p>Form 1040: Lines 7, 8a, 8b, 9a, 10 through 14, 15b, 16b, 17 through 19, and 21</p>		
<p>Form 1040A: Lines 7, 8a, 8b, 9a, 10, 11b, 12b, and 13</p>		
3.	3.	<u>8,000</u>
<p>4. Form 1040 filers: Enter the total of any exclusions/adjustments for:</p>		
<ul style="list-style-type: none"> • Qualified U.S. savings bond interest (Form 8815, line 14) • Adoption benefits (Form 8839, line 30) • Foreign earned income or housing (Form 2555, lines 43 and 48, or Form 2555-EZ, line 18), and • Certain income of bona fide residents of American Samoa (Form 4563, line 15) or Puerto Rico 		
<p>Form 1040A filers: Enter the total of any exclusions for:</p>		
<ul style="list-style-type: none"> • Qualified U.S. savings bond interest (Form 8815, line 14) • Adoption benefits (Form 8839, line 30) 		
4.	4.	<u>-0-</u>
5. Add lines 2, 3, and 4	5.	<u>10,000</u>
<p>6. Form 1040 filers: Enter the amount from Form 1040, line 36, minus any amounts on Form 1040, lines 33, 34, and 35. Form 1040A filers: Enter the amount from Form 1040A, line 20, minus any amounts on Form 1040A, lines 18 and 19</p>		
6.	6.	<u>-0-</u>
<p>7. Is the amount on line 6 less than the amount on line 5?</p>		
<p>No. <input checked="" type="radio"/> STOP None of your social security benefits are taxable.</p>		
<p>Yes. Subtract line 6 from line 5</p>		
7.	7.	<u>10,000</u>
<p>8. If you are:</p>		
<ul style="list-style-type: none"> • Married filing jointly, enter \$32,000 • Single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2005, enter \$25,000 		
8.	8.	<u> </u>
<p>Note. If you are married filing separately and you lived with your spouse at any time in 2005, skip lines 8 through 15; multiply line 7 by 85% (.85) and enter the result on line 16. Then go to line 17.</p>		
<p>9. Is the amount on line 8 less than the amount on line 7?</p>		
<p>No. <input checked="" type="radio"/> STOP None of your benefits are taxable. Do not enter any amounts on Form 1040, line 20a or 20b, or on Form 1040A, line 14a or 14b. But if you are married filing separately and you lived apart from your spouse for all of 2005, enter -0- on Form 1040, line 20b, or on Form 1040A, line 14b.</p>		
<p>Yes. Subtract line 8 from line 7</p>		
9.	9.	<u> </u>
10. Enter \$12,000 if married filing jointly; \$9,000 if single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for all of 2005	10.	<u> </u>
11. Subtract line 10 from line 9. If zero or less, enter -0-	11.	<u> </u>
12. Enter the smaller of line 9 or line 10	12.	<u> </u>
13. Enter one-half of line 12	13.	<u> </u>
14. Enter the smaller of line 2 or line 13	14.	<u> </u>
15. Multiply line 11 by 85% (.85). If line 11 is zero, enter -0-	15.	<u> </u>
16. Add lines 14 and 15	16.	<u>8,500</u>
17. Multiply line 1 by 85% (.85)	17.	<u>3,400</u>
18. Taxable benefits. Enter the smaller of line 16 or line 17	18.	<u>\$3,400</u>
<ul style="list-style-type: none"> • Enter the amount from line 1 above on Form 1040, line 20a, or on Form 1040A, line 14a. • Enter the amount from line 18 above on Form 1040, line 20b, or on Form 1040A, line 14b. 		
	<p><i>If you received a lump-sum payment in 2005 that was for an earlier year, also complete Worksheet 2 or 3 and Worksheet 4 to see if you can report a lower taxable benefit.</i></p>	

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**KANSAS
ASSOCIATION**



**OF
SCHOOL
BOARDS**

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Testimony on **HB 2264**
before the
House Taxation Committee

by

Mark Tallman, Assistant Executive Director/Advocacy
Kansas Association of School Boards

February 7, 2007

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to comment today on **HB 2264**. I have also included a statement from Mark Desetti of the Kansas National Education Association.

Once again, I want to stress that KASB has NOT adopted specific positions for or against particular tax policies. What our members have done is adopt a position calling for a comprehensive review of state and local tax policy.

Last week, I testified on **HCR 5006**, which would have limited valuation increases. I indicated our belief that property taxes have been rising because non-property revenue sources have been declining. For school districts, the property-tax-based Local Option Budget has been increasing because state funding has not kept up with costs.

This bill would further reduce state revenues. We are concerned that the result is a reduction in state aid for schools, which in turn would create further pressure to raise local property taxes. We would agree with the suggestion in Mr. Desetti's testimony that tax relief for senior citizens could be better accomplished through more targeted, means-tested programs.

Thank you for your consideration.

**HS TAXATION COMMITTEE
2-7-2007
ATTACHMENT 8**



KANSAS NATIONAL EDUCATION ASSOCIATION / 715 SW 10TH AVENUE / TOPEKA, KANSAS 66612-1686

**Mark Desetti, Testimony
House Taxation Committee
February 7, 2007**

HB 2264

Also representing the Kansas Association of School Boards

Mr. Chairman, members of the committee, thank you for the opportunity to appear before you today to share our thoughts on **HB 2264**. I would like to note that I am speaking today for both KNEA and the Kansas Association of School Boards.

We understand the desire to provide tax relief for retirees on fixed incomes. Social Security is often a very small benefit and it would seem that reducing that by a state income tax would be a bad idea.

We are not advocating for either the passage or defeat of this bill. We would like to simply point out what we see as some of the consequences.

Striking the tax on social security benefits for every Kansan does not decrease the state's need for revenue to provide vital services. This bill, while providing tax relief for retirees, requires a corresponding tax adjustment elsewhere in order to have no negative impact on the state's ability to pay for services. Somewhere, somehow this tax relief will result in a tax increase for other Kansans.

A second concern we have is that it treats all social security recipients, regardless of wealth, the same. We would suggest that not all retirees are struggling to meet their tax obligations. As written, the tax relief goes to all Kansas retirees not only to those who need such relief.

We would suggest that a better way to do this is to provide for some means test under which the limitation would kick in. There is a big difference between the retiree living on social security alone and a retiree with a healthy retirement plan and other significant investments.

In truth, the retiree living on social security alone is not likely to meet an income level requiring a tax payment so the benefit would go to those with higher retirement incomes.

As a final note, we continue to believe that the legislature should make a comprehensive examination of the entire tax system to ensure that our many provisions result in a system that will provide stable funding for all state services and that is fair to both citizens and business.