

INCOME TAXATION OF SOCIAL SECURITY BENEFITS AND RETIREMENT INCOME

Special Committee on Taxation

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Kansas Legislative Research Department

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Kansas-Federal Income Tax Connection

KSA 79-32,110 – Imposes the Kansas Individual Income Tax

“...a tax is hereby imposed upon the Kansas taxable income...”

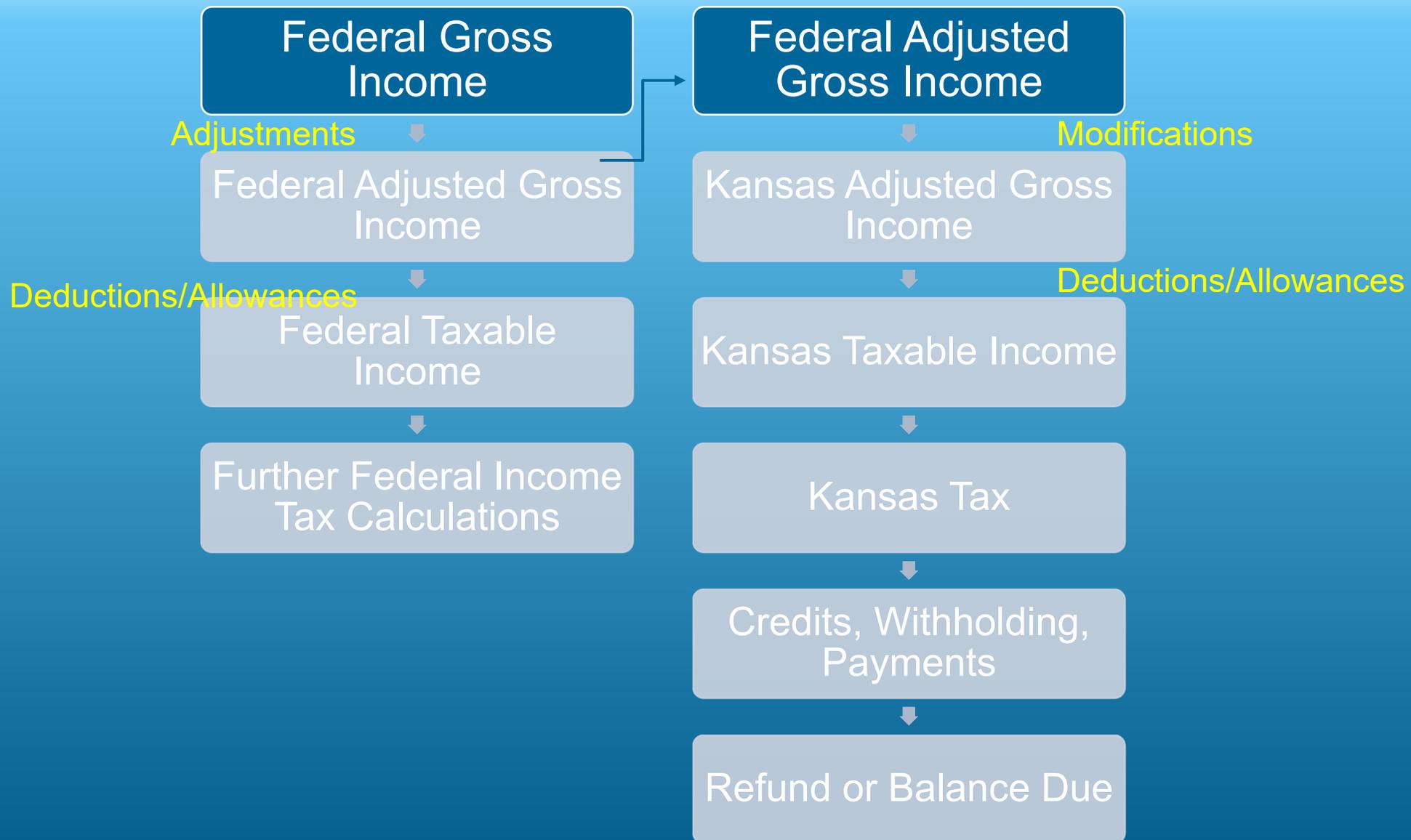
KSA 79-32,116 – Defines Kansas taxable income

“The Kansas taxable income of an individual shall be his or her Kansas adjusted gross income less his or her Kansas deductions and Kansas personal exemptions.”

KSA 79-32,117 Defines Kansas AGI

“Kansas adjusted gross income ... means ... federal adjusted gross income ... with the modifications specified in this section.”

Income Tax Progression



Federal Taxation of Social Security Benefits

Prior to 1983, social security benefits were entirely exempt from federal income taxation.

Legislation in 1983 provided for taxation on up to 50 percent of social security benefits.

Legislation in 1993 provided for taxation on up to 85 percent of social security benefits.

For married filers, under \$32,000 combined income results in no tax and over \$44,000 combined income may result in up to 85 percent of benefits being taxed.

Social Security Administration indicates 40 percent of people receiving benefits pay some tax.

Kansas Taxation of Social Security Benefits

KSA 79-32,117 “Modifications” to arrive at Kansas AGI.

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

(xviii) ... for all taxable years beginning after December 31, 2007, amounts received as benefits under the federal social security act which are included in federal adjusted gross income of a taxpayer with federal adjusted gross income of \$75,000 or less, whether such taxpayer's filing status is single, head of household, married filing separate or married filing jointly.

Recent Kansas Legislative Proposals

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2020 Session

House Bills – Would have increased the threshold for exemption and would have reduced the amount of benefits subject to tax for taxpayers beyond the threshold

Senate Bills – Would have Increased threshold for married joint filers and would have exempted all social security benefits

2021 Session

Senate Bills – Would have exempted all social security benefits from taxation

Current Fiscal Estimates

For Tax Year 2022 (million \$):

Proposal	FY 2023	FY 2024	FY 2025
\$100k Threshold - Married	-29.9	-23.7	-24.4
\$100k Threshold – All	-39.9	-31.7	-32.6
\$150k Threshold - Married	-76.4	-60.7	-62.5
Exempt	-137.5	-109.2	-112.5

For Tax Year 2023 (million \$):

Proposal	FY 2023	FY 2024	FY 2025
\$100k Threshold - Married	-7.1	-23.7	-24.4
\$100k Threshold – All	-9.4	-31.7	-32.6
\$150k Threshold - Married	-18.0	-60.7	-62.5
Exempt	-32.5	-109.2	-112.5

Federal Taxation of Retirement Income

General Rule: You *either* pay taxes when the money goes into the retirement account *or* when it comes out of the retirement account, but not both.

Rationale for preferential tax treatment of retirement incomes.

Traditional pensions, 401(k) accounts, IRAs – pay tax when the money comes out of the retirement account.

Roth-like accounts, primarily Roth IRAs – pay tax when the money goes into the retirement account.

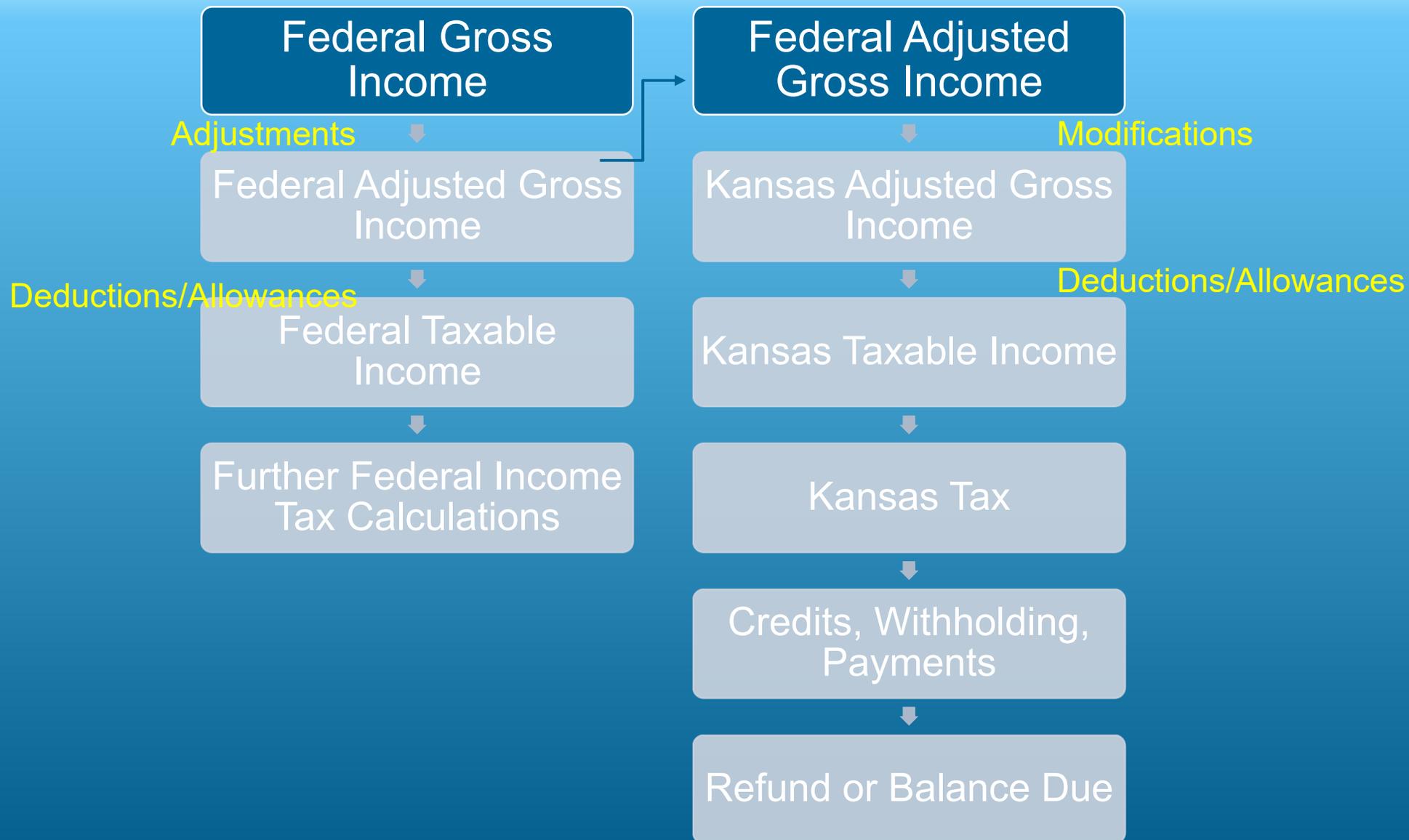
Kansas Taxation of Retirement Accounts

Generally, Kansas conforms to federal law as it relates to income taxation of retirement accounts.

No subtraction or addition modification for pensions, 401(k) accounts, or IRAs.

Primary exception is KPERS and certain other public retirement plans, for which employee contributions are generally taxed when made and benefits are generally exempt from taxation.

Income Tax Progression



Recent Kansas Legislative Proposals

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2021 Senate considered legislation that would have exempted employer-sponsored retirement plan income or all otherwise taxable retirement income

See IRS Form 1040

Current Fiscal Estimates



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Exempting all currently taxable retirement income beginning in Tax Year 2022:

FY 2023: -\$300.7 million

FY 2024: -\$233.8 million

FY 2025: -\$236.1 million

Exempting all currently taxable retirement income beginning in Tax Year 2023:

FY 2023: -\$69.9 million

FY 2024: -\$233.8 million

FY 2025: -\$236.1 million

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