

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.)

(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

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