

HCS HB 444, 217, 225, 239, 243, 297, 402 & 172 -- INCOME TAX DEDUCTION FOR SOCIAL SECURITY BENEFITS

SPONSOR: Stevenson (Jetton)

COMMITTEE ACTION: Voted "do pass" by the Special Committee on Tax Reform by a vote of 8 to 0.

Beginning January 1, 2007, this substitute authorizes an income tax deduction for Social Security benefits, Social Security disability benefits, or benefits received from a retirement system in lieu of Social Security for individuals 65 years of age or older, regardless of income.

FISCAL NOTE: Estimated Cost on General Revenue Fund of Approximately \$131,120,215 in FY 2008, Approximately \$135,129,524 in FY 2009, and Approximately \$138,133,245 in FY 2010. No impact on Other State Funds in FY 2008, FY 2009, and FY 2010.

PROPOSERS: Supporters say that the bills provide a deduction for Social Security benefits received regardless of income and include Social Security disability and other pensions when the individual was not allowed to participate in the Social Security system. Examples include teachers retirement, railroad retirement, local police and fire departments throughout Missouri, and some other local government employees (approximately 42,000 taxpayers). The taxpayers have already paid taxes on their contributions. When the federal government started taxing benefits in 1982, only 8% of Missouri's population was being taxed. Now, 32% are taxed on their Social Security benefits in Missouri.

The bills eliminate the income tax on some retirees' benefits. There is active recruitment by some states to lure retirees to locate in other states. A state's tax burden is one of the top three reasons to move to a state. Since many patients with kidney failure receive disability benefits through the Missouri Medicaid or federal Medicare programs, which pay 80% of medical costs, this deduction will help them. Social Security benefits have not increased as much as the cost of health care.

Testifying for HB 444 were Representative Jetton; Association of Retired Missouri State Employees; Thomas Gerald Thompson; Missouri Association of Veterans Organizations; American Legion, Department of Missouri; Missouri Kidney Program; and Veterans of Foreign Wars of the United States, Missouri Department.

Testifying for HB 217 were Representative Stevenson; Association of Retired Missouri State Employees; Thomas Gerald Thompson; Missouri Association of Veterans Organizations; American Legion,

Department of Missouri; Missouri Kidney Program; and Veterans of Foreign Wars of the United States, Missouri Department.

Testifying for HB 225 were Representative Nance; Association of Retired Missouri State Employees; Thomas Gerald Thompson; Missouri Association of Veterans Organizations; American Legion, Department of Missouri; Missouri Kidney Program; and Veterans of Foreign Wars of the United States, Missouri Department.

Testifying for HB 239 were Representative Cooper (158) for Representative Bruns; Association of Retired Missouri State Employees; Thomas Gerald Thompson; Missouri Association of Veterans Organizations; American Legion, Department of Missouri; Missouri Kidney Program; and Veterans of Foreign Wars of United States, Missouri Department.

Testifying for HB 243 were Representative Wells; Association of Retired Missouri State Employees; Thomas Gerald Thompson; Missouri Association of Veterans Organizations; American Legion, Department of Missouri; Missouri Kidney Program; and Veterans of Foreign Wars of United States, Missouri Department.

Testifying for HB 297 were Representative Flook; Association of Retired Missouri State Employees; Thomas Gerald Thompson; Missouri Association of Veterans Organizations; American Legion, Department of Missouri; Missouri Kidney Program; and Veterans of Foreign Wars of the United States, Missouri Department.

Testifying for HB 402 were Representative Denison; Association of Retired Missouri State Employees; Thomas Gerald Thompson; Missouri Association of Veterans Organizations; American Legion, Department of Missouri; Missouri Kidney Program; and Veterans of Foreign Wars of the United States, Missouri Department.

Testifying for HB 172 were Representative Cooper (158); Association of Retired Missouri State Employees; Thomas Gerald Thompson; Missouri Association of Veterans Organizations; American Legion, Department of Missouri; Missouri Kidney Program; and Veterans of Foreign Wars of the United States, Missouri Department.

OPPONENTS: Those who oppose the bills say that this deduction for Social Security looks very appealing until you look at who will benefit. Anyone whose income falls below the income limits of \$25,000 for single and \$32,000 for married receives no benefit from the bills; 46% are already exempt. Another 42% would receive only a modest tax savings of \$3 to \$195. The bills benefit the wealthy. At least \$100 million annually will be lost from this deduction when the funds could be better used for poorer seniors in Missouri. The state could better use the funds

by removing the 1% sales tax on food and providing more funding for the Meals on Wheels Program. This surplus could be one-time money; and therefore, permanent major tax cuts should not be considered now. The 3% raise scheduled for state employees is not enough. Elementary and higher education, health care coverage including mental health, and increased circuit breaker credits are of higher priority than a pension deduction for the wealthiest 11% of the senior population. Restoring amounts cut from the budget for agriculture and corrections is also important. The three most important qualities of a tax system are fairness, adequacy, and sustainability; and these bills do not meet these criteria.

Testifying against all the bills were Fredricka Lainoff; Missouri Budget Project; Missourians for Tax Justice; Kelly Davis; Missouri Association for Social Welfare; Tax Justice for a Healthy Missouri; Missouri National Education Association; Dr. Rea Beck; AARP; and Jerry Howard.