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(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS

2005-06

(session year)

Senate

(Assembly, Senate or Joint)

Committee on ... Job Creation, Economic Development and Consumer Affairs (SC-JCEDCA)

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  - (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
  - (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

* Contents organized for archiving by: Mike Barman (LRB) (August/2012)

Senate

Record of Committee Proceedings

Committee on Job Creation, Economic Development and Consumer Affairs

Senate Bill 31

Relating to: increasing the amount of the individual income tax subtract modification for social security benefits.

By Senators Kedzie, Lazich, Darling, A. Lasee, Roessler, Leibham, Kanavas, Stepp, Harsdorf and Lassa; cosponsored by Representatives Kerkman, Gronemus, Hines, Nass, Jeskewitz, Davis, Pettis, Jensen, Musser, Kreibich, Krawczyk, Freese, Hahn, Gielow, Petrowski, Owens, Bies, Vos, Gunderson, Townsend, Honadel, Mursau, Hundertmark, Meyer, Vrakas and Ott.

January 27, 2005 — Referred to Committee on Job Creation, Economic Development and Consumer Affairs.

April 19, 2005 — **PUBLIC HEARING HELD**

Present: (5) Senators Kanavas, Zien, Reynolds, Lassa and Decker.
Absent: (0) None.

Appearances For
- Neal Kedzie, Madison — Senator
- Samantha Kerkman, Madison — Representative
- Ms. Gail Sumi, Madison — AARP Wisconsin

Appearances Against
- None.

Appearances for Information Only
- None.

Registrations For
- Mr. Steve Baas, Milwaukee — Metropolitan Milwaukee Association of Commerce
- Robin Vos, Madison — Representative

Registrations Against
- None.

April 21, 2005 — **EXECUTIVE SESSION HELD**

Present: (5) Senators Kanavas, Zien, Reynolds, Lassa and Decker.

Absent: (0) None.

Moved by Senator Kanavas that **Senate Bill 31** be recommended for passage.

Ayes: (5) Senators Kanavas, Zien, Reynolds, Lassa and Decker.
Noes: (0) None.

PASSAGE RECOMMENDED, Ayes 5, Noes 0

Jeremey Shepherd
Committee Clerk

Record of Committee Proceedings

~~Joint committee on Finance~~

~~Senate Bill 31~~

SENATE BILL 31 (LRB -0724)

An Act to renumber and amend 71.05 (6) (b) 21.; and to create 71.05 (6) (b) 21. b., 71.05 (6) (b) 21. c., 71.05 (6) (b) 21. d., 71.05 (6) (b) 21. e. and 71.05 (6) (b) 21. f. of the statutes; relating to: increasing the amount of the individual income tax subtract modification for social security benefits.

2005

01-27. S. Introduced by Senators **Kedzie**, **Lazich**, **Darling**, **A. Lasee**, **Roessler**, **Leibham**, **Kanavas**, **Stepp**, **Harsdorf** and **Lassa**; cosponsored by Representatives **Kerkman**, **Gronemus**, **Hines**, **Nass**, **Jeskewitz**, **Davis**, **Pettis**, **Jensen**, **Musser**, **Kreibich**, **Krawczyk**, **Freese**, **Hahn**, **Gielow**, **Petrowski**, **Owens**, **Bies**, **Vos**, **Gunderson**, **Townsend**, **Honadel**, **Mursau**, **Hundertmark**, **Meyer**, **Vrakas** and **Ott**.

01-27. S. Read first time and referred to committee on Job Creation, Economic Development and Consumer Affairs 58

02-10. S. Fiscal estimate received.

04-19. S. Public hearing held.

04-21. S. Executive action taken.

04-22. S. Report passage recommended by committee on Job Creation, Economic Development and Consumer Affairs, Ayes 5, Noes 0 184

04-22. S. Available for scheduling.

04-22. S. Pursuant to Senate Rule 46 (2)(c), withdrawn from the committee on Senate Organization and rereferred to the joint committee on Finance 184

2006

05-11. S. Failed to pass pursuant to Senate Joint Resolution 1 853


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Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

Senate Job Creation, Economic Development and Consumer Affairs, April 19, 2005

Senate Bill 36 – Exempt Social Security Benefits from Individual Income Taxation (Senator Leibham)

Senate Bill 31 – Exempt from Taxation All Social Security Benefits (Senator Kedzie)

Description of Current Law and Proposed Change

Under current state law, up to 50% of social security benefits are taxable once the taxpayer's income exceeds $25,000 for a single individual and $32,000 for a married couple filing jointly. Federal law taxes the same amount of benefits, but further taxes up to 85% of social security benefits when adjusted gross income exceeds $34,000 for a single individual and $44,000 for a married couple filing jointly.

SB 36 would increase the state exemption from 50% to 100%, making all social security benefits exempt from state taxation.

SB 31 would also increase the state exemption to the full amount of social security, but would phase the exemption in over 5 years. The minimum amount exempt would be 60% in 2006, 70% in 2007, 80% in 2008, 90% in 2009 and 100% in 2010 and thereafter.

Fairness/Tax Equity

- Only about one-third of the 924,000 residents of the state receiving social security in 2003 had taxable social security. This is because social security benefits are taxable only when income exceeds certain thresholds – $25,000 for single persons and $32,000 for married couples filing jointly. These thresholds eliminate the tax on social security for lower-income recipients – for two-thirds of all recipients – and taxes those benefits, in part, only when the recipient has sufficient income indicating ability to pay tax.

- About 215,000 tax filers report taxable social security income, and these bills would reduce taxes for approximately 194,000 of them, according to the 2003 Wisconsin individual income tax model. Approximately 76% of those affected by this bill have incomes of $40,000 or higher. Social security beneficiaries include retirees over age 65, widows, widowers and surviving children, and disabled workers, their spouses and children.

- Eliminating the tax on social security benefits would provide a substantial tax decrease to a small group of taxpayers whose ability to pay taxes is no less than it is for other taxpayers that have similar incomes from other sources. Exempting currently taxable social security benefits would reduce income taxes by 1.6%. However, only 11% of filers with liability would receive a tax cut, and their reduction would average 6.5%.

- The following table shows the distribution of taxable social security benefits by income categories and shows the change in net tax if all social security benefits had been exempt in 2003. As the table shows, more than half the taxes paid on social security income fall on filers with income exceeding $50,000, including 11% on filers with income in excess of $100,000. Thus, the proposed tax cut would primarily benefit taxpayers with incomes exceeding $50,000.

DISTRIBUTION OF WISCONSIN TAXABLE SOCIAL SECURITY AND CHANGE IN NET TAX UNDER SENATE BILL 36 BY INCOME CLASS

	Wisconsin Taxable Social Security				Change in	
WAGI Category	Filers (thou)	% of Total	Amount ($millions)	% of Total	Net Tax ($millions)	% of Total
Less than $30,000	66.1	30.8%	184.1	15.0%	6.3	7.9%
$30,000-50,000	74.2	34.6%	411.5	33.6%	29.4	36.7%
$50,000-100,000	60.6	28.2%	491.7	40.2%	35.4	44.2%
More than $100,000	13.8	6.4%	136.2	11.1%	9.0	11.2%
Total	214.7	100.0%	1,223.6	100.0%	80.0	100.0%

Source: 2003 Individual Income Tax Model.
Dollar amounts are in 2003 dollars.
Totals may not add due to rounding.

- Some argue that exempting social security benefits provides relief for persons burdened by expenses, for instance health care, not experienced by other taxpayers. These burdens can be relieved more effectively through subsidies directly related to the expenditures. Exempting currently taxable benefits will provide no relief to the approximately 66% of social security recipients whose income falls below the threshold at which benefits become taxable.

- The proposed tax reduction would shift the burden of financing state and local government spending to recipients of other types of income, in particular, to wages, which already account for nearly 79% of the Wisconsin individual income tax base.

- With an aging population, retirement income, including social security, will grow rapidly in the next 10-20 years. Thus, the revenue loss from exempting all social security benefits will grow.

- Federal law provides favorable tax treatment for social security income. A taxpayer with no income other than social security would be exempt from federal tax for up to $50,000 in social security income ($64,000 for married couples filing jointly).

- Wisconsin provides further favorable treatment for social security recipients that are subject to federal tax, particularly for higher-income recipients. Using the 2003 Wisconsin individual income tax model, a comparison of the tax liability of tax filers over 65 between the federal treatment and the Wisconsin treatment of social security can be made.

- The following table shows, for elderly taxpayers only, the distribution of the tax decrease from the current deduction under state law, i.e. adjustment made to federal tax treatment, and the additional decrease from a full exemption. It also shows the total decrease from the full exemption, relative to the tax that would be collected if Wisconsin followed federal treatment. Elderly taxpayers receive about 80% of the tax decrease from the current deduction and the proposed full exemption.

- The table shows that about 347,000 elderly couples or individuals filed income tax returns; 27% of them benefit from the existing deduction and 42% would benefit from the proposed full exemption. However, for filers with Wisconsin adjusted gross income (WAGI) of less than $30,000, only 4% of elderly filers benefit from the current deduction and only 17% benefit from the proposed full exemption.

- The table does not include approximately 148,000 elderly couples and individuals who do not file tax returns because their income is not high enough to result in tax liability. If these elderly are included, then only 19% of elderly couples and individuals benefit from the current deduction and only 29% benefit from the proposed full exemption. Assuming that all non-filing elderly couples and individuals have WAGI less than $30,000, the percentage in that income group benefiting from the current deduction is about 2% and from the proposed exemption is about 10%.

- Elderly tax filers with income exceeding $50,000 receive 72% of the tax decrease from the current exemption, 55% of the additional reduction from the proposed exemption and 61% of the combined tax decrease resulting from a full exemption, relative to following federal law.

DISTRIBUTION OF TAX DECREASE FOR ELDERLY TAXPAYERS FROM CURRENT DEDUCTION AND FULL EXEMPTION BY INCOME CLASS

		Elderly Filers With Tax Decrease		Amount of Tax Decrease		
Wisconsin Adjusted Gross Income	All Elderly Tax Filers (thou)	Number (thou)	% of All Elderly Filers	Amount ($ millions)	% of Total	Average ($)
	Tax Decrease for Elderly Taxpayers from Current Wisconsin Deduction					
Less than $30,000	235.9	8.9	3.8%	1.9	5.9%	216
$30,000-50,000	56.5	33.7	59.7%	7.2	22.5%	214
$50,000-100,000	42.7	41.5	97.2%	17.6	54.7%	423
More than $100,000	11.6	10.7	91.8%	5.4	16.9%	507
Total	346.8	94.8	27.3%	32.1	100.0%	339
	Additional Tax Decrease for Elderly Taxpayers from Proposed Full Exemption					
Less than $30,000	235.9	39.8	16.9%	5.6	8.8%	140
$30,000-50,000	56.5	52.9	93.6%	22.7	35.9%	430
$50,000-100,000	42.7	41.5	97.2%	27.2	43.0%	656
More than $100,000	11.6	10.7	91.8%	7.7	12.2%	723
Total	346.8	145.0	41.8%	63.3	100.0%	436
	Total Tax Decrease for Elderly Taxpayers from Full Exemption					
Less than $30,000	235.9	39.8	16.9%	7.5	7.9%	188
$30,000-50,000	56.5	52.9	93.6%	29.9	31.4%	566
$50,000-100,000	42.7	41.5	97.2%	44.8	47.0%	1,078
More than $100,000	11.6	10.7	91.8%	13.1	13.8%	1,230
Total	346.8	145.0	41.8%	95.4	100.0%	658

Amounts are in 2003 dollars.
Source: 2003 Wisconsin Individual Income Tax Model.

Economic Development

- Exempting social security benefits from state taxation may encourage retirees to move to or remain in Wisconsin. Currently, Wisconsin is one of only 15 states taxing social security. Nine, including Minnesota, tax up to 85% of social security benefits, the same treatment as federal law; two, Iowa and Wisconsin, tax up to 50%; four others have state-specific formulas for determining the portion of social security that is taxable. Illinois and Michigan exempt all social security income.

- Although taxes are one factor retirees consider when deciding where to live, climate, location of relatives, and quality and availability of health care and public services are also important.

- Comparison of elderly migration patterns provides little evidence that the tax treatment of social security has a significant impact on residence decisions by the elderly. According to the U.S. Bureau of the Census, the net migration rates of elderly persons were negative for 1995 to 2000 – more elderly moving out than in – for Wisconsin and its four neighbors, but Wisconsin had the lowest rate, -5.6 per 1,000. That rate was considerably lower than the rates in Illinois and Michigan, -28.1 and -17.7 per 1,000 respectively, though both of those states exempted all social security.

- Comparing the 12 states in the Census Bureau's Midwest region, shown in the following table, six states tax social security income, including Missouri, the only state in the region with a positive net migration rate of elderly persons.

NET MIGRATION RATE OF ELDERLY, 1995-2000, MIDWEST STATES

State	Net Migration Per 1,000 Elderly	Tax Treatment Of Social Security
Missouri	0.7	Taxable
Kansas	-1.2	Taxable
South Dakota	-2.3	Exempt
Wisconsin	-5.6	Taxable
Nebraska	-8.1	Taxable
Indiana	-8.3	Exempt
Minnesota	-10.3	Taxable
Iowa	-11.2	Taxable
Ohio	-12.2	Exempt
North Dakota	-16.1	Taxable
Michigan	-17.7	Exempt
Illinois	-28.1	Exempt

Source: U.S. Census Bureau

- Both the South and West have positive net migration of elderly. While only one state in the South, West Virginia, taxes social security, positive net migration rates for most states in that region are more likely attributable to climate rather than tax treatment of social security. Four states in the West tax social security, New Mexico, Utah, Montana and Colorado; they rank behind Nevada, Arizona and Idaho in migration rates, but all have positive rates and rank ahead of the other states in the region, all of which exempt social security.

- Wisconsin's elderly migration rate is 33rd among the 50 states and the District of Columbia. Many of the higher-ranking states exempt all social security, but so do 13 of the 18 lower-ranking jurisdictions.

- If all social security benefits are exempt, the burden of financing public services will shift to other sources of income, notably wages, and potentially discourage workers and firms from locating in Wisconsin. According to the U.S. Bureau of the Census, Wisconsin loses a substantial share of its younger working population. From 1995 to 2000, the migration rate of young (ages 25-39), single and college-educated persons for Wisconsin was -107.7 per 1,000. Minnesota and Illinois had positive rates, 15.5 and 12.4 per 1,000 respectively; Michigan's rate was negative, -86.7, but not as low as Wisconsin's, and Iowa's rate was -220.1. Wisconsin ranked 35th among the 50 states and the District of Columbia.

Administrative Impact/Fiscal Effect

- SB 36 would decrease state revenues by $95 million annually, according to a simulation using our 2003 individual income tax model.

- SB 31, phasing in the exemption, would decrease tax revenues by $9.5 million in FY06, $31.8 million in FY07, $57.2 million in FY08, $86 million in FY09, $119 million in FY10 and $139 million in FY11 and thereafter.

Prepared by: Kirstin Nelson, (608) 261-8984

April 14, 2005

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State Representative

Samantha J. Kerkman

Senate Bill 31
Testimony of Representative Samantha Kerkman
Senate Committee on Job Creation, Economic Development and Consumer Affairs
April 19, 2005

Thank you Chairman Kanavas and members of the committee for the opportunity to testify before you today on Senate Bill 31.

When Senator Kedzie first circulated this legislation I knew that I wanted to be a part of it. Senate Bill 31 provides critical tax relief for our seniors. Too often we hear the stories of residents who spend their lives creating a home for their family, only to move upon retirement because of taxes. We lose too many of our residents to other more tax friendly states. As a legislator from a border community I know all too well the impact our tax system has had on the 66th Assembly District.

Senate Bill 31 provides a reasonable option to eliminating state taxes on Social Security income. By implementing tax free Social Security over a 5 year period, we have found a reasonable compromise. This legislation ensures that taxpayers see an end in sight, as well as the state preparing for the change in collection. Although in an ideal fiscal environment we would be able to eliminate these taxes immediately, the reality is that it is not practical.

According to the National Conference of State Legislatures, most states exclude Social Security retirement benefits from state income taxes. The District of Columbia as well as 26 states with income taxes provide a full exclusion for Social Security benefits. It is time for Wisconsin to join the ranks of these states.

Thank you. At this time I would be happy to answer any questions.

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State Senator
Neal J. Kedzie
11th Senate District

April 19, 2005

Senate Committee on Job Creation, Economic Development and Consumer Affairs
State Senator Ted Kanavas, Chair
Madison, WI

Dear Chairman Kanavas and Committee members,

Today marks 'Tax Freedom Day' in Wisconsin, or the first day of the year in which all earnings go to the taxpayers. It means that every day worked from January 4, 2005 to April 19, 2005 their earnings have gone to pay for federal, state and local government.

While that day is certainly coming sooner and sooner each year, for those living on fixed or retirement income, it is still too long to wait. That is why I have introduced a 'Senior Security' tax relief package, which is before you today as Senate Bills 29, 30 and 31. I thank you for your attention and review of all three.

If enacted, collectively it could mean hundreds, perhaps thousands, of real tax savings for our senior population each year. Senate Bill 29 will create a graduated tax exemption for older taxpayers, and while moderate in scope, is a good first step. Senate Bill 30 is the much-heralded pension income tax relief bill and is one I've personally been involved with for more than six years. This bill is a major component of the 'Senior Security' package. And finally, Senate Bill 31 would offer tax free Social Security benefits within five years and would put Wisconsin in line with many other states that do so.

Again, thank you for your consideration of these very important bills. I hope the committee will look favorably upon them so Wisconsin can compete with more tax-friendly states and keep our senior population here at home.

Sincerely,

Neal

Neal Kedzie
State Senator
11th Senate District

NJK: dj

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