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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 190

Relating to: creating a nonrefundable individual income tax credit for certain amounts of taxable social security benefits.

By Senators Kedzie, Darling, Harsdorf, Kanavas, A. Lasee, Lassa, Lazich, Leibham, Roessler and Stepp; cosponsored by Representatives Kerkman, Loeffelholz, Owens, Albers, Bies, Boyle, Davis, Freese, Gielow, Gronemus, Gundrum, Hahn, Hines, Honadel, Hundertmark, Jensen, Jeskewitz, Krawczyk, Kreibich, LeMahieu, Lothian, McCormick, Meyer, Mursau, Musser, Nass, Nischke, Ott, Petrowski, Pettis, Pridemore, Suder, Townsend, Van Roy, Vos, Vrakas and Wood.

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

May 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

Appearances Against

- None.

Appearances for Information Only

- None.

Registrations For

- Ms. Gail Sumi, Madison — AARP Wisconsin

Registrations Against

- None.

May 20, 2005 **EXECUTIVE SESSION HELD**

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

Absent: (0) None.

Moved by Senator Kanavas that **Senate Substitute Amendment 1** be recommended for adoption.

Ayes: (4) Senators Kanavas, Zien, Reynolds and Decker.

Noes: (1) Senator Lassa.

ADOPTION OF SENATE SUBSTITUTE AMENDMENT 1 RECOMMENDED,
Ayes 4, Noes 1

Moved by Senator Kanavas that **Senate Bill 190** be recommended for passage as amended.

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

Noes: (0) None.

PASSAGE AS AMENDED RECOMMENDED, Ayes 5, Noes 0

Jeremey Shepherd
Committee Clerk

Record of Committee Proceedings

~~Joint committee on Finance~~

~~Senate Bill 190~~

SENATE BILL 190 (LRB -2802)

An Act to create 71.07 (6e) and 71.10 (4) (ce) of the statutes; relating to: creating a nonrefundable individual income tax credit for certain amounts of taxable social security benefits.

2005

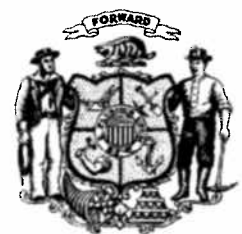
- 04-27. S. Introduced by Senators **Kedzie, Darling, Harsdorf, Kanavas, A. Lasee, Lassa, Lazich, Leibham, Roessler and Stepp**; cosponsored by Representatives **Kerkman, Loeffelholz, Owens, Albers, Bies, Boyle, Davis, Freese, Gielow, Gronemus, Gundrum, Hahn, Hines, Honadel, Hundertmark, Jensen, Jeskewitz, Krawczyk, Kreibich, LeMahieu, Lothian, McCormick, Meyer, Mursau, Musser, Nass, Nischke, Ott, Petrowski, Pettis, Pridemore, Suder, Townsend, Van Roy, Vos, Vrakas and Wood**.
- 04-27. S. Read first time and referred to committee on Job Creation, Economic Development and Consumer Affairs 186
- 05-10. S. Senate substitute amendment 1 offered by Senator Kedzie (**LRB s0108**) 207
- 05-10. S. Fiscal estimate received.
- 05-19. S. Public hearing held.
- 05-20. S. Executive action taken.
- 05-27. S. Report adoption of Senate Substitute Amendment 1 recommended by committee on Job Creation, Economic Development and Consumer Affairs, Ayes 4, Noes 1 235
- 05-27. S. Report passage as amended recommended by committee on Job Creation, Economic Development and Consumer Affairs, Ayes 5, Noes 0 235
- 05-27. S. Available for scheduling.
- 06-09. S. Pursuant to Senate Rule 46 (2)(c), withdrawn from committee on Senate Organization and rereferred to joint committee on Finance 250

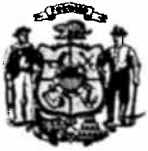
2006

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



WISCONSIN STATE LEGISLATURE





State of Wisconsin • DEPARTMENT OF REVENUE

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Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

Senate Job Creation, Economic Development, and Consumer Affairs Committee Hearing, May 19, 2005

Senate Bill 190 – Individual Income Tax Credit for Certain Social Security Benefits (Senator Kedzie)

Description of Current Law and Proposed Change

Under current 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.

This bill creates a nonrefundable individual income tax credit for taxable amounts of social security. As drafted, the bill only allows those taxpayers that are taxed on more than 50% of their social security to claim this credit. Anyone taxed on only 50% of their social security benefits could not claim the credit. The bill phases in the credit over five years as follows: 20% in 2006, 40% in 2007, 60% in 2008, 80% in 2009, and 100% in 2010. The credit is calculated by multiplying the taxpayer's taxable social security benefits by their marginal tax rate and then by the allowable credit beginning with 20% in 2006 as stated above.

Fairness/Tax Equity

- This bill would create additional complexity for taxpayers receiving social security benefits. Currently, many of these taxpayers are required to adjust their social security income for state tax purposes since only 50% of social security benefits are taxable in Wisconsin, compared to 85% at the federal level. After determining their taxable social security benefits for Wisconsin, taxpayers would have to determine their marginal tax rates and then multiply their rate by their taxable social security to compute their credit under this bill. It would be much simpler to phase out the taxation of social security benefits through an exemption than to allow a credit while continuing to tax social security.
- Only about 23% of the 924,000 residents of Wisconsin 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 tax 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 this bill would reduce taxes for approximately 125,000 of them, according to the 2003 Wisconsin individual income

tax model. Approximately 60% of those affected by this bill have incomes of \$50,000 or higher. Social security beneficiaries include retirees over age 65, widows, widowers and surviving children, and disabled workers, their spouses and children.

- A credit for 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. The credit would reduce income taxes by 1.3%. However, only 7% of filers with liability would receive a tax cut.
- The following table shows the distribution of taxable social security benefits by income categories and shows the change in net tax if a credit was provided for all social security benefits in 2003. As the table shows, more than half the taxes paid on social security benefits 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 190 BY INCOME CLASS**

WAGI Category	Wisconsin Taxable Social Security				Change in	
	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%	1.8	4%
\$30,000-50,000	74.2	34.6%	411.5	33.6%	19.0	31%
\$50,000-100,000	60.6	28.2%	491.7	40.2%	31.6	51.3%
More than \$100,000	13.8	6.4%	136.2	11.1%	8.9	14.5%
Total	214.7	100.0%	1,223.6	100.0%	61.3	100.0%

Source: 2003 Individual Income Tax Model.

Dollar amounts are in 2003 dollars.

Totals may not add due to rounding.

- Some argue that providing a credit for 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. Providing a credit for currently taxable benefits will provide no relief to the approximately 77% of social security recipients whose income falls below the threshold at which benefits become taxable. With an aging population, retirement income, including social security, will grow rapidly in the next 10-20 years. Thus, the revenue loss from providing a credit for 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.

Impact on Economic Development

- Providing a credit for all social security benefits 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. 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 a credit is provided for the taxation of all social security benefits, the burden of financing public services will shift to other sources of income, notably wages, which already account for 79% of the Wisconsin individual income tax base, 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

- According to a simulation using the 2003 Wisconsin Individual Income Tax Model, adjusted to reflect current law and the growth in social security benefits from 2003 to the years affected, this bill, as drafted, would reduce state revenues by approximately \$342 million from tax year 2006 through tax year 2010. Assuming the revenue loss is partly experienced through estimated payments, the fiscal year revenue losses would be as follows: \$7 million in FY2006, \$24 million in FY2007, \$43.4 million in FY2008, \$65.4 million in FY2009, \$91 million in FY2010, and \$106 million in FY2011 and thereafter.
- Claiming the credit requires taxpayers to calculate their marginal tax rates. Information and instructions would need to be added to the tax forms in order for taxpayers to calculate their marginal rates. This would result in additional complexity for taxpayers.
- This bill would increase departmental costs associated with one-time programming costs of \$20,000 and annual costs of \$50,750 for 1.25 FTE positions.

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

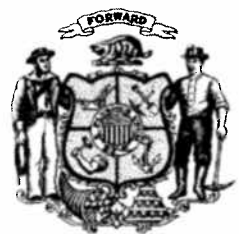
May 18, 2005

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WISCONSIN STATE LEGISLATURE





State Representative

Samantha J. Kerkman

Senate Bill 190

Testimony of Representative Samantha Kerkman

Senate Committee on Job Creation, Economic Development and Consumer Affairs

May 19, 2005

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 190 provides needed tax relief for our seniors.

By implementing tax free Social Security over a 5 year period, Senator Kedzie has 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.





Social Security: Wisconsin Quick Facts



Wisconsin's aged population is expanding.

In 2003, Wisconsin's population was about 5,472,200 with 13% being age 65 and older (712,000 residents).¹ In 2015, the 65+ population will make up 15% of the state's population, and in 2020, it will be 17%.²

Wisconsin ranks 21st in income level among the U.S. states.

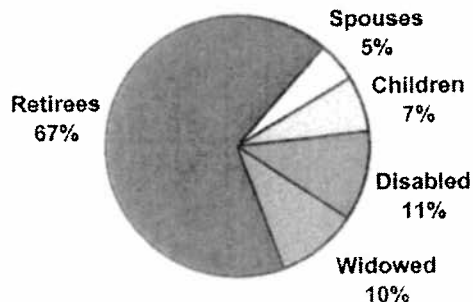
The average personal income in Wisconsin was \$30,723 in 2003. Among the Midwest states, Wisconsin's (21st) per capita income ranks higher than Iowa (37th) or Ohio (25th) but lower than Michigan (20th) and Minnesota (10th).³

One in six Wisconsin residents receives Social Security.

The Social Security program not only provides monthly benefits to retired workers, but also to families when the worker retires, dies, or becomes disabled. In 2003, over 47 million Americans received Social Security benefits; of these, 928,505 live in Wisconsin.⁴

In 2003, one in six Wisconsin residents received Social Security. While 67% of beneficiaries are retirees, 33% are not: 92,498 are widows and widowers; 98,289 are disabled workers; 50,361 are wives and husbands; and 65,249 are children.⁴

Wisconsin Social Security Beneficiaries



Social Security pumps over 6 billion dollars into Wisconsin's economy.

In 1999, Wisconsin residents received 6.5 billion dollars from Social Security.⁵ The average yearly Social Security benefit for a Wisconsin retiree in 2003 was \$11,352—or about \$946 a month.⁴

Nearly all Wisconsin residents age 65 or older receive Social Security.

Nationally, almost 16% of all people receive Social Security benefits; in Wisconsin, 16% of residents also receive benefits. However, older people are more likely to receive Social Security, with 91% of those over age 65 receiving it nationwide, and the same amount of Wisconsinites (19%) receive it.¹

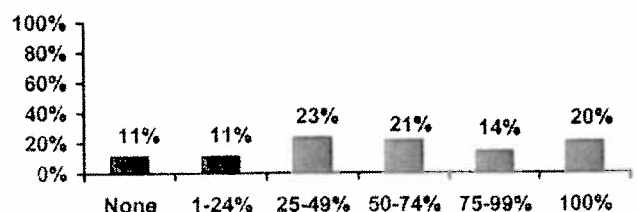
Social Security lifts nearly half of retirees from poverty.

Nearly half (47%) of the nation's older population would be living in poverty if they were not receiving Social Security. In Wisconsin, 45% of state's 65+ population (253,000 people) would have incomes below the poverty line if they did not have Social Security.⁶

Social Security is the only source of income for one in five Wisconsinites age 65+.

Social Security makes up at least half of the income for over half of Wisconsinites age 65 and older. A fifth of older Wisconsinites rely on Social Security as their only source of income.⁷

Income Percentage from Social Security for Wisconsinites 65+



End Notes

¹ OASDI Beneficiaries by State and County, 2003.

Social Security Administration:

http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2003/table1.html

² Wisconsin Population Projection Tables 2000- 2030,

State of Wisconsin Department of Administration:

http://www.doa.state.wi.us/pagesubtext_detail.asp?linksubearid=105

³ Bureau of Economic Analysis, US Dept. of Commerce:

<http://www.bea.gov/bea/regional/bearfacts/statebf.cfm>

⁴ OASDI Beneficiaries by State and County, 2003.

Social Security Administration:

http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2003/wi.html

⁵ U.S. Census Bureau, Household Aggregate Social Security Income in 1999, Wisconsin:

http://factfinder.census.gov/servlet/CTTable?_bm=y&-context=ct&-ds_name=DEC_2000_SF3_U&-mt_name=DEC_2000_SF3_U_P071&-tree_id=403&-all_geo_types=N&-redoLog=true&-caller=geoselect&-geo_id=01000US&-geo_id=04000US55&-search_results=01000US&-dataitem=DEC_2000_SF3_U_P071.P071001&-format=&-lang=en

⁶ Sherman, A. and Shapiro, I. (2005) *Social Security Lifts 13 Million Seniors Above the Poverty Line: A State by State Analysis*. Center on Budget and Policy Priorities: www.cbpp.org/2-24-05socsec.htm

⁷ AARP analysis using data from U.S. Census Bureau: 2000

Quick Facts provided by AARP Wisconsin
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