



State of Wisconsin • DEPARTMENT OF REVENUE

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Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

Assembly Ways and Means, May 14, 2003

AB 167 – Exempt Social Security Benefits (Rep. Loeffelholz + 18)

Description of Current Law and Proposed Change

- This bill would exempt from state income taxation, 100% of the social security benefits included in the calculation of a taxpayer's federal adjusted gross income (FAGI). Under current law, up to 50% of certain social security benefits is taxed once the recipient's income exceeds \$25,000 for a single individual or \$32,000 for a married couple filing jointly.

Fairness/Tax Equity

- 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 with similar incomes but 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%.
- Less than a quarter of Wisconsin residents receiving social security benefits, about 215,000 out of 905,000 total recipients, have taxable social security income. 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. Thus, current law eliminates tax on social security benefits for lower-income recipients and taxes those benefits, in part, only when the recipient has sufficient income indicating an ability to pay tax. Wisconsin residents received social security benefits totalling \$9 billion in 2001, according to the Social Security Administration. Taxable benefits totalled \$1.2 billion, or only about 13% of total benefits.
- As the following table shows, more than half the taxes paid on social security income falls on filers with income exceeding \$50,000, including 14% on filers with income in excess of \$100,000. Thus, the proposed tax cut would be concentrated among taxpayers with incomes exceeding \$50,000

DISTRIBUTION OF WISCONSIN TAXABLE SOCIAL SECURITY 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%	198.2	16.4%	7.2	9.1%
\$30,000-50,000	70.4	32.8%	377.2	31.2%	26.9	34.1%
\$50,000-100,000	60.4	28.1%	467.7	38.6%	33.8	42.8%
More than \$100,000	17.9	8.3%	167.1	13.8%	11.0	14.0%
Total	214.7	100.0%	1,210.3	100.0%	78.8	100.0%

Note: Dollar amounts are in 2001 dollars.



State Senator
Neal J. Kedzie

11th Senate District

May 14, 2003

State Representative Michael Lehman
Chair, Assembly Ways and Means Committee
103 West, State Capitol
Madison, WI

Dear Chairman Lehman and Committee members,

Thank you for allowing me to speak in favor of Assembly Bill 167. I do appreciate your consideration of this proposal.

Assembly Bill 167 is very simple and straightforward: If enacted, Wisconsin seniors would no longer be required to pay taxes on their Social Security benefits. For many seniors, the monetary benefits they receive from Social Security encompass the majority, if not all, of their income. Social Security is generally viewed as "enough to get by" for some, but for many it only allows for the bare necessities.

That situation is exacerbated by the tax placed on those benefits — a double tax, of sorts. Not only is the tax unfair, it robs many seniors of even those bare necessities of life and forces them to make difficult budgetary decisions. If AB 167 is enacted, seniors could use those funds however they see fit: pay for medications, health care premiums, save it, invest it, or spend it.

Most importantly, this tax relief proposal requires no new staff, no new bureaucracy, and no new myriad of government rules and regulations to implement. Currently, Wisconsin is one of only 10 states that tax Social Security benefits. On average, AB167 would deliver \$545 in tax relief to those who need it most and who have paid taxes for too long.

Again, thank you for your consideration and review of Assembly Bill 167.

Sincerely,

Neal Kedzie
State Senator
11th Senate District

NJK: dj

Testimony – AB 167 – Ways and Means – May 14, 2003

State Representative Gabe Loeffelholz

Good Morning Chairman Lehman and Committee Members:

Assembly Bill 167 would exempt all social security benefits from Wisconsin income tax.

I authored Assembly Bill 167 at the request of constituents who also feel that the double taxation of Social Security benefits should be eliminated. The elderly are punished by having their contributions to the Social Security system taxed at the time they contribute to the system and again when they receive social security upon retirement.

My assembly district lies in a tri-state area and I can see firsthand that working people move across state borders to live and work where the taxes are lower. The high tax rate for the elderly and retired causes many Wisconsin residents to flee the state to set up residence in other states with lower tax rates. This means a loss of the income from the goods and services these persons would purchase in Wisconsin.

I realize that this legislation has a high fiscal impact (-\$89 million), but feel that over time, the impact would be lessened by the spending for goods and services and the property taxes, etc. that would be paid by retired citizens who would choose to remain in Wisconsin.



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Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

July 1, 2003

The Honorable Michael Lehman
Chair, Assembly Committee on Ways and Means
State Capitol, 103 West
Madison, WI 53708

Dear Representative Lehman:

At the May 14, 2003, hearing on Assembly Bill 167, relating to an income tax exemption for social security income, committee members raised several questions for which we promised responses.

One regarded a difference between the Legislative Reference Bureau (LRB) analysis to the bill and the Department of Revenue (DOR) analysis as to the income levels at which taxation of up to 50% of social security benefits begins. The levels indicated in the DOR analysis, \$25,000 for single persons and \$32,000 for married couples, are correct. The amounts in the LRB analysis, \$34,000 for single persons and \$44,000 for couples, are the levels at which taxation of up to 85% of social security income begins under federal law. (Wisconsin has not adopted this higher level of taxation.)

A second question is related to the portion of social security income attributable to retirement benefits as opposed to disability benefits. According to the Social Security Administration, about 76% of benefits paid to Wisconsin beneficiaries in 2001 were retirement benefits, while 14% were survivor benefits and 10% were disability benefits. Approximately 669,000 persons received retirement benefits averaging \$858 per month. That compared to 126,000 survivor beneficiaries, whose average monthly benefit was \$804, and 111,000 disability beneficiaries with an average monthly benefit of \$617.

The Department was also asked to provide information on migration to and from Wisconsin by the elderly. The U.S. Bureau of the Census is not expected to publish its data on migration from the 2000 Census until this summer. However, other population data, including projections, may provide some helpful information. The following table shows the percentage growth in population for various age groups from 1995 to 2000 and projected growth from 2000 to 2025 for Wisconsin, its neighbors and the nation as a whole.

State	Age Group				
	0-17	18-24	25-44	45-64	65+
1995-2000					
U.S. Total*	3.7%	3.0%	-1.1%	17.1%	3.6%
Wisconsin	-0.6%	10.5%	-2.3%	17.4%	3.4%
Illinois	0.5%	4.9%	-3.4%	12.0%	-0.1%
Indiana	2.0%	2.6%	-0.8%	15.3%	4.0%
Iowa	-2.6%	6.0%	-3.6%	14.0%	2.3%
Michigan	-1.0%	0.7%	-4.1%	13.4%	1.3%
Minnesota	-0.7%	17.0%	-2.5%	19.5%	4.1%
2000-2005					
U.S. Total	1.8%	7.2%	-3.3%	17.0%	4.4%
Wisconsin	-1.7%	4.5%	-4.4%	16.5%	3.4%
Illinois	0.4%	3.6%	-5.2%	12.9%	0.8%
Indiana	0.5%	2.4%	-4.5%	14.6%	4.0%
Iowa	-2.1%	-0.1%	-4.9%	12.9%	2.4%
Michigan	-1.6%	1.8%	-6.7%	13.2%	1.2%
Minnesota	-1.6%	6.3%	-4.1%	18.2%	5.1%
2005-2015					
U.S. Total	3.5%	6.2%	0.5%	14.4%	26.4%
Wisconsin	-0.6%	-7.3%	-2.8%	10.2%	22.3%
Illinois	1.0%	6.3%	-2.0%	8.8%	16.1%
Indiana	-2.6%	0.6%	-4.9%	9.0%	21.3%
Iowa	-2.5%	-7.1%	-4.3%	5.9%	17.6%
Michigan	-2.6%	-0.5%	-5.0%	6.0%	17.4%
Minnesota	1.2%	-7.7%	-0.6%	11.3%	26.8%
2015-2025					
U.S. Total	8.4%	0.2%	7.6%	-4.3%	36.3%
Wisconsin	1.2%	-3.0%	0.4%	-9.1%	34.3%
Illinois	6.2%	-2.9%	6.5%	-7.6%	28.7%
Indiana	0.4%	-5.6%	1.1%	-8.5%	30.8%
Iowa	-1.0%	-3.9%	-1.2%	-10.4%	28.9%
Michigan	1.2%	-4.6%	1.8%	-10.3%	28.0%
Minnesota	2.7%	-1.7%	1.9%	-9.2%	38.3%

*For U.S. the first two age groups are 0-19 and 20-24, respectively

From 1995-2000, Wisconsin's elderly population grew at a rate of 3.4%, similar to the 3.6% growth rate for the U.S., but slower than the rates for Minnesota (4.1%), which taxes up to 85% of social security income, a higher level of taxation than Wisconsin, and Indiana (4%), which exempts all social security from taxation. Wisconsin's elderly population grew considerably faster than that of Illinois (-0.1%) and Michigan (1.3%), which exempt social security, and Iowa (2.3%), which like Wisconsin taxes up to 50% of social security.

Wisconsin's elderly population is projected to grow 3.4% from 2000-2005, lower than the growth rates for the U.S., Minnesota and Indiana, but higher than Illinois, Iowa and Michigan. Beyond 2005, the rate of growth in Wisconsin's elderly population is expected to be a bit lower than the rates for the U.S. and Minnesota, but greater than the rates in the other neighboring states.

These actual and projected growth rates provides some evidence that taxation of social security income does not have a significant impact on states' attractiveness to the elderly. The actual and projected growth rates for the elderly population are higher in Minnesota than in Wisconsin, though Minnesota subjects more social security income to tax. And Wisconsin's rates are higher than those in Illinois and Michigan, though both those states exempt all social security.

The table shows that a more troubling concern for Wisconsin than its attractiveness to older residents is its ability to attract and retain younger working age people. As the table shows, Wisconsin's growth rate for the 25-44 age group was quite a bit lower than the U.S. rates for 1995-2000. In the first quarter of the 21st century, Wisconsin's growth rates for the 18-24 and 25-44 age groups are expected to be substantially lower than the rates for the U.S. **Based on these projections, one can argue that Wisconsin would be advised not to adopt tax policies that shift the burden of financing state and local government to these age groups, younger persons – which is exactly what happens when tax reductions target another population group.** Rather, if the state wishes to reduce tax burdens, it should do so by adopting an approach that is fair for all taxpayers.

Finally, the committee had some discussion as to whether or not Wisconsin would recapture, in higher sales taxes, the revenues it would lose from exempting all social security income. Although the department does not estimate these types of effects, it is easy to demonstrate that the exemption is unlikely to generate sufficient sales tax revenue to offset the estimated \$89 million loss from exempting social security. To raise this amount in sales taxes, taxable sales in the state would have to increase by \$1.78 billion (\$89 million / 5%). The number of Wisconsin's elderly households would have to grow by about 91,600 the year the exemption took effect to generate that amount. **This is a one-time growth rate of 20% – much higher than the annual gains of 1% - 3% anticipated in the first quarter of the 21st century.**

We estimated this as follows:

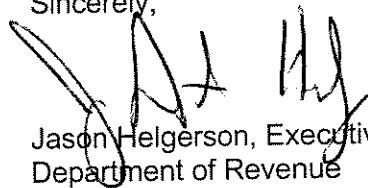
- \$43,000 is the estimated average income, including total social security income, in 2003 of tax filers who would get a tax decrease under AB 167, based on data from the 2001 Wisconsin individual income tax sample.
- Assuming 45% of this income is spent on goods and services subject to the sales tax, \$19,400 is the estimated average taxable spending for tax filers getting a tax decrease. The assumption that 45% of income is spent on taxable goods and services is based on Department of Revenue analyses of sales tax collection data, personal income data and the federal Consumer Expenditure Survey.

The Honorable Michael Lehman
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- Dividing the \$1.78 billion in additional taxable sales by average taxable spending of \$19,400 for tax filers getting a tax decrease yields 91,600 tax filers, which is nearly 20% of Wisconsin's current estimated elderly households of 468,000.

I hope this information is helpful. Please contact me if you have additional questions.

Sincerely,



Jason Helgerson, Executive Assistant
Department of Revenue

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cc: Ways and Means Committee Members