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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 30

Relating to: exempting from taxation retirement plan income received by an individual.

By Senators Kedzie, Roessler, Lazich, A. Lasee, Leibham, Kanavas, S. Fitzgerald, Stepp and Lassa; cosponsored by Representatives Owens, Nass, Kerkman, Gronemus, Lothian, Hines, Jeskewitz, Davis, Loeffelholz, Pettis, Jensen, LeMahieu, Musser, Nischke, Hahn, Petrowski, Kreibich, Underheim, Bies, Vos, Gunderson, Townsend, Albers, Mursau, Hundertmark, Meyer, Vrakas, Ott and Gundrum.

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
- Mr. Marshall Frillici, Marshall — Wisconsin Retired Educators' Association

Appearances Against
- None.

Appearances for Information Only
- Mr. Edwin Kehl, Madison — Wisconsin Coalition of Annuitants

Registrations For
- Ms. Jordan Lamb, Madison — Wisconsin Biotechnology and Medical Device Association
- Samantha Kerkman, Madison — Representative
- Carol Owens, Madison — Representative
- Ms. Judy Fillici, Marshall — Wisconsin Retired Educators' Association
- Mr. William Ward, Milwaukee — Milwaukee Police Association
- Ms. Jordan Lamb, Madison — Independent Insurance Agents of Wisconsin
- Ms. Jordan Lamb, Madison — National Association of Insurance and Financial Advisors
- Ms. Jordan Lamb, Madison — Professional Insurance Agents of Wisconsin

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 Substitute Amendment 1** be recommended for adoption.

Ayes:	(4)	Senators Kanavas, Zien, Reynolds and Lassa.
Noes:	(1)	Senator Decker.

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

Moved by Senator Kanavas that **Senate Bill 30** be recommended for passage as amended.

Ayes:	(4)	Senators Kanavas, Zien, Reynolds and Lassa.
Noes:	(1)	Senator Decker.

PASSAGE AS AMENDED RECOMMENDED, Ayes 4, Noes 1

Jeremey Shepherd
Committee Clerk

Record of Committee Proceedings

~~Joint committee on Finance~~

~~Senate Bill 30~~

SENATE BILL 30 (LRB -0723)

An Act to amend 71.05 (1) (am), 71.05 (1) (an), 71.05 (6) (b) 4. and 71.83 (1) (a) 6.; and to create 71.05 (1) (ae) of the statutes; relating to: exempting from taxation retirement plan income received by an individual.

2005

01-27. S. Introduced by Senators **Kedzie**, **Roessler**, **Lazich**, **A. Lasee**, **Leibham**, **Kanavas**, **S. Fitzgerald**, **Stepp** and **Lassa**; cosponsored by Representatives **Owens**, **Nass**, **Kerkman**, **Gronemus**, **Lothian**, **Hines**, **Jeskewitz**, **Davis**, **Loeffelholz**, **Pettis**, **Jensen**, **LeMahieu**, **Musser**, **Nischke**, **Hahn**, **Petrowski**, **Kreibich**, **Underheim**, **Bies**, **Vos**, **Gunderson**, **Townsend**, **Albers**, **Mursau**, **Hundertmark**, **Meyer**, **Vrakas**, **Ott** and **Gundrum**.

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.

03-16. S. Senate substitute amendment 1 offered by Senator Kedzie (**LRB s0045**) 132

04-19. S. Public hearing held.

04-21. S. Executive action taken.

04-22. S. Report adoption of Senate Substitute Amendment 1 recommended by committee on Job Creation, Economic Development and Consumer Affairs, Ayes 4, Noes 1 184

04-22. S. Report passage as amended recommended by committee on Job Creation, Economic Development and Consumer Affairs, Ayes 4, Noes 1 184

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

State and Local
GOVERNMENT
RETIREES

WISCONSIN COALITION OF ANNUITANTS

318 Karen Court • Madison, WI 53705
fax: 608-236-0424 • e-mail: wcoaemk@chorus.net

3/30/05

TO: Sponsors & Co-sponsors – 2005 Senate Bill 30

The Wisconsin Coalition of Annuitants is pleased at the introduction of this Bill. We believe it addresses a serious inequity in the treatment of pension income.

The Coalition considers the following as positive aspects of the bill:

1. The bill recognizes the contribution public employees have made to the quality of service provided to the citizens of our state. It also extends the exemptions to those Wisconsin residents who have qualified pension, profit sharing and stock bonus plans.
2. The bill creates a financial incentive for retired and retiring individuals to remain in Wisconsin rather than relocating to states where pension benefits are now exempted.
3. The bill would add an exemption privilege to a large group of retirees in addition to those already enjoying the benefit.

The Coalition believes there are some provisions of the bill that require further analysis.

The fiscal note accompanying the bill predicts a substantial and growing decrease in income tax revenues. The current fiscal crisis we face does not allow for substantial reductions in revenues unless offsetting increases are envisioned. Our support for this bill would require some indication of a fiscally responsible funding mechanism. Perhaps the fiscal note could recognize retaining more retirees as residents and reducing their income tax liability could create a positive economic impact. These exemptions could have some effect, for example,on sales and gasoline taxes resulting from an increase in disposable income.

The Coalition, while unable to support this bill, wholeheartedly supports the concept inherent in this effort and congratulates the sponsors for their recognition of the need for more equitable treatment of taxation of pension income.

Sincerely

Ed Kehl

Ed Kehl
Chairman

ORGANIZATIONS IN THE WISCONSIN COALITION OF ANNUITANTS

DOT Retirees • West Allis Retirees • DILHR Retirees • Epsilon Sigma Phi • Retired School District Administrators • Professional Police Association • Retired Professional Firefighters • Wisconsin Retired Corrections Personnel • State Engineers Association • AFSCME Retirees Chapter 7 • Wisconsin Education Association Council-Retired • Wisconsin State Attorneys Association • Association of Career Employees • The Association of UW Professionals • DNR Retirees • Wauwatosa Employee Retirement Club • Wisconsin Retired Educators Association • WFT/AFT Retirees • UW Madison Retirement Association • UW-Milwaukee Retired Faculty Association


FORWARD
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State of Wisconsin • DEPARTMENT OF REVENUE

2135 RIMROCK RD. • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933
PHONE (608) 266-6466 • FAX (608) 266-5718 • http://www.dor.state.wi.us

Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

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

Senate Bill 30 – Exempting from Taxation Retirement Plan Income (Senator Kedzie)

Description of Current Law and Proposed Change

Under current law, the pension benefits of certain public employees are exempt from state taxation. The pensions that are exempt include the U.S. civil service, Milwaukee city and county, Milwaukee police officers and public school teachers, Wisconsin State Teachers, and the Sheriff's Annuity and Benefit Fund of Milwaukee County. For these plans, the exemption only applies to persons who were members of or retired from the plans on December 31, 1963. Furthermore, pensions from the U.S. railroad retirement system, the U.S. military retirement system, and U.S. government plans related to service with the U.S. Coast Guard, the Commissioned Corps of the National Oceanic and Atmospheric Administration, and the Commissioned Corps of the Public Health Service are exempt from taxation.

This bill would exempt from taxation up to $2,500 of income received from a retirement plan in tax year 2006 if the income is not already exempt from taxation. The maximum allowable exemption would increase from $2,500 to $5,000 in 2007, $10,000 in 2008, $15,000 in 2009, and $20,000 in 2010 and thereafter. The exemption applies to pensions that are either qualified or nonqualified for federal tax purposes, profit-sharing plans, stock bonus plans, deferred compensation plans, self-employed plans, tax-sheltered annuities, and individual retirement accounts.

Fairness/Tax Equity

- The bill provides a large overall tax reduction, 6% of total taxes, but to only 353,000 filers who are currently receiving taxable retirement income; they are only about 19% of the filers with tax liability under current law.

- Wisconsin's taxation of pension income is generally the same as the federal tax treatment, apart from the special exemptions for state and local government, federal civil service and military pensions.

- The exemption would shift the burden of the income tax from persons with pensions to persons with other sources of income, primarily wages, without regard for their ability to pay. Persons with similar levels of income presumably have similar ability to pay taxes, whether that income is from pensions, from wages or from other source of income. Exempting some types of income from tax creates unfair tax burdens among taxpayers with equal ability to pay.

- With the aging of the state's population, the bill would exempt a growing source of income received by a growing segment of the population that, like other age groups, benefits from public services.

- Most pensions are from employee-provided plans and thus are a form of compensation. Taxing some forms of compensation, but not others, is not fair to those whose compensation is paid exclusively or primarily in taxable forms of income.

- Evidence from the department's 2004 tax incidence study suggests that exempting $20,000 of pension income in 2001 would have created significant horizontal inequity in the tax structure. Non-elderly households with income greater than $28,000 would have paid a higher share of their income in total taxes than elderly households of the same income level. The difference in tax burdens widens with income, such that non-elderly households with income greater than $69,500 would have paid 11.8% of their income in total state and local taxes whereas elderly households would have paid between 10.1% and 10.6% of their income in taxes.

Economic Development

- The proposed exemption may encourage some elderly persons to stay in Wisconsin rather than move to other states, or encourage elderly persons from other states to move here. However, elderly persons consider a wide variety of factors when making residence decisions, such as the location of family and friends, climate, and the availability and quality of health services. It is not evident that an exemption for pensions would have a significant impact on the number of elderly in the state's population.

- Wisconsin's neighbors generally tax less pension income than Wisconsin, but net migration of the elderly out of Wisconsin is lower than in those states: for the 1995-2000 period, -5.6 per 1,000 for Wisconsin compared to -28.1 per 1,000 for Illinois, which had a full exemption for pensions in 2000, -17.7 per 1,000 in Michigan, which fully exempted government pensions and exempted the first $39,200 of private pensions in 2000, and -10.3 in Minnesota and -11.2 in Iowa, which has partial pensions exemptions.

- If all pensions are exempt, the burden of financing public services will shift to other sources of income, notably wages, potentially discouraging 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

- This bill would decrease state revenues between $23 million and $36 million for fiscal year 2006, according to a simulation using our 2003 individual income tax model. A range, rather than a specific amount, is estimated because it is not possible to tell from information reported on tax returns whether one or both spouses receive pension distributions when a couple reports such income. If it is assumed one spouse receives all the pension income, the revenue loss would be $23 million; if both spouses receive pensions, the loss would be $36 million.

- Performing similar simulations for fiscal years 2007-2010 allowing for the annual increase in the maximum allowable exemption, results in a decrease in state income tax revenues of $73 million to $111 million in 2007, $126 million to $181 million in 2008, $180 million to $245 million in 2009, and $221 million to $284 million annually in 2010 and thereafter.

- The language under Section 1 of the bill may need to be clarified as it is not clear whether the reference to retirement plans includes all payments from nonqualified deferred compensation plans.

- Section 71.05(6)(b)4 is amended to limit the disability income exclusion when payments are exempt under sub. (1)(ae). This should also refer to paragraphs (am) and (an). The author may also wish to specify that secs. 71.05(6)(b)4 and 71.83(1)(a)6 first apply to tax years beginning after December 31, 2005.

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

April 13, 2005

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FORWARD
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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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WISCONSIN STATE LEGISLATURE

CAROL OWENS
WISCONSIN STATE REPRESENTATIVE
Chair: Family Law Committee

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MEMORANDUM

To: Senate Committee on Job Creation, Economic Development and Consumer Affairs

From: Representative Carol Owens

Date: April 19, 2005

Re: Senate Bill 30

This memo serves to inform you of my support for Senate Bill 30, relating to exemption of pension and retirement income from state taxes. I apologize for not testifying in person on behalf of SB 30, as I have a scheduling conflict that has required my presence at another committee hearing.

I have introduced a companion bill, Assembly Bill 74, to Senate Bill 30. AB 74 had a public hearing before the Assembly Ways and Means Committee on March 30th. Senator Kedzie has led the fight for seniors in this state when he first introduced this legislation in 2001, while he was serving in the Assembly. It was then I was contacted by a constituent of mine who supported this legislation. This gentleman had just moved to Wisconsin from Illinois, where pensions are not taxed. In speaking with him recently, he indicated that with the rising costs of health insurance, property taxes, along with the taxation of his retirement pension, he and his wife are giving great consideration to moving out of Wisconsin.

This is just one of many stories we hear from seniors in our state who are having difficulty in paying for their prescription drugs and other necessities. That's where we, as legislators, need to work together to ease the tax burden for our senior citizens and retirees who need every cent of their hard-earned income.

Under our proposals, beginning with tax year 2006, a portion of an individual's pension or retirement income would be tax-free, increasing from $2500 in 2006 to $20,000 in 2010 and subsequent years thereafter. The exemption under our bills relates to all qualified pension, profit-sharing and stock bonus plans under the Internal Revenue Code (IRC), deferred compensation plans offered by state and local governments and tax-exempt organizations under the IRC, self-employed plans, tax-sheltered annuities, plans that are not qualified under the IRC, and individual retirement accounts.

At the request of the Department of Revenue, Senator Kedzie and I have introduced Substitute Amendments to our bills to clarify that this applies only to federally-recognized deferred compensation plans.

If you question the need of this legislation, I would refer you to look at Informational Paper 4 from the Legislative Fiscal Bureau, relating to ***Individual Income Tax Provisions in the States***. By doing so, you will note that Wisconsin is one of seven states that does not provide for state tax exclusion for pension and retirement income. The only exemption that applies to state taxes is that of federal military retirement.

Thank you Chairman Kanavas and committee members for your consideration of Senate Bill 30. As I previously mentioned, I believe this bill is important in working towards providing some relief to the tax burden that our senior citizens and retirees are feeling in this state.


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Wisconsin Retired Educators' Association

Your voice. Your choice.

11,000 members

Testimony of
THE WISCONSIN RETIRED EDUCATORS' ASSOCIATION (WREA)
Marshall Frillici, WREA Legislative Co-chair
Senate Job Creation, Economic Development and Consumer Affairs
Tuesday, April 19, 2005 1:00 p.m., 330-SW

RE: Support of SB 30–Tax exemption for retirement plan income

My name is Marshall Frillici, and I serve as the legislative co-chair for the Wisconsin Retired Educators' Association (WREA). WREA represents over 11,000 members, and our mission is first and foremost to protect the Wisconsin public pension fund and the Wisconsin Retirement System (WRS). Retirees getting a pension from the WRS now-a-days jump up with joy when they receive a 1.4% dividend increase. A small amount on average, indeed, but nevertheless, very much needed. We also support legislation that will enhance the financial position of all retirees which SB 30, and its companion bill AB 74, will accomplish.

WREA supports SB 30 because it will provide retirees with an ability to keep more of their retirement dollars to assist them in paying for their ever-increasing health care, prescription drugs, and property tax costs. An exemption from paying a state income tax on their pensions will provide them with the additional dollars for these important needs.

We believe SB 30 will positively affect a retiree's decision to remain in Wisconsin rather than leave the state for a tax-free heaven the likes of Florida, Nevada, Hawaii, Washington State, Texas, Wyoming, Louisiana, Tennessee, Mississippi, Illinois, Pennsylvania, South Dakota or Michigan. These states are called ***tax heavens*** because they do not tax one's federal, state, local pension or Social Security. That is a substantial savings to many, not to mention the improved weather conditions in some of the states listed.

In a review of data from books entitled *Where to Retire: America's Best and Most Affordable Places* by John Howells and *America's Best Low-Tax Retirement Towns* by Eve Evans and Richard Fox and a report from the National Conference of State Legislatures, I found the following:

a. Some states have a sliding or progressive scale of tax exemptions of varied amounts of one's pension total. Some examples include Arizona, New Mexico, Utah, South Carolina, and Oregon.

b. There also exist states that tax pensions, but DON'T tax a retiree's Social Security. Some examples include California, Oregon, Arizona, Virginia, Louisiana, and Kentucky, as well as those noted previously. Twenty-six (26) states with income tax provide a full tax exemption for Social Security.

c. There are some states that tax Social Security, but exempt a specified type, group, or amount of one's pension from tax. Some examples include Colorado, Iowa, Wisconsin (rule of 64), North Dakota, Missouri, Montana, New York, and West Virginia. Thirty-four (34) states offer such an exemption.

d. No state collects income taxes on Railroad Retirement income.

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email: wrea@wrea.net • www.wrea.net

I have been retired for six (6) years and my wife for three (3). We are very careful how we spend our money. Following a completion of our taxes for year 2004, we find that we are paying about 5% more from our income in Wisconsin state income tax than we would, say, if we lived in the states of Illinois or Michigan which would not tax our pensions or Social Security.

My wife and I are not financially well off nor are we headed for the poor house, but with our pensions facing a state income tax and our property taxes increasing at a greater percentage than our pension dividends, I must say the thought of living in a more tax friendly state has crossed our minds.

WREA thanks the Legislature and Governor Doyle for supporting 2004 Act 55 which allowed the Department of Employee Trust Funds (ETF) to grant retirees a 1.4% dividend increase in their Fixed Fund pensions last year, following one year of ZERO dividend increase.

Attached is a document prepared by the National Conference of State Legislatures entitled *State Personal Income Taxes on Pensions and Retirement Income: Tax Year 2003.* It includes useful and interesting information.

I will close with this quote from that report by the National Conference of State Legislatures: "States that provide relatively high tax exclusions for all taxpayers in an age group presumably are also acting to attract retired people to the state, or keep retired residents from moving to another state with a tax regimen more favorable to them."

WREA supports SB 30, and we hope this committee and the Legislature will support it and pass it.

Thank you.

Mfdp
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04/12/2005

NATIONAL CONFERENCE of STATE LEGISLATURES

State Personal Income Taxes on Pensions and Retirement Income: Tax Year 2003

Posted 18 September 2003

Most states that levy a personal income tax allow people who receive retirement income to exclude part of it from their taxable income. The table that accompanies this introduction provides state-by-state detail. "Retirement income" means income from federal, state and local governments' retirement plans, Social Security, Railroad Retirement, private pension plans, and deferred compensation plans in the public and private sectors. "Retirement income" excludes income from current employment, rents and dividends, disability payments and SSI. This report does not address personal exemptions or deductions that are available to every filer over some specified age, like the federal provision for a larger standard deduction for people who are 65 years old or older than for those under 65.

State governments provide various tax benefits for senior citizens besides age-determined income tax exclusions. Those are reported in detail in NCSL's publication *State Tax Policy and Senior Citizens* (second edition, Denver, Colo., 1994). The AARP annual publication *State Economic, Demographic & Fiscal Handbook* also provides data on state tax breaks for senior citizens (Washington, D. C. AARP Public Policy Institute, 2000 and other years).

State policies on retirement income exclusions vary greatly, but have one or both of two purposes: to protect the income of taxpayers who are no longer in the workforce, and to serve as an economic development tool by attracting retired people to, or retaining them in, a state. Such tax provisions seem to have originated years ago as a means of assisting retired public employees who received relatively small pensions. Because public pension benefits have improved to match or exceed those in the private sector, the justification for favored tax status for government retirees has weakened. Many states have made age, not former employment in the public sector, the criterion for a retirement income exclusions.

Retirement exclusions and general tax policy

States are generally free from federal control in deciding how to tax pensions, but some limits apply. State tax policy cannot discriminate against federal civil service pensions, according to the U.S. Supreme Court decision in *Davis v. Michigan* (1989), which ended the once common practice of more favorable state tax treatment for state pensions than for federal civil service pensions. In 1992 the U.S. Supreme Court further ruled, in *Barker v. Kansas*, that states cannot tax U.S. military pensions if they exempt state pensions from taxation. Over time, as the table demonstrates, these rulings have produced substantial conformity in the way each state taxes the three kinds of pensions, although differential treatment persists in Indiana and New Jersey.

There is no federal impediment to a different state tax policy for public and private pensions, and, as the table indicates, most states provide less favorable tax treatment for private pension income than for public pensions and Social Security retirement benefits.

Retirement income exclusions can be criticized for violating the rule of horizontal equity, which is that taxpayers in similar economic circumstances should be treated similarly. Income exclusions designated for an age group violate horizontal equity by benefiting taxpayers on the basis of age instead of the amount of income. Some states partially address this criticism by limiting retirement income exclusions to lower-income taxpayers, thus indicating that their tax provisions are primarily designed to protect the low-income elderly. States that provide relatively high tax exclusions for all taxpayers in an age group presumably are also acting to attract retired people to the state, or to keep retired residents from moving to another state with a tax regimen more favorable to them.

Prevalence of retirement income exclusions

Of the 50 states, seven--Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming--do not levy a personal income tax. New Hampshire and Tennessee collect income tax only on interest and dividend income. The District of Columbia and 41 states levy a broad-based personal income tax.

Among the 41 states with a broad-based income tax, 34 offer exclusions for some amount of specifically identified type of pension income, a broad income exclusion or a tax credit targeted at the elderly. The District of Columbia provides a public pension exclusion. The seven states that do not do so are California, Connecticut, Indiana, Nebraska, Rhode Island, Vermont and Wisconsin (although previous tax exclusions remain in effect in Wisconsin for certain taxpayers and in 2001 Wisconsin excluded federal military retirement benefits from state taxes). Some of those seven states partially or fully exclude Social Security income from state taxation, and no state collects income taxes on Railroad Retirement income.

Limited retirement income exclusions

States take two broad approaches to excluding retirement income from taxation. Some states provide a specific amount of exclusion according to the type of retirement income. For example, Arizona allows the exclusion of $2,500 of state or local government retirement income, federal pension income and military pension income; full exclusion for Social Security income; and no exclusion for private-sector pension income. This model was more prevalent in the past than now. It allowed states to provide a greater exclusion for state and local benefits than for federal civil service benefits, until *Davis v Michigan* prohibited that in 1989. Attaching income exclusions to retirement income according to its source is now relatively rare among the states (except with reference to private-sector pension or deferred compensation benefits), but it continues to be the practice in the District of Columbia, Indiana, New Jersey and North Dakota as well as Arizona.

The more usual practice is for states to provide a retirement income exclusion that taxpayers over a specified age, usually 65, can apply to retirement income. Usually the exclusion is applicable to public sector benefits, Social Security and only some private sector benefits, but sometimes it is applicable to all income. In a number of states, Social Security is subject to a separate exclusion. Virginia, for example, allows an income exclusion of $6,000 for taxpayers under 65 and $12,000 per taxpayer applicable to income from any source for people over 65. In addition, Social Security income is fully exempt. Colorado has a different practice: it allows an exclusion of $24,000 per tax return for filers over 65, regardless of the source of income, and includes Social Security benefits in the base on which the exclusion is determined.

In addition to those in Colorado and Virginia, exclusions of this sort exist in Arkansas, Delaware, Georgia, Idaho, Iowa, Kentucky, Maine, Maryland, Minnesota, Missouri, Montana, New Jersey, New Mexico, North Carolina, Oklahoma, South Carolina, Utah and West Virginia. The amount of the exclusion varies from $2,000 in West Virginia to $36,414 in Kentucky.

Social Security retirement benefit exclusions

Most states exclude Social Security retirement benefits from state income taxes. As the table indicates, the District of Columbia and 26 states with income taxes provide a full exclusion for Social Security benefits--Alabama, Arizona, Arkansas, California, Delaware, Georgia, Hawaii, Idaho, Illinois, Indiana, Louisiana, Maine, Maryland, Massachusetts, Missouri, Mississippi, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Virginia, and West Virginia.

The remaining 15 states with broad-based income taxes tax Social Security to some extent:

- Kansas, Minnesota, Missouri, Nebraska, North Dakota, Rhode Island and Vermont tax Social Security income to the extent it is taxed by the federal government.
- Connecticut, Iowa, Montana and Wisconsin tax Social Security income above a income floor.
- Colorado, Kentucky, New Mexico and Utah require that federally untaxed Social Security benefits be added back to federal AGI to calculate the base against which their broad age-determined income exclusions apply.

Full and nearly full pension income exclusions

Ten states exclude all federal, state and local pension income from taxation--Alabama, Hawaii, Illinois, Kansas, Louisiana, Massachusetts, Michigan, Mississippi, New York and Pennsylvania. Among these 10 states, only Kansas taxes any Social Security income, but only to the extent it is subject to federal taxation.

These 10 states differ on the taxation of retirement income from private-sector sources. Kansas and Massachusetts do not exclude any private-sector retirement income, but most of the others allow a fairly broad exclusion:

- Pennsylvania allows a full exclusion.
- Alabama excludes income from defined benefit plans.
- Hawaii excludes income from contributory plans.
- Illinois and Mississippi exclude income from qualified retirement plans.
- Louisiana, Michigan and New York cap the private-sector exclusion at $6,000, $34,920 and $20,000, respectively.

Sources:

Instructions for state income tax returns for tax year 2000, 2001, 2002..

State of Connecticut, Commissioner of Revenue Services, "Study of the Taxation of Federal Pensions" (Hartford, 2000).

David Baer, *State Economic, Demographic and Fiscal Handbook 2000* (Washington, D. C. AARP Public Policy Institute, 2000).

National Conference of State Legislatures (NCSL), *State Tax Actions, 2001* (Denver, unpublished preliminary draft, January 2002).

NCSL, *State Tax Actions, 2002* (Denver, 2002).

NCSL, *State Tax Actions, 2003* (Denver, unpublished draft, August 2003)

Faith Russell, *Individual Income Tax Provisions in the States, 2001*, (State of Wisconsin, Legislative Fiscal Bureau, January 2003), Table 2: State Tax Exclusion for Pension/Retirement Income.(Tax Year 2001).

State Personal Income Taxes On Retirement Income: Tax Year 2003

* indicates note at end of table

State	State/Local Pension Exclusion	Federal Civil Service Pension Exclusion	Military Pension Exclusion	Social Security/ Railroad Retirement	Private Pension Exclusion
Alabama	Full	Full	Full	Full	Income from defined benefit plans
Alaska	No PIT				
Arizona	$2,500	$2,500	$2,500	Full	None
Arkansas*	$6,000	$6,000	$6,000	Full	$6,000,

					including IRA distributions after age 591/2
California	None	None	None	Full	None
Colorado*	65 +, $24,000 55-65, $20,000	65 +, $24,000 55-65, $20,000	65 +, $24,000 55-65, $20,000	65 +, $24,000 55-65, $20,000	65 +, $24,000 55-65, $20,000
Connecticut	None	None	None	SS is taxed above an income threshold; RR: Full	None
Delaware*	60+, $12,500 under 60, $2,000	60+, $12,500 under 60, $2,000	60+, $12,500 under 60, $2,000	Full	60+, $12,500 under 60, $2,000
D.C.	62+, $3,000	62+, $3,000	62+, $3,000	Full	None
Florida	No PIT				
Georgia*	62+, $15,000	62+, $15,000	62+, $15,000	Full	62+, $15,000
Hawaii	Full	Full	Full	Full	Full for contributory plans
Idaho (for tax year 2002)	65+, 62+ if disabled: $19,920 filing singly/$29,880 filing jointly, (minus SS/RR benefits) limited to certain public safety officers' benefits	65+, 62+ if disabled: $19,920 filing singly/ $29,880 filing jointly, (minus SS/RR benefits)	65+, 62+ if disabled: $19,920 filing singly/ $29,880 filing jointly, (minus SS/RR benefits)	Full	None
Illinois	Full	Full	Full	Full	Full for qualified retirement plans
Indiana*	None	62+:$2,000 less SS benefits	None	Full	None
Iowa* (for tax year 2002)	55+: $6,000 single, $12,000 joint	55+: $6,000 single, $12,000 joint	55+: $6,000 single, $12,000 joint	50% of SS benefits taxable above	55+: $6,000 single, $12,000 joint

				an income floor; RR: Full	
Kansas	Full	Full	Full	SS taxable to extent federally taxed; RR: Full	None
Kentucky*	$36,414 per taxpayer for credits earned before 12/31/97; prorated for later credits	$36,414 per taxpayer for credits earned before 12/31/97; prorated for later credits	$36,414 per taxpayer for credits earned before 12/31/97; prorated for later credits	Full exemption, subject to income exclusion cap of $36,414	$36,414 per taxpayer for credits earned before 12/31/97; prorated for later credits
Louisiana	Full	Full	Full	Full	65+: $6,000 single, $12,000 joint
Maine*	$6,000 per taxpayer minus SS/RR benefits	$6,000 per taxpayer minus SS/RR benefits	$6,000 per taxpayer minus SS/RR benefits	Full	$6,000 exclusion applies to 401 (a), 403, 457(b) plans
Maryland* (for tax year 2002)	65+: $18,500 per income recipient minus SS/RR benefits	65+: $18,500 per income recipient minus SS/RR benefits	65+: $18,500 per income recipient minus SS/RR benefits	Full	65+: $18,500 per income recipient minus SS/RR benefits
Massachusetts	Full	Full	Full	Full	None
Michigan	Full	Full	Full	Full	$34,920 single, $69,840 joint, minus public retirement benefits
Minnesota*	65+, $14,500 single, $18,000 joint	65+, $14,500 single, $18,000 joint	65+, $14,500 single, $18,000 joint	SS taxable to extent federally taxed; RR: Full	65+, $14,500 single, $18,000 joint
Mississippi	Full	Full	Full	Full	Full for qualified plans
Missouri*	$6,000 single,	$6,000 single,	$6,000 single,	SS taxable to	$4,000 (counted

	$12,000 joint, reduced by amount total income exceeds certain limits	$12,000 joint, reduced by amount total income exceeds certain limits	$12,000 joint, reduced by amount total income exceeds certain limits	extent federally taxed; RR: Full	toward the $6,000 cap if applicable)
Montana*	Up to $3,600 for filers whose AGI is less than $30,000	Up to $3,600 for filers whose AGI is less than $30,000	Up to $3,600 for filers whose AGI is less than $30,000	SS is taxable for taxpayers whose income including SS exceeds $25,000 single, $32,000 joint. RR: Full	Up to $3,600 for filers whose AGI is less than $30,000
Nebraska	None	None	None	SS taxable to extent federally taxed; RR: Full	None
Nevada	No PIT				
New Hampshire	Limited PIT				
New Jersey*	62+: $15,000 single, $20,000 joint	62+: $15,000 single, $20,000 joint	Full	Full	62+: $15,000 single, $20,000 joint
New Mexico	65+: $8,000 single, $16,000 filing jointly, phased out at higher incomes.	65+: $8,000 single, $16,000 filing jointly, phased out at higher incomes.	65+: $8,000 single, $16,000 filing jointly, phased out at higher incomes.	Social Security counts toward general exclusion; RR: Full	65+: $8,000 single, $16,000 filing jointly, phased out at higher incomes.
New York	Full	Full	Full	Full	$20,000
North Carolina*	$4,000 single; $8,000 filing jointly	$4,000 single; $8,000 filing jointly	$4,000 single; $8,000 filing jointly	Full	$2,000 single; $4,000 filing jointly
North Dakota	$5,000 minus any SS benefit; limited to certain public safety retirement system members	$5,000 minus any SS benefit	$5,000 minus any SS benefit	SS taxable to extent federally taxed; RR: Full	None

Ohio*	Certain tax credits apply; see note	Certain tax credits apply; see note	Certain tax credits apply; see note	Full	See note
Oklahoma*	$5,500	$5,500	$5,500	Full	$4,400 applicable to 401, 457, 408, 403(a), 403(b) and lump-sum distributions, see note
Oregon*	Tax credit of up to 9% of taxable pension income	Tax credit of up to 9% of taxable pension income	Tax credit of up to 9% of taxable pension income	Full	Tax credit of up to 9% of taxable pension income
Pennsylvania	Full	Full	Full	Full	Full
Rhode Island	None	None	None	SS taxable to extent federally taxed; RR: Full	None
South Carolina*	Under 65: $3,000; over 65: $10.000; see note	Under 65: $3,000; over 65: $10.000; see note	Under 65: $3,000; over 65: $10,000; see note	Full	Under 65: $3,000; over 65: $10.000; see note
South Dakota	No PIT				
Tennessee*	Limited PIT: See note				
Texas	No PIT				
Utah*	65+: $7,500; $15,000 filing jointly; under 65: $4,800 single, $9,600 filing jointly.	65+: $7,500; $15,000 filing jointly; under 65: $4,800 single, $9,600 filing jointly.	65+: $7,500; $15,000 filing jointly; under 65: $4,800 single, $9,600 filing jointly.	RR: Full ; SS: 65+: $7,500; $15,000 filing jointly; under 65: $4,800 single, $9,600 filing jointly.	65+: $7,500; $15,000 filing jointly; under 65: $4,800 single, $9,600 filing jointly.
Vermont	None	None	None	SS taxable to extent federally taxed; RR: Full	None

Virginia*	62 -64 $6,000 per taxpayer; 65 and older, $12,000 per taxpayer	62 -64 $6,000 per taxpayer; 65 and older, $12,000 per taxpayer	62 -64 $6,000 per taxpayer; 65 and older, $12,000 per taxpayer	Full	62 -64 $6,000 per taxpayer; 65 and older, $12,000 per taxpayer
Washington	No PIT				
West Virginia*	Income from public safety pension systems is excluded; for others, $2,000	$2,000	$2,000 + amount based on years of service; see note	Full	None; see note
Wisconsin*	None; see note	None	Exempt	SS: up to 50% exempt; RR: Full	None
Wyoming	No PIT				
SS = Social Security, RR = Railroad Retirement, PIT = Personal Income Tax					

Notes:

Arkansas: Amount indicated is a retirement income exclusion; the total exclusion may not be more than $6,000 from all exempt sources other than SS/RR retirement income.

Colorado: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than indicated from all exempt sources. However, SS/RR retirement income not taxed by the federal government is not added back to AGI for state income tax purposes.

Delaware: Amounts indicated are a retirement income exclusion per taxpayer; the total exclusion may not be more than shown from all exempt sources other than SS/RR retirement income.

Georgia: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than shown from all exempt sources other than SS/RR retirement income. $4,000 of the amount can be earned income. The exclusion will rise to $55,000 for tax year 2006 and to $65,000 in 2007 (HB 492, 2003).

Indiana: Taxpayers over 65 may be entitled to a tax credit ranging from $40 to $100, depending on federal adjusted gross income.

Iowa: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than indicated from all exempt sources. Social Security income is not calculated as part of the exclusion.

Kentucky: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than indicated from all exempt sources.

Maine: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than indicated from all exempt sources.

Maryland: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than indicated from all exempt sources.

Minnesota: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than indicated from all exempt sources. In addition, the amount of the exclusion may be reduced depending on filing status and receipt of untaxed SS/RR benefits. Exclusion is subject to an income cap-a federal adjusted gross income of $33,700 for single filers and $42,000 for joint filers.

Missouri: Amounts indicated are a government and private sector exclusion (not applicable to Social Security); the total exclusion may not be more than indicated from all exempt sources. The incomes caps are $25,000 single, $32,000 married filing jointly. :

Montana: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than indicated from all exempt sources.

New Jersey: Taxpayers over 62 are entitled to an additional income exclusion to allow them to reach the amount of the pension exclusion. The sum of the pension exclusion and the additional exclusion may exceed the pension exclusion if the recipient is ineligible to receive Social Security retirement payments. New Jersey Statutes 54A-6-15.

New Mexico: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than indicated from all exempt sources. The exclusion is fully phased out for incomes that exceed $51,000.

North Carolina: Amounts indicated are a retirement income exclusion; the total exclusion may not be more $4,000 single/$8,000 filing jointly from all exempt sources.

Ohio: A retirement income tax credit of as much as $200 is allowed, depending on income. A senior citizen tax credit of $25 per tax return is allowed to filers of 65 or older. A one-time tax credit is available for lump-sum distributions to people over 65: $50 multiplied by remaining life expectancy.

Oklahoma: The private pension exclusion is available only to single filers reporting less than $25,000 income / $50,000 joint.

Oregon: Tax credit of up to 9 percent of taxable pension income is available to recipients of pension income, including most private pension income, whose household income was less than $22,500 for single filers and $45,000 for married filing jointly and who received less than $7,500/$15,000 in SS or RR benefits. The credit is the lesser of tax liability or 9 percent of taxable pension income.

South Carolina: Each taxpayer over 65 is entitled to an income exemption of as much as $15,000 ($30,000, married filing jointly) less the retirement income exemption claimed.

Tennessee: State income tax applies only to dividend and interest income. Persons 65 and older may exclude $16,200 single, $27,000 married filing jointly.

Utah: Each taxpayer over 65 is entitled to an income exemption of $7,500 ($15,000 married filing jointly) reduced by 50 percent of federal AGI, plus 50 percent of any lump-sum distribution reported as federal income, plus federal tax-exempt income in excess of $25,000 for a single filer or $32,000 married filing jointly. For taxpayers under 65, the exemption caps for qualifying retirement income are $4,800 single and $9,600 married filing jointly.

Virginia: Amounts indicated are a retirement income exclusion; the total exclusion may not be more than indicated. The exclusion applies to all income.

West Virginia: Each taxpayer over 65 can claim an $8,000 exemption, from which the pension exclusions noted in the table must be deducted. For tax year 2001 and following years, military retirees may add to the $2,000 exclusion an amount equal to 2% of the retiree's pension or $30,000, whichever is less, times years of service. West Virginia also created an income exclusion to benefit persons who retired under private sector defined benefit plans that have failed to provide benefits as originally scheduled, with the amount of the benefit based upon the loss of potential income.

Wisconsin: State and local pensions and federal civilian and military pension income exemptions exist for those who retired before January 1, 1964 or who receive a pension benefit from an account established before that date. A military retirement pension benefit enacted in 2001 will become effective on January 1, 2002.

See .

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