Kansas Action for Children

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Emily Fetsch, Director of Fiscal Policy
Kansas Action for Children
Verbal Testimony in Opposition to SB 33
House Committee on Taxation

Chairperson Smith and members of the Committee:

Thank you for the opportunity to provide testimony in opposition to SB 33. Kansas Action for Children is a nonprofit advocacy organization working to make Kansas a place where every child has the opportunity to grow up healthy and thrive. We work across the political spectrum to improve the lives of Kansas children through bipartisan advocacy, partnership, and information-sharing on key issues, including early learning and education, health, and economic security for families.

We oppose SB 33 because Kansas already has a targeted policy that limits the exemption of Social Security income to lower-income seniors. Expanding these benefits would decrease state funding for programs that benefit seniors and other Kansans, while doing nothing to stimulate economic growth. While the bill has other components, our testimony will focus on the social security and retirement income taxation components.

Kansas Seniors Already Receive Tax Benefits

Social Security was not taxed at the federal or state level until 1983, when President Reagan signed legislation to tax Social Security benefits for higher-income households. Nationally, 40 percent of people receiving Social Security benefits pay income taxes.[i]

Several current tax benefits for Kansas seniors are targeted by income, being intentional about helping those who need the most help meeting their needs.

- **Standard deduction:** An additional $700-$850 can be claimed if you are 65 years or older (depending on filing status).[ii]
- **Social Security income exemption:** For those with less than $75,000 in federal adjusted gross income, their Social Security benefits are exempt from taxation.
- **Golden Years Homestead Property Tax Freeze Program:** A property tax circuit breaker refund program that has a maximum refund amount of $2,500 on property taxes paid. To qualify, the taxpayer must:
    - Be 65 years of age or older (or be a disabled veteran);

- Have a household income of less than $50,000, which will be annually adjusted according to the federal cost of living;
- Own a qualifying residential homestead property less than $350,000 in value; and
- Not claim the existing Homestead Property Tax Refund or Selective Assistance for Effective Senior Relief Refund.

In addition, there are federal tax breaks for senior taxpayers, including a partial exemption for Social Security benefits and a larger standard deduction.

More Tax Breaks Do Not Equal Less Outward Migration

Research has shown retirement tax breaks do not prevent outward migration, which is minimal among seniors. In recent years, across the nation, there have been many tax policy changes related to seniors. Despite these changes, out-of-state migration among seniors has remained stable and consistent with previous data.[iii] While many proponents for these exemptions are motivated by their belief it will keep seniors in or attract seniors to their state – thereby helping the state economy – research finds this is not the case.

State tax policy has "only a small effect, if any, on the residence decisions of the elderly, recent studies have found. On the whole, after their working years, residents move from a state to retire in warmer areas or in locales with lower housing costs." [iv] With research showing that these tax changes do not impact migration (which is already low among the senior population), lawmakers cannot "justify offering state tax breaks to the elderly as an effective way to attract and retain the elderly."[v]

Kansas does not have a shrinking senior population. In fact, it is the age group that is seeing the most growth. By 2030, it is estimated that one in five (19 percent) Kansans will be over 65.[vi] Tax breaks that fail to target lower-income Kansas seniors, coupled with these demographic trends, could prove to be unaffordable in the long term.[vii]

Targeted Breaks Are the Way to Go

Lower-income Kansas seniors' Social Security benefits are currently exempt from taxation. **Any policy change that would exempt all Social Security and retirement income for all Kansas seniors will drain the state budget while providing tax breaks for those who don't need it.**

Poverty rates among seniors used to be much higher in previous decades. But due to social reforms, the number of seniors experiencing poverty has decreased substantially. In fact, Kansas Baby Boomers experiencing poverty (9 percent) is much lower than Kansas children under of age of 10 (15 percent).[viii]

There is disproportionate access to retirement benefits in today's workforce, with higher wage or salaried Kansas workers being more likely to receive more retirement income (as well as having their higher salaries lead to higher Social Security benefits). This means exempting benefits of higher-income Kansas seniors will cost the state more money to provide tax benefits to these retirees with higher retirement income.

Exempting Social Security and Retirement Income Would Be Expensive

Expanding the exemption of Social Security and retirement income will reduce incoming state revenue while benefiting higher-income Kansas seniors. In 2017, it was estimated that Kansas lost $130 million in revenue from senior tax breaks. [ix] Since then, there have been additional policy changes, like the Golden Years Homestead Property Tax Freeze Program.

Exempting all social security and retirement income would overwhelmingly benefit the highest-income Kansans. The bottom 20 percent would see an average tax change of just $1, while the top 1 percent would receive an average tax cut of more than $1,000. Almost half (48 percent) of this tax cut would go to families with incomes above $200,000 per year, despite the fact that they make up less than 10 percent of families in the state. That equals a $187 million annual windfall for a small group of Kansans that already have no trouble making ends meet.

The SB 33 fiscal note estimates a loss of revenue of roughly $450 million in FY 2025 and FY 2026, with the majority of the cost being due to the retirement income component.

Further tax breaks for Kansas seniors will be costly, reduce State General Fund revenue, and make it harder for Kansas to strengthen infrastructure, maintain public safety, and fund human services – for seniors and the rest of Kansas.

Kansas seniors are a vital part of the state population, and it is important they are economically secure and feel supported by the state. **However, expanding the exemption of Social Security and retirement benefits will prioritize the wealthiest Kansas seniors.** This legislation will not curb migration among seniors, bolster economic growth, or help Kansas seniors most in need. Instead, it will decrease revenue needed to help lower-income seniors and the programs that assist them.

Because of these reasons, Kansas Action for Children opposes SB 33. Thank you for the opportunity to share information with you today. Feel free to reach me if you have any questions at emily@kac.org.

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[i] Kansas Legislative Research Department. (November 2021). *Income Taxation of Social Security Benefits and Retirement Income*, Special Committee on Taxation Testimony. http://www.kslegislature.org/li/b2021_22/committees/ctte_spc_2021_taxation_1/documents/testimony/20211130_01.pdf

[ii] Kansas Department of Revenue. (n.d.). *Frequently Asked Questions about Individual Income.* https://www.ksrevenue.gov/faqs-taxii.html

[iii] Conway, Karen Smith, and Rork, Jonathan C. (June 2012). *No Country for Old Men (Or Women)-Do State Tax Policies Drive Away the Elderly?* National Tax Journal. https://www.journals.uchicago.edu/doi/10.17310/ntj.2012.2.03

[iv] McNichol, Elizabeth (June 2019). *States Should Target Senior Tax Breaks Only to Those Who Need Them, Free up Funds for Investments.* Center on Budget and Policy Priorities. https://www.cbpp.org/research/state-budget-and-tax/states-should-target-senior-tax-breaks-only-to-those-who-need-them

[v] Conway, Karen Smith, and Rork, Jonathan C. (June 2012). *No Country for Old Men (Or Women)-Do State Tax Policies Drive Away the Elderly?* National Tax Journal. https://www.journals.uchicago.edu/doi/10.17310/ntj.2012.2.03

[vi] McNichol, Elizabeth. (June 2019). *States Should Target Senior Tax Breaks Only to Those Who Need Them, Free up Funds for Investments.* Center on Budget and Policy Priorities. https://www.cbpp.org/research/state-budget-and-tax/states-should-target-senior-tax-breaks-only-to-those-who-need-them

[vii] Institute on Taxation and Economic Policy. (November 2016). *State Tax Preferences for Elderly Taxpayers.* https://itep.org/state-tax-preferences-for-elderly-taxpayers/#:~:text=A%20larger%20standard%20deduction%3A%20All,also%20receive%20an%20extra%20deduction.

[viii] Population Reference Bureau analysis of data from the U.S. Census Bureau, 2010 through 2019, 2021 American Community Survey Public Use Microdata Sample.

[ix] McNichol, Elizabeth. (June 2019). *States Should Target Senior Tax Breaks Only to Those Who Need Them, Free up Funds for Investments.* Center on Budget and Policy Priorities. https://www.cbpp.org/research/state-budget-and-tax/states-should-target-senior-tax-breaks-only-to-those-who-need-them