

# Social Security

## RECOMMENDATION:

Do not increase the tax exemption for Social Security benefits.

## OVERVIEW

While several measures have been proposed to increase Nebraska's tax exemption for Social Security benefits, most Social Security income already is exempt from state income taxes. As a result of legislation passed in 2014, Nebraskans with adjusted gross income less than \$58,000 (married filing jointly) and \$43,000 for all other returns pay no state income tax on their Social Security income.<sup>1</sup> Income tax is paid on only 27 percent of Social Security benefits provided to Nebraskans with incomes less than \$75,000.<sup>2</sup> No more than 85 percent of Social Security income is taxable regardless of income level, according to federal law.

## EXEMPTION WOULD BE INCREASINGLY COSTLY TO THE STATE

Exempting more Social Security income would come at a substantial cost to the state. A 2018 proposal to exempt more Social Security income from taxation was estimated to reduce state revenue by about \$100 million in FY19-20 if implemented.<sup>3</sup> The cost of this exemption would grow over time as our population ages. University of Nebraska Omaha data show the number of Nebraskans aged 65 and older is projected to increase by more than 90 percent from 2010 to 2050, while the percentage of Nebraskans aged 18 to 64 will grow by only 12 percent.<sup>4</sup> Consequently, the revenue loss from exempting Social Security will grow significantly while the number of seniors increasingly outweighs the number of Nebraskans in the workforce supporting them. This scenario will impede Nebraska's ability to invest in services that are important to seniors such as health care.

## SOME STATES PULLING BACK ON SOCIAL SECURITY EXEMPTIONS

The 2013 Tax Modernization Committee report notes, "many states that have exempted retirement income have been and will continue to pull back from this exemption due to demographic changes in their populations. Demographic analysis indicates that the growing population of retired

## Wage earners would not benefit from exemption

Individuals who earn wage income, including seniors, would see no benefit from the exemption of more Social Security Income. Yet, as the cost of this exemption increases, LB 824 will ultimately shift the tax burden to working Nebraska taxpayers to pay for vital services provided by the state.

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taxpayers and their exempt retirement income will put increasingly difficult pressure on state budgets to maintain such exemptions.”

### EXEMPTION WOULD NOT ATTRACT SENIORS TO NEBRASKA

Research fails to find any connection between where the elderly move and taxes. A June 2012 paper published in the National Tax Journal finds that state-to-state movement among the elderly was quite stable from 1970 to 2000 despite changes in state tax laws favoring the elderly. In other words, “state tax policies towards the elderly have changed substantially while elderly migration patterns have not.”<sup>5</sup>

### CONCLUSION

Exempting more Social Security income would deplete the state of revenue needed to support health care and other services that are important to Nebraska seniors. Perhaps a better way to help lower taxes for Nebraska’s seniors would be to enact targeted property tax relief measures like “circuit breakers,” which provide property tax assistance based on the amount paid in taxes relative to a person’s income.

## States roll back SSI exemptions

States that have rolled back exemptions for Social Security Income in recent years include Georgia, Michigan and North Carolina. State are rolling back these exemptions because their growing costs make it more difficult for states to fund key services, including many that are vital to seniors.

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### REFERENCES

<sup>1</sup> Nebraska Revised Statutes 77-2716

<sup>2</sup> Nebraska Department of Revenue, "Nebraska Statistics of Income 2015," downloaded from [http://revenue.nebraska.gov/research/statistics\\_of\\_income/stat\\_2015/stat\\_2015\\_excel.html](http://revenue.nebraska.gov/research/statistics_of_income/stat_2015/stat_2015_excel.html), on Aug. 3, 2017.

<sup>3</sup> Nebraska Legislature, "LB 824 Fiscal Note", downloaded from [https://nebraskalegislature.gov/FloorDocs/Current/PDF/FN/LB824\\_20180201-141504.pdf](https://nebraskalegislature.gov/FloorDocs/Current/PDF/FN/LB824_20180201-141504.pdf), on May 09, 2018.

<sup>4</sup> David Drozd, "Nebraska Population Projections by Age, Race, and Hispanic Origin: 2010 to 2050," presentation to the Nebraska State Planning Committee on Sept. 25, 2015.

<sup>5</sup> Karen Conway and Jonathan Rork. "No Country for Old Men (or Women) – Do State Tax Policies Drive Away the Elderly?" National Tax Journal, 65(2): 313-356.