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LB 64, as amended by AM 473, would create an expensive new tax exemption for retirees that would threaten funding for services that Nebraska seniors rely on, such as health care.

The measure would phase in a complete tax exemption of Social Security income over the span of nine years, with all social security income becoming exempt by 2030. According to the fiscal note, the measure will cost the state more than $131 million annually once fully implemented. Retirees in the top 20% of incomes -- those who make more than $114,000 -- will receive two-thirds of the tax cut created by LB 64 once it's fully implemented, analysis by the Institute on Taxation and Economic Policy (ITEP) shows.

Most Social Security income is already untaxed in Nebraska, but bill would immediately hike taxes on low- and middle-income retirees

For tax year 2020, Nebraskans with adjusted gross incomes less than $59,100 for married couples filing jointly and $44,460 for individuals pay no state income tax on their Social Security income, with these thresholds growing each year by inflation. In 2018, income tax was paid on only 27.5% of Social Security benefits provided to Nebraskans with incomes less than $75,000, according to Department of Revenue data.

Changing demographics will shift increasing cost of exemption onto fewer working-aged adults

The 2013 Tax Modernization Committee report found 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 that make the exemption more costly. Analysis shows the growing population of retired taxpayers and their exempt retirement income will put increasing pressure on state budgets to maintain such exemptions. According to data prepared by the UNO Center for Public Affairs Research for the Legislative Planning Committee, Nebraskans aged 65 and older are projected to increase by over 90% from 2010 to 2050, while the group of 18-64 year olds only grows by 12%. As a result, the ratio of those over the age of 65 to those aged 18 to 64 will double over the following decades. The revenue loss from exempting Social Security income will grow significantly at the same time the number of seniors is growing relative to the number of Nebraskans in the workforce supporting them. This will shift the weight of the tax onto future working Nebraskans to avoid cuts to vital services provided by the state, including those important to seniors, such as health care.

Academic research fails to find correlation between migration and taxes

A June 2012 paper published in the National Tax Journal found that state-to-state movement among the elderly was stable from 1970 to 2000 despite changes in state tax laws favoring the elderly. The study found that "state tax policies towards the elderly have changed substantially while elderly migration patterns have not." Of the roughly 570,000 adults aged 65 and older who relocated to a new state in 2018, most cited proximity to family, cost of living, health care and climate as the main factors influencing their decisions. Other factors influence retirement decisions, including affordability, access to health care and crime rates – all of which Nebraska scores high in, leading Bankrate to name it the best place to retire in 2019.

Delayed tax cuts are bad policy

The phased-in tax cuts proposed in LB 64 would obligate future lawmakers by putting tax policy on autopilot. This would give LB 64's tax cuts precedence over other budget priorities like health care and leave lawmakers with less revenue to fund state priorities or respond to the state's needs.

LB 237 a more reasonable approach to exempting retirement income

LB 237 would only exempt social security for those under certain income thresholds (see Table 1). This measure would better target tax benefits to low- and middle-income retirees and would cost the state about $100 million less than LB 64 when fully implemented, making it more fiscally sustainable.

Table 1: LB 237 Social Security income exemptions in year one (2022) and when fully implemented (2026).

Married Filing Jointly						
	AGI < $75k	**$75k - $80k**	**$80k - $85k**	**$85k - $90k**	**$90k - $95k**	**$95k < AGI**
2022	20%	16%	12%	8%	4%	0%
2026	100%	80%	60%	40%	20%	0%
Single, Married Filing Separately, or Head of Household						
	AGI < $60k	**$60k - $65k**	**$65k - $70k**	**$70k - $75k**	**$75k - $80k**	**$80k < AGI**
2022	20%	16%	12%	8%	4%	0%
2026	100%	80%	60%	40%	20%	0%

Conclusion

LB 64 would deplete the state of revenue needed to support health care and other services that are important to Nebraska seniors while tying the hands of future lawmakers and doing little to impact the migration of retirees. LB 273 offers a more sensible path forward.