Legislative Analysis

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EXCLUDE CERTAIN RETIREMENT BENEFITS FOR THOSE NOT COVERED UNDER SOCIAL SECURITY

Senate Bill 409
Sponsor: Sen. Goeff Hansen
House Committee: None (Assigned to the Committee of the Whole)
Senate Committee: None (Placed directly on Second Reading)
Complete to 6-20-11

A SUMMARY OF SENATE BILL 409 AS PASSED BY THE SENATE 6-14-11

The bill would amend the Income Tax Act to exclude from taxation retirement or pension benefits from employment with a government agency that was not covered by the federal Social Security Act. The bill would take effect January 1, 2012.

Recently enacted legislation—Public Act 38 of 2011(House Bill 4361)—revised the way that pension and retirement income is to be treated under the Income Tax Act, beginning in 2012. Those revisions were part of a larger overhaul of business and personal taxes. The amount of the exclusion for pension and retirement benefits in the new legislation depends on the year of birth of the taxpayer. But, generally speaking, payments received from Social Security continue to be exempt.

<u>Senate Bill 409</u> would provide an exemption for persons who were <u>not</u> covered under Social Security during their government employment and so do not receive Social Security payments from that employment. The bill exempts their retirement or pension benefits from that government employment. The exemption is contained in the same subsection of the Income Tax Act that exempts retirement benefits from service in the Armed Forces and benefits under the Railroad Retirement Act.

[Note: According to the Social Security Administration, changes over the years have made coverage of workers nearly universal; the SSA says that the only large groups remaining outside the system are employees of state and local government who have not chosen to join the system and federal workers who were hired before 1984.]

FISCAL IMPACT:

This bill would reduce income tax revenue by an estimated $15 to $23 million on a full year basis. Approximately 24% of this reduction would affect the School Aid Fund (SAF) and the remainder would affect the General Fund/General Purpose (GF/GP). This bill would have no direct fiscal impact on local units of government.

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