

SB 2369; HB 2324; HB 2459 - Continued

13% in 2000 to 24.5% in 2030 and to 30% by 2075, policy makers need to address this inequity. On one hand, the 2001-2003 Tax Review Commission suggested doing nothing but to continue to monitor the situation because they did not see a growing elderly population as having a deleterious impact on state tax revenues as there are fewer and fewer retirees who will receive exempt defined benefit pensions.

Consideration might be given to taking care of the problem of low-income retirees' reliance on taxable pension income. This situation, the Commission suggested, may be addressed by increasing the lowest income tax bracket, increasing the amount of the personal exemption and the standard deduction so that those in the very low-income brackets receiving pension income are not subjected to state income taxes. This would then allow policy makers to treat pension income as taxable having provided a means threshold before imposing the tax.

The other suggestion made by the Commission was to make the application of the state income tax on pension income prospective so that current retirees and those who based their retirement planning on the current exclusion are not penalized. Thus, one strategy would be to set an effective date ten years out - to grandfather those who are already in retirement while forewarning those who are still in the workforce that pension income will one day be taxed.

This proposal would set a very high floor for the exclusion of pension income but insuring that any form of pension income over and above that amount would be subject to the income tax. This would seem to be a reasonable response to the peculiarity of excluding this form of income. Once established, lawmakers can then evaluate how many people are affected and if the threshold is too high, lawmakers could consider lowering the threshold.

Lest one believe that seniors are the innocent victims, it should be noted that exemption from taxation leads those who are so favored to believe that they can demand more and more public services without any consequences. Allowing this form of income to completely escape income taxation will perpetuate this lack of accountability.

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