

The Twenty-Sixth Legislature
Regular Session of 2011

L A T E

THE SENATE
Senator David Y. Ige, Chair
Senator Michelle Kidani, Vice Chair

State Capitol, Conference Room 211
Friday, February 18, 2011; 9:30 a.m.

**STATEMENT OF THE ILWU LOCAL 142 ON S.B. 162, PROPOSED SD1
RELATING TO TAXATION**

The **ILWU** Local 142 opposes S.B. 162, proposed SD1, which would tax pension income of taxpayers with a certain federal adjusted gross income and filing status for taxable years beginning after 12/31/10.

While we fully understand the dire fiscal situation the State currently faces, we think it is unfair to place the burden of addressing the deficit onto retirees living on fixed incomes. The proposal may be intended to capture revenues from retirees who have comfortable incomes (\$75,000 for singles, \$100,000 for heads of households, and \$125,000 for couples), but even these amounts may negatively impact middle-income retirees with inordinate expenses.

For example, a retiree may have \$75,001 in income but took out a mortgage at a late age and has to pay a sizeable amount of his income to keep a roof over his head. By exceeding the trigger amount, the retiree will then be forced to pay income taxes on his entire adjusted gross income. Another example may be a retiree with large out-of-pocket medical costs. Even with annual out-of-pocket limits under most Medicare Advantage plans, the retiree may still have to pay out at least \$3,000 each year. And if the retiree also takes prescription drugs that require large copayments not subject to plan caps, the income level that may have seemed comfortable may now be just enough to meet the retiree's daily needs. To add a tax that the retiree had not anticipated when he retired in the first place would seem to be placing an insensitive burden on those who should be enjoying their golden years, not worrying about paying taxes.

If the Legislature insists on shared sacrifice by all, we believe a better way to raise revenue would be a **temporary increase of the general excise tax**. A half percent or one percent increase for two or three years would generate several hundred million dollars, perhaps half the deficit for the next two years. This would be a shared sacrifice by all, not just pensioners, and would include a sizeable contribution from visitors. The tax may be regressive, and the Legislature could consider exempting food, but we caution that any exemptions would seriously erode the amount of revenue that could be derived from an increase to the GET. Furthermore, if the increase is temporary, repealing the exemption would be difficult, if not impossible.

If the Legislature insists on some kind of tax on pension income, we suggest that the amounts given in the bill under which income is exempt from taxes should be used as a **threshold**. If a retiree's income exceeds this amount, all income above that threshold would be taxed--but not the retiree's entire income. This would certainly capture more income from wealthy retirees, precisely those that Governor Abercrombie has said were his target.

Desperate times call for desperate measures, but taxing pensions with no sunset may be suicidal. If your Committee will not consider amending the bill to tax only the portion of pensions that exceed the thresholds given in the bill, the ILWU respectfully asks that S.B. 162, proposed SD1 be **held**.

Thank you for the opportunity to testify on this matter.

From: Patrick [patstanley1@hawaiiantel.net]
Sent: Friday, February 18, 2011 4:58 PM
To: WAM Testimony
Subject: SB162 SD2

L A T E

Categories: Green Category

Democratic Party of Hawaii Kupuna Caucus

To: Senate Committee on Ways and Means LATE TESTIMONY
 Senator Ige, Chair
Date: February 8, 2011
Re: SB162 SD1 Relating to Taxation

We **oppose** taxation of SSA and retirement income.

On January 18, 2011, the Kupuna Caucus of the Democratic Party of Hawaii surveyed by email 4000+ members of the DPH 60+ years of age. We received a 2% cold-call response rate. The first Legislative Priority result was to defend the Kupuna of Hawaii from pension and SSA taxation.

We believe that Social Security and other earned retirement benefits are vested, earned and unimpeachably entitled. These payments have not been earned at current rates or time periods but we still have fixed incomes, pay increasing excise taxes, co-payments, and other premiums which draw down our incomes further impoverishing a vulnerable and worthy segment of Hawaii's people.

Your consideration of protecting our Kupuna is greatly appreciated.

Submitted by **Patrick Stanley**, Co-Chair
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District 26/03

LATE TESTIMONY

Topic:

INCOME TAX; MILITARY PERSONNEL; RETIREMENT AND PENSION SYSTEMS; TAX EXEMPTIONS; TAXATION (GENERAL);

Location:

RETIREMENT AND PENSIONS SYSTEMS; TAX EXEMPTIONS - VETERANS;



February 4, 2005

2005-R-0131

MILITARY RETIREMENT INCOME AND STATE INCOME TAX

By: **Veronica Rose, Principal Analyst**

You want to know what states do not tax U. S. government military retirement income (pension).

Thirteen of the 42 jurisdictions that levy an income tax do not tax U. S. government military pension. They include Massachusetts, New Jersey, New York, and Pennsylvania in the Northeast.

Another 20 of the 42 jurisdictions, provide state tax exclusion for military pension. Three states—Kentucky, North Carolina, and South Carolina—fully exempt some military retirees' pension from tax and allow other military retirees an income exclusion (see Table 1).

Connecticut is among six states that do not exclude any portion of military retirement income from taxes. The others are: California, Nebraska, Ohio, Rhode Island, and Vermont.

Table 1 shows how all 50 jurisdictions treat military pension for tax purposes. In some cases, the retiree must meet a minimum age requirement or other criteria to qualify for exemptions.

Table 1: State Tax Exclusion for Military Pension (2005)

State	Military Retirement Pension Exempt from State Taxation	Amount of Exemption or Exclusion
Alabama	Yes	Full exemption (Alabama Department of Revenue at http://www.ador.state.al.us/)
Alaska	No state income tax	NA
Arizona	Income exclusion	Up to \$ 2,500 exclusion (Ariz. Rev. Stat. § 43-1022) (additional information at http://usmilitary.about.com/ql/dynamic/offsite.htm?site=http://www.revenue.state.az.us/)
Arkansas	Income exclusion *	Up to \$ 6,000 (Ark. Code Ann. § 26-51-307) http://usmilitary.about.com/ql/dynamic/offsite.htm?site=http://www.ark.org/dfa/
California	No	Follows federal rules
Colorado	Income exclusion *	Up to \$ 20,000 for those age 55 to 65; up to \$ 24,000 for those age 65 or older (Colo. Rev. Stat. § 39-22-104)
Connecticut	No	Follows federal rules (Connecticut Department of Revenue Services)
Delaware	Income exclusion *	Up to \$ 2,000 of any pension income for people under age 60; up to \$ 12, 500 for people age 60 or older. http://www.state.de.us/revenue/PIT_FAQ.shtml
District of Columbia	Income exclusion	The lesser of \$ 3,000 or the military retirement pay for people age 62 or older (D. C. Code Ann. § 47-1803. 02)

Florida	No state income tax	NA
Georgia	Income exclusion *	Up to \$ 15,000 for those age 62 or older and are totally disabled (GA. Code Ann. § 48-7-27)
Hawaii	Yes	Full exemption (Hawaii Rev. Stat. § 235-7(a)(3))
Idaho	Income exclusion	Taxpayers age 65 and older or age 62 and disabled may exclude \$19,920 (single filers) or \$ 29,880 (joint filers) (Idaho State Tax Commission at http://www.tax.idaho.gov/Conformity to %20IRC %202004: htm)
Illinois	Yes	Full exemption (35 ILCS 5/203) additional information at http://www.iltax.com/LegalInformation/letter/rulings/it/2000/g000073. pdf
Indiana	Income exclusion	Up to \$ 2,000 for retirees age 60 or over (single filers) and up to \$ 4,000 for joint filers (additional information at http://www.in.gov/dor/individual/deductions.html#lottery)
Iowa	Income exclusion *	Exclusion of up to \$ 12,000 (joint returns), and up to \$ 6,000 (other returns) of military retired pay (Iowa Department of Revenue at http://www.state.ia.us/tax/educate/facinc.html#13)
Kansas	Yes	Full exemption (Kansas Department of Revenue at http://usmilitary.about.com/gi/dynamic/offsite.htm?site=http://www.ink.org/public/kdor/)
Kentucky	Yes/Income exclusion *	Full exemption for people who retire before January 1, 1998 ; for those who retire after this date, partial exemption
Louisiana	Yes	Full exemption (Louisiana Department of Revenue at http://www.rev.state.la.us/forms/publications/20162(6_04). pdf)
Maine	Income exclusion *	Up to \$ 6,000 exclusion; amount reduced by Social Security benefits and railroad retirement benefits (Me: Rev. Stat. Ann. Tit. 36 § 5122(2)(M)) (Additional information at http://mainegov-images.informe.org/revenue/publications/alerts/oct00ta.pdf)

Maryland	Income exclusion *	Up to \$ 2,500; must be at least age 55 on last day of taxable year and an enlistee at time of retirement. Amount is reduced by 50% of the amount by which federal adjusted gross income exceeds \$ 17,500 (Md. Code Ann. Tit. 10 § 207) (additional information from Department of Revenue at http://usmilitary.about.com/gi/dynamic/offsite.htm?site=http://www.marylandtaxes.com/)
Massachusetts	Yes	Full exemption (Mass. Gen. Laws Ann. Tit. 62 § 2(a)(2)(E) (additional information from Massachusetts Department of Revenue at http://www.dor.state.ma.us/)
Michigan	Yes	Full exemption (Mich. Stat. Ann. 206 § 30) (additional information from Department of Treasury at http://www.michigan.gov/treasury/0,1807,7-121-24321-6440-F,00.html)
Minnesota	Income Exclusion *	\$ 14,500 (single filers) and \$ 18,000 (joint filers); taxpayer must be age 65 or older
Mississippi	Yes	Full exemption (Miss. Code Ann. § 27-7-15)(additional information from Mississippi State Tax Commission at http://www.mstc.state.ms.us/taxareas/indivd/rules/ireg704.pdf)
Missouri	Income exclusion	A \$ 6,000 pension exclusion for single filers and \$ 12,000 for joint filers is allowed for people earning below certain income limits (Missouri Department of Revenue at http://dor.mo.gov/tax/personal/faq/indlv.htm#g11)

Table 1: State Tax Exclusion for Military Pension (2005)

State	Military Retirement Pension Exempt from State Taxation	Amount of Exemption or Exclusion
Montana	Income exclusion *	There is a \$ 3,600 exclusion, if adjusted gross income is less than \$ 30,000. (Montana Department of Revenue at http://discoveringmontana.com/revenue/forindividuals/individualincome/calculationit.asp)
Nebraska	No	Follows federal rules

Nevada	No state income tax	NA
New Hampshire	No state income tax	NA
New Jersey	Yes	Full exemption (N. J. Stat. Ann § 54A: 6-26)
New Mexico	Income exclusion *	Taxpayers age 65 or older may exclude up to \$ 8,000 of income from any source (\$ 16,000 for joint filers), if they earn less than \$ 28,000 in any year)
New York	Yes	Full exemption (Tax Law § 612)
North Carolina	Yes/Income exclusion *	Full exemption for persons with five years of creditable service as of August 12, 1989; otherwise a deduction of up to \$ 4,000 (\$ 8,000 for joint filers) is allowed (N. C. Gen Stat. § 105-134. 6 and North Carolina Department of Revenue at http://www.dor.state.nc.us/taxes/individual/benefits.html)
North Dakota	Income exclusion	An exclusion of up to \$ 5,000 is allowed for people at least age 50; the amount must be reduced by any Social Security benefits the person gets (North Dakota state tax commissioner at http://www.state.nd.us/taxdpt/misc/faq/indIncome/#mp4)
Ohio	No	\$ 200 retirement credit available (Ohio Department of Taxation at http://tax.ohio.gov/)
Oklahoma	Income exclusion	Up to \$ 5,500 (Okla. Stat. Ann. Tit. 68 § 2358)
Oregon	Yes	Pre 1991 retirees fully exempt; post October 1, 1991 retirees may exclude a portion of their income using a specified formula (additional information from the Department of Revenue at http://egov.oregon.gov/DOR/PERTAX/faq-military.shtml)
Pennsylvania	Yes	Full exemption (72 P. S. § 7301(d)(i) & (iii).

		72 P. S. § 7301(d)(iii); additional information at (more information at Department of Revenue at http://www.revenue.state.pa.us/revenue/cwp/view.asp?a=238&q=171013)
Rhode Island	No	Follows federal rules
South Carolina	Yes/ Income exclusion	Military retirement for service in the National Guard and Reserves for state or federal service is fully exempt; up to \$ 10,000 is exempt for service in any other military component for taxpayer over age 65 and \$ 3000 for tax payers under age 65 (South Carolina Department of Revenue at http://www.sctax.org/default.htm)
South Dakota	No state income tax	NA
Tennessee	No state income tax	NA (State income tax only for dividends and interest income) (Tennessee Department of Revenue at http://www.state.tn.us/revenue/misc/hallfaq.htm#hall6)
Texas	No state income tax	NA
Utah	Income exclusion	Up to \$ 7,500 for single filers and \$ 15,000 (joint filers) over age 65; \$ 4,800 for single filers and \$ 9,600 for joint filers under age 65, depending on age (Utah Code Ann. § 59-10-114))
Vermont	No	Follows federal tax rules
Virginia	Income Exclusion *	\$ 6,000 for taxpayer age 62 – 64; \$ 12,000 for tax payer age 65 or older
Washington	No state income tax	NA

West Virginia	Income exclusion	\$ 2,000 or more depending on years of service (W. VA. Code § 11-21-12)
Wisconsin	Yes	Full exemption (Wisconsin Department of Revenue, Publication 126 (11/04)). http://www.dor.state.wi.us/pubs/pb126.pdf
Wyoming	No state income tax	NA

Source: State statutes, state tax department websites, and NCSL *State Personal Income Taxes on Pensions and Retirement Income: Tax Year 2003*

* Amounts shown are retirement income exclusion, irrespective of the source; in most cases, the total exclusion may not be more than indicated from all exempt sources.

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