

KS Social Security Tax Cliff and Solution (HB 2542/HB 2567 - Neutral Modification)

There is social security (SS) tax cliff in KS. When AGI is \$75,000 or less, social security benefit is 100%. Then it is 0 after \$75,000. HB 2542 shows the benefit from 100% to 0 immediately above \$100,000. HB 2567 shows the benefit from 100% to 0 with 10 steps from \$75,000 to \$85,000.

One linear solution can be used to reduce SS benefit rates from 100% to 0 gradually with one bracket. A linear formula is the most simple and fair. We can design several different ranges such as \$75,000-\$85,000 or \$75,000-\$100,000. For its effect to tax revenue, Fiscal Note from KS Department of Revenue is suggested.

For AGI \$75K and SS \$25K, KS tax rate is ~5.2%. When two persons' AGIs are \$74,975 and \$75,025 (\$50 difference), **their SS tax difference is ~\$1,300, which is unfair.**

1. Gradual reduction between \$75,000 and \$100,000

AGI	0-\$75K	\$75K-\$100K	Over \$100K
Rate	100%	$1 - (\text{AGI} - 75,000) \div 25,000$	0

Tax revenue (State General Fund) will be reduced.

2. Gradual reduction between your ranges

3. Tax status: $\text{AGI} \div S$ (S=2 or 1)

The two modification bills and original bill show there is no difference for different tax statuses such as Married Filing Jointly (2) and Married Filing Separately (1). They are 2 : 1 (double). Their **reasonable SS benefit amounts should be also double**. Existing social security tax cliff causes more retired Married Individuals to file separately for their SS benefits, which also causes more tax return numbers and increases administration cost for Department of Revenue. A tax status # (S) is designed with 2 for Married Filing Jointly or 1 for other individuals. Different ranges can be designed. For matching #1 range, its formula is:

Gradual reduction between \$37,500 and \$50,000 ($\text{AGI} \div S$) (or \$45,000 and \$60,000: Tax revenue?)

$\text{AGI} \div S$	0-\$37,500	\$37,500-\$50,000	Over \$50,000
Rate	100%	$1 - (\text{AGI} \div S - 37,500) \div 12,500$	0

4. Tax Revenue

The SS tax cliff can be resolved with gradual reduction from 100% to 0. Its tax revenue will be reduced (problem). **The best situation is to balance tax revenue and budget.** It may be partially balanced with other tax bills (increasing tax revenue and reducing related costs) such as #3 and HB 2278.

- HB 2278:** (1) Fiscal Note/Tax Revenue: \$5 million/year (0.1% / 5 %) with its implement cost: \$68,991
 (2) 15 benefits (total value: \$100 million/year / \$26 million/year)
 (3) Tax rates: **No change** for many people (>\$50K), **slight increase (<0.0035)** for a group of people and **slight decrease (<0.0015)** for another group of people (next-page table)



