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Stop Taxing Social Security by Jordan Cash

In 2007 Omaha Senator Jeremy Nordquist introduced LB303 in an effort to exempt Social Security benefits from being taxed by the State of Nebraska.[\[1\]](#) This year, Sen. Nordquist is continuing his effort with LB976.[\[2\]](#) Exempting Social Security benefits from being taxed is sound public policy and will benefit the vulnerable in our society.

Nebraska is one of only five states that fully tax Social Security benefits. Four states tax Social Security but exclude only the portion paid to the federal government, and three provide a general retirement income exclusion which may include Social Security.[\[3\]](#) Nebraska levies income tax on Social Security benefits like it does average income.

The federal government's brackets of taxation for Social Security-which are also used by Nebraska-are up to 50 percent for individuals making \$25,000-\$34,000 or couples making between \$32,000-\$44,000 a year; and for individuals making over \$34,000 or couples making more than \$44,000, as much as 85 percent of their Social Security is subject to state and federal income taxes.[\[4\]](#)

Social Security was designed to be a safety net for the elderly, the disabled, and the disadvantaged in our society. Taxing Social Security benefits like normal income is especially punitive for retirees who have private retirement accounts or pensions in addition to Social Security.[\[5\]](#) For those retirees with access to income other than through Social Security, they are effectively punished for saving or earning a pension, all while paying into the Social Security system. Because they earn additional income through these separate accounts, they have to pay more in taxes than those who rely exclusively on Social Security and have not saved for retirement.

Taxing Social Security is also a double tax on senior citizens who have already paid payroll taxes. It is not right for the state and federal government to tax that money again. [\[6\]](#)

Nebraska's tax on Social Security benefits makes the Cornhusker State unattractive to retirees and may contribute to out-of-state-migration. After 2014, Nebraska will be alone among our neighbors in taxing Social Security, as Iowa begins phasing out taxing benefits this year and Missouri will do the same in 2014.[\[7\]](#) Nebraska

already has to address out-migration since we have seen a net loss from out-migration for 13 consecutive years.[8] Considering that one out of every six Nebraskans received Social Security in 2003,[9] keeping a tax on these benefits when none of our neighbors do would further encourage this exodus out of the state.

It is also notable that taxing Social Security benefits does not bring in significant revenue. Federally, benefit taxes only accounted for 2.1 percent of the Social Security Trust Fund in 2008, while take a portion of benefits from some 39 percent of recipients - taking an average of \$1,000 from beneficiaries, many of whom are on a fixed income.[10]

Taxing Social Security decreases Nebraska's competitive standing relative to our neighbors, incentivizes retirees to leave, punishes those with retirement accounts and pensions, and represents a double tax. The Platte Institute supports LB976 to end the plundering of Social Security benefits.

[1] Legislative Bill 303, Introduced Copy, January 15, 2009. Accessed February 3, 2012: <http://www.legislature.ne.gov/FloorDocs/101/PDF/Intro/LB303.pdf>.

[2] Legislative Bill 976, Introduced Copy, January 12, 2012. Accessed February 3, 2012: <http://nebraskalegislature.gov/FloorDocs/Current/PDF/Intro/LB976.pdf>.

[3] Minnesota House of Representatives House Research, "Taxation of Social Security Benefits," February 2011. Accessed February 3, 2012: <http://www.house.leg.state.mn.us/hrd/issinfo/sstaxes.htm#1S..>

[4] Christine Scott and Janemarie Mulvey, "Social Security: Calculation and History of Taxing Benefits," Congressional Research Service, January 15, 2010. Accessed February 3, 2012: <http://aging.senate.gov/crs/ss24.pdf>.

[5] Rachel Sheedy, "Strategies to Reduce Taxes on Social Security," Kiplinger, September 1, 2010. Accessed February 3, 2012: <http://www.kiplinger.com/features/archives/krr-strategies-to-reduce-taxes-on-social-security.html>.

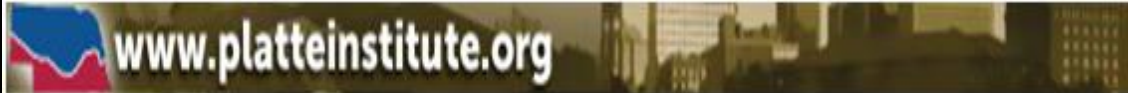
[6] Donald Barlett and James Steele, "The Really Unfair Tax," *Time Magazine*, January 27, 2003. Accessed February 3, 2012: <http://www.time.com/time/magazine/article/0,9171,411439,00.html>; Ron Paul, "Stop Taxing Social Security Benefits!" Speech on the floor of the United States House of Representatives, May 22, 2002. Accessed February 3, 2012: <http://the-classic-liberal.com/stop-taxing-social-security-benefits/>.

[7] Tonya Moreno, "State Income Taxes in Retirement." Accessed February 3, 2012: <http://taxes.about.com/od/statetaxes/a/State-Income-Taxes-In-Retirement.htm>.

[8] Nebraska State Paper.com, "Nebraska continues to lose population, but things are looking up," August 25, 2011. Accessed February 3, 2012:
<http://nebraska.statepaper.com/vnews/display.v/ART/2011/08/25/4e564a33e000f>.

[9] AARP, "Social Security: Nebraska Quick Facts." Accessed February 3, 2012:
http://assets.aarp.org/rgcenter/econ/ss_facts_05_ne.pdf.

[10] Christine Scott and Janemarie Mulvey, "Social Security: Calculation and History of Taxing Benefits," Congressional Research Service, January 15, 2010. Accessed February 3, 2012: <http://aging.senate.gov/crs/ss24.pdf>.



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