

Applying Income Tax to Social Security Would Preserve Vital Services

Louisiana is in the midst of a crisis of historic proportions. Public needs are growing and the resources it takes to meet them have shrunk. To solve this crisis—to get Louisiana’s budget out of the ditch—without further damaging institutions and reducing services critical to the state’s future growth, will take more than a cuts-only strategy. Instead we need a more balanced approach, one that includes additional sources of revenues. This Research Note is the last in a series of revenue proposals aimed at helping Louisiana solve its problems in a responsible way that promotes job-creation and future prosperity.

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Louisiana, which currently exempts Social Security benefits from taxation, can generate \$104 million in additional revenue by taxing that income on the same basis as the federal government. Social Security was created in 1935 and remains one of the nation’s most successful, effective, and popular programs. Social Security is both a retirement program and an insurance program, providing monthly benefits to retired workers, people who become disabled, spouses and children of retired and disabled persons, and survivors of deceased workers including parents.

Over 770,000 Louisianans receive Social Security benefits. A person’s Social Security retirement benefit is based on the amount a worker contributed to Social Security. The average monthly retirement benefit in Louisiana is \$1,179. Survivor benefits average \$1,110 and disability benefits \$1,068.¹ Social Security lifts 241,000 elderly people in Louisiana out of poverty, according to a 2010 study by the Center on Budget and Policy Priorities.

For one-third of Social Security recipients, the payments are subject to federal income taxes. The higher a taxpayer’s overall income, the higher the share of Social Security benefits that are taxable – up to a maximum of 85 percent (Figure 1). For example, taxpayers receiving Social Security benefits who are married with incomes of \$32,000 to \$44,000 may have up to 50 percent of their Social Security benefits included in taxable income.²

Seven states tax Social Security benefits: Minnesota, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, and Vermont. The particulars vary from state to state, with, for example, differences in income levels to which the tax applies and the amount of the benefit subject to the tax. That said, a tax on Social Security benefits along the lines of what the federal government levies would raise significant revenue to meet public needs at relatively low cost to individual taxpayers.

Figure 1
Federal Government Taxation of Social Security Benefits, 2011

	Married Couples	Single Workers
Social Security Exempt	Less than \$32,000	Less than \$25,000
50 percent of Social Security benefit taxable.	\$32,00-\$44,000	\$25,000-\$34,000
85 percent of Social Security benefit taxable.	Over \$44,000	Over \$34,000

Based on an analysis by the Institute on Taxation and Economic Policy (ITEP), enacting a tax on Social Security benefits in Louisiana would generate \$104 million in additional revenue that could go toward education, public safety, and other necessities. Only ten percent of Louisiana residents would see their taxes go up from this policy change. Those with incomes up to \$31,000 would pay no additional taxes. For those few who would see an increase in their taxes, 75 percent of the money raised from this proposal would come from people paying less than \$120 annually. Even those in the top 1

Figure 2
Louisiana Residents, 2011 Income Levels

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Annual Income Range	Less Than \$16,000	\$16,000-\$31,000	\$31,000-\$49,000	\$49,000-\$86,000	\$86,000-\$170,000	\$170,000-\$433,000	\$433,000 Or More
Average Income in Group	\$11,000	\$23,000	\$40,000	\$64,000	\$116,000	\$243,000	\$1,150,000
Average Tax Change	0	0	+\$15	+\$110	+\$108	+\$252	+\$338
Percent With Tax Hike	0%	0%	13%	21%	12%	19%	44%

percent of earners – making an average of \$1,150,000 per year – would only pay an additional \$338 annually (Figure 2). By adopting a more balanced approach that includes modest revenue proposals such as this – instead of relying solely on service cuts – Louisiana can pull its budget out of the ditch while avoiding more long-term damage to programs and institutions vital to Louisiana’s future well-being.

Previous Research Notes in series

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http://www.labudget.org/lbp/wp-content/uploads/2011/03/Itemized-Deduction-for-State-and-Local-Income-Taxes.FINAL_.pdf

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About the Louisiana Budget Project

The Louisiana Budget Project (LBP) provides independent, nonpartisan research and analysis of Louisiana fiscal issues and their impact on Louisiana families and businesses. We seek to bring wider prosperity to Louisiana through a deeper understanding of the state budget, broadening fiscal policy debates, and increasing public participation in decision-making. As part of the State Fiscal Analysis Initiative’s 40 state budget projects that are coordinated by the national Center on

End Notes

¹ United States. U.S. Social Security Administration. *Average Monthly Social Security Benefits*. Feb. 2011. <http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot>

² United States. U.S. Social Security Administration. *Federal Government Taxation of Social Security Benefits*. Feb. 2011. <<http://www.ssa.gov/planners/taxes.htm>>