<u>Minnesota SF 0015 Testimony (January 17, 2023)</u>

John Lee, Tax Simple Center (Olathe, Kansas)

We are tax researcher and economics professor with 15 tax simplification publications. We support SF 0015 concept for seniors. But the bill and existing bill have following problems for Social Security (SS) and Public Pension (PP) benefit subtractions:

(1) There is tax cliff problem such as $1 income difference (such as from $40,000 to $40,001) may cause $1,100 (S1=2) tax difference (from 40,000×5.5%×0.5), which is totally unfair.
(2) SB 0015 can reduce tax revenue. It is a challenge to find more tax revenue sources or to cut MN budget.
(3) For a SS or PP benefit $10,000, such as low income $20,000 or high income $1 million has different rate at 50% or 1% (SS or PP), which needs to be reasonable to cover basic living expenses. They need to be treated differently.
(4) Low incomers still need to calculate their income taxes, which involve more time and costs for them and Department of Revenue to process

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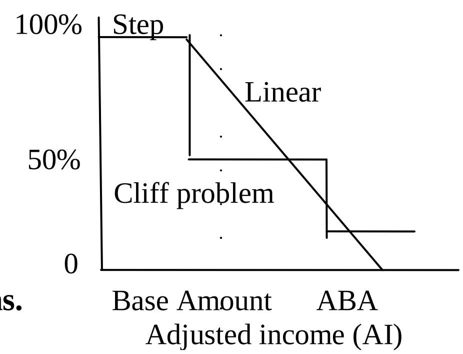
SF 0015 has tax cliff problem of public pension benefit subtraction, which can be resolved with simple linear formula.

Solution: One fair and simple linear formula
1-(AI÷S1-20,000*)÷20,000* or (40,000*-AI÷S1)÷20,000*
  *The numbers can be adjusted for tax revenue (Next Page)

We suggest one simple linear formula with neutral or less tax revenue change to resolve the above tax problems.



For seniors, retirement taxable income subtraction shall be determined by following formula:

If adjustable income (AI) is:	Retirement taxable income (RTI) subtraction:
Not over $20,000* × S1	100% × RTI
($20,000 - $40,000) × S1	(1 - (AI÷S1-20,000)÷20,000) × RTI
Over $40,000* × S1	0

If adjustable income (AI) is not over $20,000×S1, retirement taxable income (RTI) subtraction is 100% plus total non-retirement taxable income not over $1,500*×S1 is allowed to have income tax to 0. Then these seniors do not need to calculate taxes for their tax returns. S1 is RTI status number (2 for married joint return, 1 married filing separately or 1.5 for all other taxpayers). If adjustable income (AI) is over $20,000×S1 but not over $40,000×S1, a gradual rate from 100% to 0 is subtracted for all retirement taxable incomes. If adjustable income (AI) is over $40,000×S1, retirement taxable income subtraction is 0.

(*$20,000, $40,000, and $1,500 can be adjusted to less or no tax revenue change.)

<u>**Examples:**</u>	<u>**Retirement taxable income (RTI) subtraction:**</u>
1. RTI=$55,432 & AI=60,000 (S1=2):	(1-(AI÷2-20,000)÷20,000)×RTI=0.5×55,432=27,716.00
2. RTI=$40,234 & AI=41,434 (S1=1.5):	(1-(AI÷1.5-20,000)÷20,000)×RTI=0.61887×40,234=24,899.48
3. RTI=$31,234 & AI=35,434 (S1=1):	(1-(AI÷1-20,000)÷20,000)×RTI=0.2283×31,234=7,130.72
4. RTI=$36,543 & AI=38,765 (S1=2):	$38,765 is less than $40,000. **Tax is 0.**

For more information, visit our web or contact us at johnlee@taxsimplecenter.net or 913-710-0957