



The Senate Committee on Finance

Budget Bulletin

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HOUSE BILL 2001:

Relating to exempting social security benefits from personal income tax

House Bill 2001 was designed to eliminate taxation on social security benefits. The measure would ease the tax burden on Social Security recipients, many of whom rely on social security as their primary source of income. Debate on the bill centered around how to distribute the cuts among various income brackets.



HB2001 KEY FACTS

Introduced: January 11, 2019

Completed Legislative Action: March 9, 2019

Signed by Governor: March 27, 2019

Total Cost: \$40,000 per year

Total Revenue: -\$25M per year (from FY2023 onward)

BACKGROUND

The Federal Government counts income gained through Social Security payments when calculating an individual's income tax. West Virginia was one of only three states to calculate income tax the same way. Over the past several years, a consensus emerged in West Virginia that legislation is needed to reduce the tax burden of those who receive Social Security benefits. Even before the 2019 legislative session began, Governor Justice constructed his budget with the assumption that a bill would pass.

DISTRIBUTION

When considering tax legislation, legislators must consider how the costs or benefits will accrue to citizens with different levels of income. By cutting taxes, HB2001 would benefit everyone who receives Social Security. Research by the WV Center on Budget and Policy, however, shows that in the introduced bill benefits from the tax cut are not evenly distributed. The benefit for a household with an income of \$21-\$36K would only be a \$35 dollar tax cut while a household with an income of \$180-451K would get an average tax cut of \$1,879. A Senate amendment to the introduced bill addressed this concern by putting a cap on the tax cut so that only those households making under \$100K a year (\$50K for individuals) would be eligible.

SOCIAL SECURITY STATS

468,120 West Virginians receive social security benefits

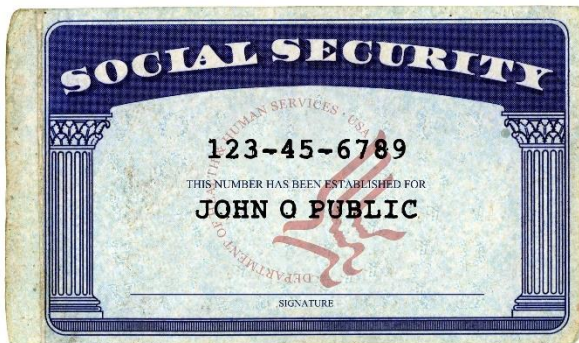
29% of West Virginians rely on Social Security for 90% or more of their income

54% of West Virginians rely on Social Security for 50% or more of their income

The average annual Social Security benefit in West Virginia is \$14,885

West Virginians age 50 and older paid 42% of state and local taxes in the state

Source: AARP 2017 WV Fact Sheet



FISCAL IMPACT

HB 2001 affects state government's finances by lessening overall tax collections. Putting a cap on the tax cut limits the overall hit to state revenue collections. The bill is also structured to phase in over time, which lessens the immediate fiscal cost of the bill. The fiscal note estimates that passage of the bill would reduce General Revenue Fund collections by around \$2 million in FY 2021, \$5.8 million in FY2022 and \$25.2 million from FY2023 onward. The fiscal note also indicates administrative costs to the State Tax Department of \$51,000 in FY 2021, \$50,000 per year in FY2022 and FY2023, and \$40,000 in subsequent fiscal years.