



Senate

General Assembly

File No. 712

January Session, 2005

Substitute Senate Bill No. 1170

Senate, May 5, 2005

The Committee on Appropriations reported through SEN. HARP of the 10th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING SOCIAL SECURITY OFFSETS FOR STATE PENSIONS AND EXEMPTING CERTAIN PENSION INCOME FROM THE STATE INCOME TAX.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subsection (a) of section 5-163 of the general statutes is
2 repealed and the following is substituted in lieu thereof (*Effective*
3 *October 1, 2005*):

4 (a) (1) Each member who retires or who has been retired under the
5 retirement system before [he has attained sixty-five years of age]
6 attaining full retirement age under the Social Security Act, as amended
7 from time to time, shall receive additional temporary monthly
8 retirement income payable until he or she reaches [sixty-five years of
9 age] full retirement age under said Social Security Act, or, if earlier, the
10 date on which [he] such member would be eligible for a Social Security
11 disability insurance benefit. (2) The amount of such temporary income
12 shall be determined by the Retirement Commission so that the total
13 retirement income payable to the member during the temporary

14 period shall equal that payable under the provisions of the retirement
15 system in effect immediately before February 21, 1958, modified to the
16 extent that the three highest-paid years rather than the five highest-
17 paid years shall be used in determining the retirement income.

18 Sec. 2. Subparagraph (B) of subdivision (20) of subsection (a) of
19 section 12-701 of the general statutes is repealed and the following is
20 substituted in lieu thereof (*Effective from passage and applicable for taxable*
21 *years commencing on or after January 1, 2005*):

22 (B) There shall be subtracted therefrom (i) to the extent properly
23 includable in gross income for federal income tax purposes, any
24 income with respect to which taxation by any state is prohibited by
25 federal law, (ii) to the extent allowable under section 12-718, exempt
26 dividends paid by a regulated investment company, (iii) the amount of
27 any refund or credit for overpayment of income taxes imposed by this
28 state, or any other state of the United States or a political subdivision
29 thereof, or the District of Columbia, to the extent properly includable
30 in gross income for federal income tax purposes, (iv) to the extent
31 properly includable in gross income for federal income tax purposes
32 and not otherwise subtracted from federal adjusted gross income
33 pursuant to clause (x) of this subparagraph in computing Connecticut
34 adjusted gross income, any tier 1 railroad retirement benefits, (v) to the
35 extent any additional allowance for depreciation under Section 168(k)
36 of the Internal Revenue Code, as provided by Section 101 of the Job
37 Creation and Worker Assistance Act of 2002, for property placed in
38 service after December 31, 2001, but prior to September 10, 2004, was
39 added to federal adjusted gross income pursuant to subparagraph (A)
40 (ix) of this subdivision in computing Connecticut adjusted gross
41 income for a taxable year ending after December 31, 2001, twenty-five
42 per cent of such additional allowance for depreciation in each of the
43 four succeeding taxable years, (vi) to the extent properly includable in
44 gross income for federal income tax purposes, any interest income
45 from obligations issued by or on behalf of the state of Connecticut, any
46 political subdivision thereof, or public instrumentality, state or local
47 authority, district or similar public entity created under the laws of the

48 state of Connecticut, (vii) to the extent properly includable in
49 determining the net gain or loss from the sale or other disposition of
50 capital assets for federal income tax purposes, any gain from the sale
51 or exchange of obligations issued by or on behalf of the state of
52 Connecticut, any political subdivision thereof, or public
53 instrumentality, state or local authority, district or similar public entity
54 created under the laws of the state of Connecticut, in the income year
55 such gain was recognized, (viii) any interest on indebtedness incurred
56 or continued to purchase or carry obligations or securities the interest
57 on which is subject to tax under this chapter but exempt from federal
58 income tax, to the extent that such interest on indebtedness is not
59 deductible in determining federal adjusted gross income and is
60 attributable to a trade or business carried on by such individual, (ix)
61 ordinary and necessary expenses paid or incurred during the taxable
62 year for the production or collection of income which is subject to
63 taxation under this chapter but exempt from federal income tax, or the
64 management, conservation or maintenance of property held for the
65 production of such income, and the amortizable bond premium for the
66 taxable year on any bond the interest on which is subject to tax under
67 this chapter but exempt from federal income tax, to the extent that
68 such expenses and premiums are not deductible in determining federal
69 adjusted gross income and are attributable to a trade or business
70 carried on by such individual, (x) (I) for a person who files a return
71 under the federal income tax as an unmarried individual whose
72 federal adjusted gross income for such taxable year is less than fifty
73 thousand dollars, or as a married individual filing separately whose
74 federal adjusted gross income for such taxable year is less than fifty
75 thousand dollars, or for a husband and wife who file a return under
76 the federal income tax as married individuals filing jointly whose
77 federal adjusted gross income for such taxable year is less than sixty
78 thousand dollars or a person who files a return under the federal
79 income tax as a head of household whose federal adjusted gross
80 income for such taxable year is less than sixty thousand dollars, an
81 amount equal to the Social Security benefits includable for federal
82 income tax purposes; and (II) for a person who files a return under the

83 federal income tax as an unmarried individual whose federal adjusted
84 gross income for such taxable year is fifty thousand dollars or more, or
85 as a married individual filing separately whose federal adjusted gross
86 income for such taxable year is fifty thousand dollars or more, or for a
87 husband and wife who file a return under the federal income tax as
88 married individuals filing jointly whose federal adjusted gross income
89 from such taxable year is sixty thousand dollars or more or for a
90 person who files a return under the federal income tax as a head of
91 household whose federal adjusted gross income for such taxable year
92 is sixty thousand dollars or more, an amount equal to the difference
93 between the amount of Social Security benefits includable for federal
94 income tax purposes and the lesser of twenty-five per cent of the Social
95 Security benefits received during the taxable year, or twenty-five per
96 cent of the excess described in Section 86(b)(1) of the Internal Revenue
97 Code, (xi) to the extent properly includable in gross income for federal
98 income tax purposes, any amount rebated to a taxpayer pursuant to
99 section 12-746, (xii) to the extent properly includable in the gross
100 income for federal income tax purposes of a designated beneficiary,
101 any distribution to such beneficiary from any qualified state tuition
102 program, as defined in Section 529(b) of the Internal Revenue Code,
103 established and maintained by this state or any official, agency or
104 instrumentality of the state, (xiii) to the extent properly includable in
105 gross income for federal income tax purposes, the amount of any
106 Holocaust victims' settlement payment received in the taxable year by
107 a Holocaust victim, [and] (xiv) to the extent properly includable in
108 gross income for federal income tax purposes of an account holder, as
109 defined in section 31-51ww, interest earned on funds deposited in the
110 individual development account, as defined in section 31-51ww, of
111 such account holder, and (xv) to the extent properly included in gross
112 income for federal income tax purposes, income received from a
113 defined benefit pension plan.

114 Sec. 3. Subdivision (24) of subsection (a) of section 12-701 of the
115 general statutes is repealed and the following is substituted in lieu
116 thereof (*Effective from passage and applicable for taxable years commencing*
117 *on or after January 1, 2005*):

118 (24) "Adjusted federal tentative minimum tax" of an individual
119 means such individual's federal tentative minimum tax or, in the case
120 of an individual whose Connecticut adjusted gross income includes
121 modifications described in subparagraph (A)(i), (A)(ii), (A)(v), (A)(vi),
122 (A)(vii) or (A)(viii) of subdivision (20) of subsection (a) of this section
123 or subparagraph (B)(i), (B)(ii), (B)(v), (B)(vi), (B)(vii), (B)(viii), (B)(ix),
124 (B)(x), [or] (B)(xiii) or (B)(xv) of subdivision (20) of subsection (a) of
125 this section, as amended by this act, the amount that would have been
126 the federal tentative minimum tax if such tax were calculated by
127 including, to the extent not includable in federal alternative minimum
128 taxable income, the modifications described in subparagraph (A)(i),
129 (A)(ii), (A)(v), (A)(vi), (A)(vii) or (A)(viii) of subdivision (20) of
130 subsection (a) of this section, by excluding, to the extent includable in
131 federal alternative minimum taxable income, the modifications
132 described in subparagraph (B)(i), (B)(ii), (B)(v), (B)(vi), (B)(vii), (B)(viii),
133 (B)(ix), (B)(x), [or] (B)(xiii) or (B)(xv) of subdivision (20) of subsection
134 (a) of this section, as amended by this act, and by excluding, to the
135 extent includable in federal alternative minimum taxable income, the
136 amount of any interest income or exempt-interest dividends, as
137 defined in Section 852(b)(5) of the Internal Revenue Code, from
138 obligations that are issued by or on behalf of the state of Connecticut,
139 any political subdivision thereof, or public instrumentality, state or
140 local authority, district, or similar public entity that is created under
141 the laws of the state of Connecticut, or from obligations that are issued
142 by or on behalf of any territory or possession of the United States, any
143 political subdivision of such territory or possession, or public
144 instrumentality, authority, district or similar public entity of such
145 territory or possession, the income with respect to which taxation by
146 any state is prohibited by federal law. If such individual is a
147 beneficiary of a trust or estate, then, in calculating his or her federal
148 tentative minimum tax, his or her federal alternative taxable income
149 shall be increased or decreased, as the case may be, by the net amount
150 of such individual's proportionate share of the Connecticut fiduciary
151 adjustment relating to modifications that are described in, to the extent
152 not includable in federal alternative minimum taxable income,

153 subparagraph (A)(i), (A)(ii), (A)(v), (A)(vi), (A)(vii) or (A)(viii) of
154 subdivision (20) of subsection (a) of this section, or, to the extent
155 includable in federal alternative minimum taxable income,
156 subparagraph (B)(i), (B)(ii), (B)(v), (B)(vi), (B)(vii), (B)(viii), (B)(ix),
157 (B)(x), [or] (B)(xiii) or (B)(xv) of subdivision (20) of subsection (a) of
158 this section, as amended by this act.

159 Sec. 4. Subdivision (30) of subsection (a) of section 12-701 of the
160 general statutes is repealed and the following is substituted in lieu
161 thereof (*Effective from passage and applicable for taxable years commencing*
162 *on or after January 1, 2005*):

163 (30) "Adjusted federal alternative minimum taxable income" of an
164 individual means his or her federal alternative minimum taxable
165 income or, in the case of an individual whose Connecticut adjusted
166 gross income includes modifications described in subparagraph (A)(i),
167 (A)(ii), (A)(v), (A)(vi), (A)(vii) or (A)(viii) of subdivision (20) of
168 subsection (a) of this section or subparagraph (B)(i), (B)(ii), (B)(v),
169 (B)(vi), (B)(vii), (B)(viii), (B)(ix), (B)(x), [or] (B)(xiii) or (B)(xv) of
170 subdivision (20) of subsection (a) of this section, as amended by this
171 act, the amount that would have been the federal alternative minimum
172 taxable income if such amount were calculated by including, to the
173 extent not includable in federal alternative minimum taxable income,
174 the modifications described in subparagraph (A)(i), (A)(ii), (A)(v),
175 (A)(vi), (A)(vii) or (A)(viii) of subdivision (20) of subsection (a) of this
176 section, by excluding, to the extent includable in federal alternative
177 minimum taxable income, the modifications described in
178 subparagraph (B)(i), (B)(ii), (B)(v), (B)(vi), (B)(vii), (B)(viii), (B)(ix),
179 (B)(x), [or] (B)(xiii) or (B)(xv) of subdivision (20) of subsection (a) of
180 this section, as amended by this act, and by excluding, to the extent
181 includable in federal alternative minimum taxable income, the amount
182 of any interest income or exempt-interest dividends, as defined in
183 Section 852(b)(5) of the Internal Revenue Code, from obligations that
184 are issued by or on behalf of the state of Connecticut, any political
185 subdivision thereof, or public instrumentality, state or local authority,
186 district, or similar public entity that is created under the laws of the

187 state of Connecticut, or from obligations that are issued by or on behalf
 188 of any territory or possession of the United States, any political
 189 subdivision of such territory or possession, or public instrumentality,
 190 authority, district or similar public entity of such territory or
 191 possession, the income with respect to which taxation by any state is
 192 prohibited by federal law. If such individual is a beneficiary of a trust
 193 or estate, then, for purposes of calculating his or her adjusted federal
 194 alternative minimum taxable income, his or her federal alternative
 195 minimum taxable income shall also be increased or decreased, as the
 196 case may be, by the net amount of such individual's proportionate
 197 share of the Connecticut fiduciary adjustment relating to modifications
 198 to the extent not includable in federal alternative minimum taxable
 199 income, that are described in subparagraph (A)(i), (A)(ii), (A)(v),
 200 (A)(vi), (A)(vii) or (A)(viii) of subdivision (20) of subsection (a) of this
 201 section or to the extent includable in federal alternative minimum
 202 taxable income, subparagraph (B)(i), (B)(ii), (B)(v), (B)(vi), (B)(vii),
 203 (B)(viii), (B)(ix), (B)(x), [or] (B)(xiii) or (B)(xv) of subdivision (20) of
 204 subsection (a) of this section, as amended by this act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>October 1, 2005</i>	5-163(a)
Sec. 2	<i>from passage and applicable for taxable years commencing on or after January 1, 2005</i>	12-701(a)(20)(B)
Sec. 3	<i>from passage and applicable for taxable years commencing on or after January 1, 2005</i>	12-701(a)(24)
Sec. 4	<i>from passage and applicable for taxable years commencing on or after January 1, 2005</i>	12-701(a)(30)

APP *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 06 \$	FY 07 \$
State Comptroller - Fringe Benefits	State Employees Retirement Fund - Cost	See Below	See Below
State Comptroller - Fringe Benefits	GF - Cost	None	See Below
Department of Revenue Services	GF - Revenue Loss	\$180 to \$240 million	\$180 to \$240 million
Department of Revenue Services	GF - Cost	\$350,000	\$200,000
State Comptroller - Fringe Benefits	GF - Cost	45,300	107,900

Note: GF=General Fund

Municipal Impact: None

Explanation

Exempting pension income from the personal income tax is anticipated to result in a General Fund revenue loss of between \$180 and \$240 million (18 months) in FY 06 and between \$120 and \$160 million in FY 07 and each year thereafter.

The Department of Revenue Services is expected to incur costs of \$350,000 in FY 06 and \$200,000 in FY 07. The FY 06 cost is composed of a \$150,000 one-time expenditure to: (1) make necessary programming changes, and (2) modify tax forms and publications. There will also be on-going administrative costs of approximately \$200,000 (plus fringe benefits) per year for 4 additional tax auditors.¹

¹ The fringe benefit costs for state employees are budgeted centrally in the Miscellaneous Accounts administered by the Comptroller. The estimated fringe benefit reimbursement rate as a percentage of payroll is 53.91%, effective July 1, 2004. However, first year fringe benefit costs for new positions do not include pension costs lowering the rate to 22.65%. The state's pension contribution is based upon the prior year's certification by the actuary for the State Employees Retirement System.

Social Security Offset

Under current law, Tier I, Plan B retirees in the State Employees Retirement System (SERS) receive an additional monthly benefit until they reach the age of 65. This age used to coincide with the full retirement age for Social Security retirement benefits. Under federal law, the full normal Social Security retirement eligibility age is increasing over time to 67 and is currently 65 and 6 months.

Tier I, Plan B membership in SERS is closed to new members. The most recent valuation of SERS (6/30/04) indicates that there are 7,528 active Tier 1, Plan B members.

Under the bill, the additional monthly retiree benefit will continue beyond age 65 until the full normal Social Security retirement eligibility age. The exact fiscal impact of this change will have to be calculated by the SERS consulting actuary. However, analysis of the available data indicates that on average, as this group retires, they will receive the additional monthly benefit (\$87) for an additional 15 months. As a result of the bill, it is estimated that there will be a \$10 million increase in the unfunded liability of State Employees Retirement Fund (SERF).

A \$10 million increase in the unfunded liability has a fiscal impact on the state contribution to SERS during the remainder of the amortization period (26 years). The Retirement and Benefit Services Division of the Office of the State Comptroller has estimated that the FY 07 contribution to SERS would increase by approximately \$574,000 all funds (\$430,500 general fund).

Background**State Employees Retirement Fund**

(6/30/04 Valuation)

Assets: \$8.2 billion

Liability: \$15.1 billion

Unfunded Liability: \$6.9 billion

OLR Bill Analysis

sSB 1170

AN ACT CONCERNING SOCIAL SECURITY OFFSETS FOR STATE PENSIONS AND EXEMPTING CERTAIN PENSION INCOME FROM THE STATE INCOME TAX**SUMMARY:**

This bill exempts from state income tax any federally taxable income from a defined benefit pension plan. Defined benefit plans are pension plans, such as the state employees retirement system, in which benefits are paid according to a pre-set formula. The bill also makes conforming changes.

The bill changes the age when a Tier I state retiree's pension is reduced due to his old age Social Security benefit from age 65 to the eligibility age for full Social Security retirement benefits (currently 65 years and 6 months). Under federal law, the full normal Social Security retirement eligibility age is increasing by two-month increments each year until it reaches age 66 in 2008. It will stay at age 66 for 11 years, then it gradually increases again until reaching age 67 in 2025. Current state retirement law uses age 65.

EFFECTIVE DATE: Upon passage and applicable for taxable years starting on or after January 1, 2005 for the state income tax exemption and October 1, 2005 for the Social Security offset provision.

BACKGROUND***State Employee Retirement System***

The State Employee Retirement System has three tiers, employees hired before July 1, 1984 are Tier I, those hired on or after July 1, 1984 through June 30, 1997 are Tier II, and those hired on or after July 1, 1997 are Tier IIA. State statutes govern Tier I, but the union contract negotiated between the state and the coalition of state employee unions governs Tier II and Tier IIA.

Legislative History

On April 6 the Senate referred the original bill (File 63) to the Appropriations Committee, which added the state income tax exemption for defined benefit retirements to the existing bill.

COMMITTEE ACTION

Labor and Public Employees Committee

Joint Favorable Report

Yea 13 Nay 0

Appropriations Committee

Joint Favorable Substitute

Yea 41 Nay 8