

March 2, 2000

Assembly Bill 85 (Goetsch/Schultz)

Modifying the definition of income under the homestead tax credit.

Summary of Bill --

This bill would eliminate from calculation of homestead eligibility income from annuities, deferred compensation and pensions -- with limited exceptions.

This would increase the cost of the homestead credit by \$2.7 million in 00-01. This estimate reflects the increased credit adopted in Act 9.

Staff Comments --

This would help some retirees. We like retirees.

Standing Committee Action --

AB 85 passed the Assembly Committee on Ways and Means 12-1 (Morris-Tatum no) on May 26, 1999.

Recommended JFC Action --

Passage of AB 85

Prepared by: Bob

Bob



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March 2, 2000

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 85: Modify the Definition of Household Income Under the Homestead Tax Credit

Assembly Bill 85 would modify the definition of household income under the homestead credit. The Assembly Committee on Ways and Means recommended the bill for passage by a vote of 12 to 1 on June 8, 1999.

BACKGROUND

The homestead tax credit program directs property tax relief to low-income homeowners and renters. The program is often referred to as a "circuit breaker" since it is intended to provide relief once property taxes exceed a taxpayer's ability to pay them. The amount of credit received by claimants depends on the interaction of household income and allowable property taxes or rent constituting property taxes. The homestead credit is refundable; that is, a check from the state is issued if the amount of the credit exceeds income tax liability. Because the credit is refundable, it is paid from a GPR sum sufficient appropriation rather than being counted as an offset to individual income tax collections.

The income measure used in calculating the homestead credit is household income, which is broadly defined to reflect most cash resources available to claimants. It includes all income that is taxable for Wisconsin and the full amount of income sources that are only partially taxable to Wisconsin, such as social security benefits, unemployment compensation and capital gains. Finally, certain items that are excluded from taxation are included in the definition of household income, such as excluded dividends and interest, contributions to IRAs and Keogh plans and child support. The Attachment lists all of the income sources currently included in household income.

The maximum income amount for the homestead credit was increased under the 1999-01 biennial budget (1999 Wisconsin Act 9) from \$19,154 to \$20,290, for claims filed in 2000 based on property taxes or rent constituting property taxes accrued during the previous year (tax year 1999). Maximum income will increase further to \$24,500 for claims filed in 2001 and thereafter based on property taxes or rent accrued in tax year 2000 and thereafter. Under the provisions of Act 9, the credit is estimated to cost \$79.1 million in 1999-00 and \$96.8 million in 2000-01.

SUMMARY OF BILL

AB 85 would modify the definition of household income by eliminating nontaxable income from annuities, deferred compensation and pensions, except that nontaxable pension income received by persons who were members of certain public pension systems prior to 1964 would continue to be included in household income. The requirement that contributions made to IRAs and Keogh plans be added back when calculating household income would also be eliminated. Finally, income from life insurance proceeds received on account of the death of the insured and nontaxable compensation for injuries or sickness would be added to the definition of household income.

The bill would first apply to taxable years beginning on January 1 of the year in which the bill takes effect, except that if the bill takes effect after July 31, the bill would first apply to taxable years beginning on January 1 of the year following the year in which the bill takes effect.

ANALYSIS

Generally, employe contributions to retirement plans are not taxable under the state or federal individual income tax at the time the contribution is made, but rather at the time the benefits are distributed to the individual. For purposes of the homestead credit, employe contributions are not included in household income at the time the contributions are made but at the time the benefits are distributed. However, there are occasions when an employe makes a taxable contribution to a retirement plan; in order to avoid double taxation of these contributions, the disbursement of these monies is not subject to tax. The current definition of household income includes both taxable contributions to a retirement plan and the disbursement of these same monies. Under AB 85, taxable contributions would continue to be included in household income, but the disbursement of these funds would not be included. Similarly, the bill would eliminate contributions to IRAs and Keogh plans from being included in household income. These monies would continue to be included in household income when distributed to the individual.

The bill would also add life insurance proceeds received on account of the death of the insured and nontaxable compensation for injuries or sickness to the definition of household income.

FISCAL EFFECT

If the bill were enacted and published prior to July 31, 2000, it is estimated that these modifications would increase the cost of the homestead credit by \$2.7 million in 2000-01. In February, 1999, the Department of Revenue prepared a fiscal note for AB 85 and projected that it would increase the cost of the credit by \$1.0 million annually. The current estimate of \$2.7 million reflects the increased credit adopted in Act 9.

Prepared by: Kelsie Doty
Attachment

ATTACHMENT

Sources of Income Currently Included in "Household Income" Under the Homestead Tax Credit Program

Household income means Wisconsin adjusted gross income (AGI) plus the following amounts not included in Wisconsin AGI:

- Support money
- Cash public assistance (not including credits from this program or amounts granted under the community options program for long-term support) and cash benefits paid under county relief programs
- Maintenance payments (except foster care maintenance and supplementary foster care payments excludable)
- Gross amount of any pension or annuity
- Railroad retirement benefits
- Social security benefits
- Veterans disability pensions
- Nontaxable interest received from the federal government
- Nontaxable interest received on state and municipal bonds
- Worker's compensation
- Unemployment compensation
- Gross amount of "loss of time" insurance
- Compensation and other cash benefits received from the United States for past or present services in the armed forces
- Scholarship and fellowship gifts or income
- Capital gains
- Gain on the sale of a personal residence
- Dividends
- Income of a nonresident or part-year resident who is married to a full-year resident
- Housing allowances provided to members of the clergy
- Amount by which a resident manager's rent is reduced
- Nontaxable income of an American Indian
- Nontaxable income from sources outside this state
- Nontaxable deferred compensation
- Intangible drilling costs
- Depletion allowances and depreciation, including first-year depreciation allowances under federal provisions related to the election to expense certain depreciable business assets
- Amortization
- Contributions to individual retirement accounts
- Contributions to Keogh plans
- Net operating loss carry-forwards
- Capital loss carry-forwards