

Fiscal Estimate - 2003 Session

Original Updated Corrected Supplemental

LRB Number 03-4340/1 **Introduction Number** AB-906

Subject
 Individual income tax exemption; pay of certain national guard technicians

Fiscal Effect

State:

- No State Fiscal Effect
- Indeterminate
 - Increase Existing Appropriations
 - Decrease Existing Appropriations
 - Create New Appropriations
- Increase Existing Revenues
- Decrease Existing Revenues
- Increase Costs - May be possible to absorb within agency's budget
 - Yes
 - No
- Decrease Costs

Local:

- No Local Government Costs
 - Indeterminate
 - 1. Increase Costs
 - Permissive Mandatory
 - 2. Decrease Costs
 - Permissive Mandatory
 - 3. Increase Revenue
 - Permissive Mandatory
 - 4. Decrease Revenue
 - Permissive Mandatory
5. Types of Local Government Units Affected
- Towns Village Cities
 - Counties Others
 - School Districts WTCS Districts

Fund Sources Affected **Affected Ch. 20 Appropriations**

GPR FED PRO PRS SEG SEGS 20.566(1)(a)

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Fiscal Estimate Narratives

DOR 3/11/2004

LRB Number	03-4340/1	Introduction Number	AB-906	Estimate Type	Original
Subject					
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Assumptions Used in Arriving at Fiscal Estimate

Under current law, the pension benefits of certain public employees are exempt from state taxes, including individuals who were members of or retired from the following plans as of December 31, 1963: U.S. civil service or military, Milwaukee city and county, Milwaukee police officers and public school teachers, Wisconsin state teachers' retirement fund, and Milwaukee County sheriff's annuity and benefit fund.

This bill would expand the current exemption to include National Guard technicians who have joined the state retirement system since 1963, but who have U.S. Office of Personnel Management (OPM) service computation dates of December 31, 1963. The National Guard technicians affected by this bill may receive exempt military pensions for their prior military service, but their National Guard technician pensions are not currently exempt because they did not join that retirement system until after December 31, 1963 even though they were later credited with pre-1964 OPM service computation dates by virtue of their prior military service.

The bill would also refund any interest and penalties charged to retired National Guard technicians on their National Guard pension income for tax years 1989 through 2001. This bill would forgive these debts in the case of technicians who have disputed their assessments and have not paid interest or penalties due on their state retirement benefits for prior tax years.

According to the Department's Office of General Counsel, there were approximately 450 retired National Guard technicians who were assessed tax on their state retirement benefits beginning in 1989. Approximately 300 of these technicians have received settlements that refunded these taxes, interest and penalties for tax years 1989 through 1995. Interest and penalty refund payments to these retired technicians totaled approximately \$800,000 (an average of \$2,667 per filer). For purposes of determining the fiscal effect of this bill, it is assumed that technicians who received settlement payments would not receive additional payments for the tax years to which those payments applied and their accounts for those years would be considered closed. The Department's Office of General Counsel has no additional information on the amount refunded for years following 1995. However, it is assumed that the number of technicians who began service prior to 1964 and have retired since 1995 has been offset by the number of technicians that have passed away and have no surviving spouse.

Assuming that the average amount already refunded to retired National Guard technicians for tax years 1989 through 1995 applies to technicians who are still eligible for refunds or debt forgiveness under the bill, additional refunds for tax years 1989 through 1995 would reduce state income tax revenues by \$400,000 (150 technicians x \$2,667).

According to the terms of the settlement agreement, interest and penalties were not assessed to the technicians for tax year 1996, but were assessed for tax years 1997 and thereafter. Thus, assuming an average refund of \$381 per filer per year ($\$2,667 / 7$ years), refunding or forgiving interest and penalties for tax years 1997 through 2001 would reduce state revenues by \$857,000 (450 technicians x \$381 x 5 years).

The amounts of prior year interest and penalties refunded to technicians would be one-time revenue losses to the state.

Finally, the average tax assessed to these retired National Guard technicians is approximately \$1,500 per year. Assuming that this average annual assessment applies to all 450 retired National Guard technicians, an income tax exemption for these pension benefits would reduce state income tax revenues by approximately \$675,000 ($450 \times \$1,500$) annually. However, this revenue loss may increase over time as the number of retired National Guard technicians increases.

Thus, the total revenue loss associated with this bill is \$1,257,000 due to the one-time refund payments or debt forgiveness and \$675,000 annually due to exempt pensions.

The Department would incur one-time costs of \$22,000 for the salaries and fringe benefits of limited term employees in the Document Review Section.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
-\$1.3 million one-time revenue loss and a one-time increase in Department costs for salaries and fringe benefits of limited term employees.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$-675,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$-675,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-675,000	\$
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