

Fiscal Estimate Narratives

DOR 4/11/2005

LRB Number	05-2413/1	Introduction Number	SB-140	Estimate Type	Original
Subject					
No individual retirement account early withdrawal penalty if purchasing long-term care insurance					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, an individual who is subject to a 10% federal penalty for an early withdrawal of a qualified retirement plan or individual retirement account (IRA) is also subject to a state penalty equal to 33% of the federal penalty.

This bill would allow a taxpayer to avoid the state penalty on an early withdrawal from retirement plans, including IRAs, if the distribution from is used to purchase long-term care insurance.

On 2003 individual income tax returns, 26,700 taxpayers claimed a subtraction for long-term care insurance and 80,000 Wisconsin taxpayers had retirement plan/IRA penalties totaling over \$17 million with an average state penalty of approximately \$215.

Some unknown percentage of the 26,700 taxpayers purchasing long-term care insurance would use early withdrawals from retirement plans or IRAs to pay for this insurance. Assuming the average penalty of \$215 for these taxpayers, if 5% or 1,335 taxpayers use early withdrawals to buy the insurance, the revenue loss would be \$287,000. If 25% or 6,675 taxpayers use early withdrawals to buy the insurance, the revenue loss would be \$1.4 million. To the extent that the bill results in more individuals purchasing long-term care insurance using contributions from early withdrawals of retirement plans or IRAs, the revenue loss under the bill would be higher.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
No individual retirement account early withdrawal penalty if purchasing long-term care insurance			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
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		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$SeeText	\$
Agency/Prepared By		Authorized Signature	Date
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