

WISCONSIN STATE  
LEGISLATURE COMMITTEE  
HEARING RECORDS

1995-96

(session year)

Assembly

(Assembly, Senate or Joint)

Committee on  
Veterans and  
Military Affairs  
(AC-VMA)

Sample:

Record of Comm. Proceedings ... RCP

- 05hr\_AC-Ed\_RCP\_pt01a
- 05hr\_AC-Ed\_RCP\_pt01b
- 05hr\_AC-Ed\_RCP\_pt02

➤ Appointments ... Appt

➤ \*\*

➤ Clearinghouse Rules ... CRule

➤ \*\*

➤ Committee Hearings ... CH

➤ \*\*

➤ Committee Reports ... CR

➤ \*\*

➤ Executive Sessions ... ES

➤ \*\*

➤ Hearing Records ... HR

➤ **95hr\_sb0632\_AC-VMA\_pt01**

➤ Miscellaneous ... Misc

➤

➤ Record of Comm. Proceedings ... RCP

➤ \*\*



State of Wisconsin • DEPARTMENT OF REVENUE

125 SOUTH WEBSTER STREET • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX (608) 266-5718

*Tommy G. Thompson*  
Governor

*Mark D. Bugher*  
Secretary of Revenue

April 9, 1996

Mr. James R. Klauser  
Secretary of Administration  
101 East Wilson Street  
Madison, WI 53703

Dear Secretary Klauser:

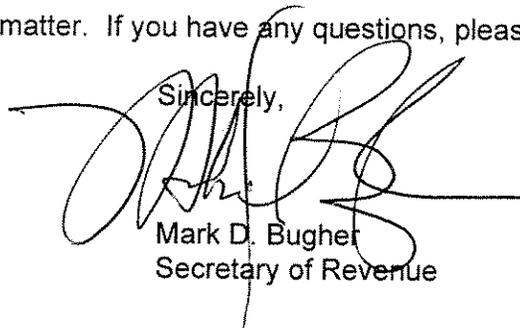
The attached veto proposal suggests a veto of two sections of Senate Bill 632 that provide an income tax exemption for armed forces reservists serving in Operation Joint Endeavor in Bosnia. This exemption can be better provided by adopting recently enacted federal legislation that also exempts pay received by military personnel in Bosnia from federal tax. The Department of Revenue has asked the Joint Committee on Finance to adopt this federal law change by updating the reference to the Internal Revenue Code in the state income tax statutes.

The income tax exemption in SB 632 is limited to reservists, while the federal law would apply to all military personnel. Further, SB 632 limits the exemption for officers to the first \$500 of monthly income, the amount provided by old federal law. The new legislation raised the officer's exemption to the maximum amount of income that could be excluded by enlisted personnel, about \$4,100 per month.

Adopting the federal change instead of the exemption in SB 632 would also avoid inconsistencies between federal and state law, preventing confusion among Wisconsin residents currently serving in Bosnia.

Thank you for your attention to this matter. If you have any questions, please contact me.

Sincerely,



Mark D. Bugher  
Secretary of Revenue

MDB:DC:jec  
f:\secitr\klauser.508

Attachment

VETO PROPOSAL  
DEPARTMENT OF REVENUE

VETO TOPIC: Senate Bill 632 - Income Tax Exemption for Income Earned by Military Reservists Serving in the Bosnian Hazardous Duty Area

SECTIONS OF BILL AFFECTED: Sections 42, 43 and 52 (in part)

PROBLEM DESCRIPTION: This bill provides a state income tax exemption for military income earned by reservists serving in the Bosnian hazardous duty area. The exemption applies to all pay received by enlisted personnel and the first \$500 of monthly income earned by officers. Congress has enacted a similar exemption from federal tax, and Wisconsin can adopt the federal treatment for state tax purposes by updating its reference to the Internal Revenue Code in Chapter 71, Wis. Stats. The Department of Revenue has asked the state Legislature to do so before it adjourns in May.

The federal exemption, in the form of an exclusion from income subject to federal tax, is broader than that created in SB 632 because it applies to all military personnel serving in Bosnia, while SB 632 applies only to reservists. Further, SB 632 limits the exemption for officers to \$500 per month. This was the amount allowed under old federal law; the federal Bosnia tax relief legislation raised it to the maximum amount of income that could be excluded by enlisted personnel -- currently about \$4,100. Wisconsin should also adopt the federal exclusion rather than the exemption in SB 632 to avoid inconsistencies between federal and state law that will complicate tax filing for military personnel serving in Bosnia.

PROPOSED VETO AND ITS EFFECT: Veto Sections 42 and 43, and a portion of initial applicability language in section 52 of the bill. This change would eliminate the tax exemption; however, a similar exemption can be provided by enacting legislation, sought by the Department of Revenue, that conforms Wisconsin law to the new federal law. Because SB 632 and the federal law differ in their definitions of military service, there may be a limited number of military personnel who would receive the exemption in SB 632, but not the federal exclusion. However, it is not clear whether there would be any such cases, and if there are, it is not apparent why a person not entitled to federal tax relief should receive state tax relief.

FISCAL EFFECT OF VETO: Eliminating the tax exemption would prevent a revenue loss of \$100,000. Adopting the federal exclusion for state tax purposes would result in a revenue loss of \$740,000.

PROPOSERS OF VETO: Department of Revenue.

OPPOSERS OF VETO: None, presuming the newly enacted federal exclusion is adopted for state tax purposes.

ANALYST: Craig Kammholz

DIVISION: Research and Analysis

DATE: April 8, 1996

CK:skr  
f:\bud\veto\sb632.vet

1           **SECTION 41.** 71.03 (7) (b) of the statutes is created to read:

2           71.03 (7) (b) For taxable years beginning after December 31, 1994, and before  
3 January 1, 1997, for persons who served in support of Operation Balkan Endeavor  
4 or an operation that is a successor to Operation Balkan Endeavor, or for persons who  
5 served in Croatia, Bosnia and Herzegovina, Serbia, Macedonia, Montenegro,  
6 Hungary, Austria, Slovakia, Czech Republic or Slovenia, or for persons who qualify  
7 for a federal extension of time to file under 26 USC 7508, who served outside the  
8 United States because of their participation in Operation Balkan Endeavor or an  
9 operation that is a successor to Operation Balkan Endeavor in the Balkan Endeavor  
10 theater of operations.

11           ~~**SECTION 42.** 71.05 (6) (b) 22. of the statutes is created to read:~~

12           ~~71.05 (6) (b) 22. Any amount of basic, special and incentive pay income or~~  
13 ~~compensation, as those terms are used in 37 USC chapters 3 and 5, received from the~~  
14 ~~federal government by a person who is a member of a reserve component of the U.S.~~  
15 ~~armed forces, as defined in 26 USC 7701 (a) (15), and is below the grade of~~  
16 ~~commissioned officer, for services performed for Operation Balkan Endeavor. In this~~  
17 ~~subdivision, "services performed for Operation Balkan Endeavor" means service in~~  
18 ~~a unit of the U.S. armed forces if:~~

19           ~~a. The person is activated for Operation Balkan Endeavor; and~~

20           ~~b. The service occurs during the period that there is in effect a designation by~~  
21 ~~the president of the United States that the service is part of Operation Balkan~~  
22 ~~Endeavor.~~

23           ~~**SECTION 43.** 71.05 (6) (b) 23. of the statutes is created to read:~~

24           ~~71.05 (6) (b) 23. Up to \$500 per month of basic, special and incentive pay income~~  
25 ~~or compensation, as those terms are used in 37 USC chapters 3 and 5, received from~~

1 the federal government by a person who is a member of a reserve component of the  
2 U.S. armed forces, as defined in 26 USC 7701 (a) (15), and is a commissioned officer,  
3 for services performed for Operation Balkan Endeavor. In this subdivision, "services  
4 performed for Operation Balkan Endeavor" means service in a unit of the U.S. armed  
5 forces if:

- 6 a. The person is activated for Operation Balkan Endeavor; and  
7 b. The service occurs during the period that there is in effect a designation by  
8 the president of the United States that the service is part of Operation Balkan  
9 Endeavor.

10 SECTION 44. 71.85 (3) of the statutes is renumbered 71.85 (3) (intro.) and  
11 amended to read:

12 71.85 (3) ABATEMENT OF INTEREST AND PENALTIES. (intro.) No penalty or interest  
13 that has been imposed under this subchapter on a taxpayer who is eligible for the  
14 exemption under §:

15 (a) Section 71.05 (6) (b) 13. or 14. may continue to accrue while the taxpayer  
16 is in the Operation Desert Shield or Operation Desert Storm theater of operations  
17 and for 180 days after the taxpayer leaves the Operation Desert Shield or Operation  
18 Desert Storm theater of operations.

19 SECTION 45. 71.85 (3) (b) of the statutes is created to read:

20 71.85 (3) (b) Section 71.05 (6) (b) 22. or 23. may continue to accrue while the  
21 taxpayer is in the Operation Balkan Endeavor theater of operations and for 180 days  
22 after the taxpayer leaves the Operation Balkan Endeavor theater of operations.

23 SECTION 46. 230.03 (14) (b) of the statutes is amended to read:

1 (b) If the eligible employe has been insured during the period beginning on the  
2 date on which the eligible employe left employment with the employer to perform  
3 service for the operation and ending on the date on which the eligible employe or the  
4 eligible employe's designated representative makes the election under subsection (2)  
5 but the eligible employe did not receive employer contributions under section 40.05  
6 (4) of the statutes toward one or more of the premium payments during that period,  
7 the employer shall pay to the eligible employe in a lump sum an amount equal to the  
8 employer contributions that would have been paid toward those premium payments  
9 under section 40.05 (4) of the statutes if the eligible employe had continued  
10 employment with the employer during that period instead of performing service for  
11 the operation.

12 (c) The number of months for which the eligible employe receives employer  
13 contributions under paragraphs (a) and (b), when added to the number of months for  
14 which the eligible employe received employer contributions under section 40.05 (4)  
15 of the statutes during the period beginning on the date on which the eligible employe  
16 left employment with the employer to perform service for the operation and ending  
17 on the date on which the eligible employe ceases to perform service for the operation,  
18 may not exceed a total of 12 months.

19 (d) No employer contributions may be paid under this subsection after the last  
20 day of the 24th month beginning after the effective date of this paragraph.

21 (5) Notwithstanding sections 111.84 (1) and (2), 111.91 (1) and (2) and 111.93  
22 (3) of the statutes, this SECTION applies to an eligible employe and to the employer  
23 regardless of whether the eligible employe is unrepresented or represented by a labor  
24 organization, as defined in section 111.81 (12) of the statutes.

25 **SECTION 52. Initial applicability.**

