

**1999 DRAFTING REQUEST**

**Bill**

Received: 12/07/1999

Received By: **shoveme**

Wanted: **As time permits**

Identical to LRB:

For: **Robert Wirch (608) 267-8979**

By/Representing: **Beth**

This file may be shown to any legislator: **NO**

Drafter: **shoveme**

May Contact:

Alt. Drafters:

Subject: **Tax - individual income**

Extra Copies: **RAC**

**Pre Topic:**

No specific pre topic given

**Topic:**

Exempt from income taxation the first \$5,000 of pension income

**Instructions:**

See Attached. Exempt from taxation the first \$5,000 of an individual's pension income

**Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/P1	shoveme 01/12/2000	chanaman 01/12/2000	jfrantze 01/12/2000	_____	lrb_docadmin 01/12/2000		State Tax
/1	shoveme 01/13/2000	chanaman 01/13/2000	haugeca 01/13/2000	_____	lrb_docadmin 01/13/2000	lrb_docadminState 01/13/2000	Tax
				_____		lrb_docadmin	
				_____		01/13/2000	

FE Sent For:

<END>

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/P1	shoveme 01/12/2000	chanaman 01/12/2000	jfrantze 01/12/2000	<u>          </u> CH 1-13 OK	lrb_docadmin 01/12/2000		State Tax

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jacket  
for  
Senate

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1?	shoveme	cmh 1/11/00	1/12	1/12	Submit		

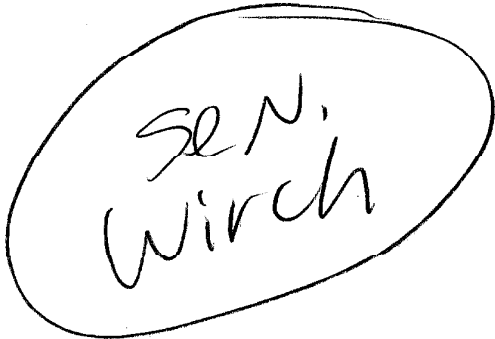
1/11/00  
1/12  
FE Sent For:

<END>

**Shovers, Marc**

---

**From:** Smith, Beth  
**Sent:** Tuesday, December 07, 1999 2:05 PM  
**To:** Shovers, Marc  
**Subject:** FW:



SEN.  
Wirch

-----Original Message-----

**From:** Champagne, Rick  
**Sent:** Tuesday, December 07, 1999 2:00 PM  
**To:** Smith, Beth  
**Subject:** RE:

Beth --

Good to hear from you! Marc Shovers takes care of all of the drafts that provide for income tax exemptions. Would you like for me to forward this to Marc? Talk to you soon.

Rick

-----Original Message-----

**From:** Smith, Beth  
**Sent:** Tuesday, December 07, 1999 1:57 PM  
**To:** Champagne, Rick  
**Subject:**

Hi Rick,

Long time no talk!

Bob had tried to add an amendment to the state budget bill that would exempt the first \$5,000 of an individual's pension from income taxation.

It was never taken up.

He would now like a free-standing bill to accomplish this purpose. Would you be the one to draft this?

I have some background information on the issue from Kelsie Doty at the Fiscal Bureau, if you would be interested.

Let me know,

Thanks,

Beth



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

August 17, 1999

**TO:** Senator Robert Wirth  
Room 310 South, State Capitol

**FROM:** Kelsie Doty, Fiscal Analyst

**SUBJECT:** Individual Income Tax: Proposal to Exempt a Portion of Pension Income from Taxation

At your request, I am providing information on a proposal to exempt a portion of pension income from the individual income tax in Wisconsin.

### Background

Generally, Wisconsin follows federal practice and taxes most public and private pension income, if the pension contribution was not previously taxed to the employee at the time the contribution was set aside for retirement. Under Wisconsin law, there are two broad exceptions to this policy. First, federal law requires that Tier I railroad retirement benefits be exempt from state taxation.

Second, all pension payments received by taxpayers who were members of or retired from certain public pension systems prior to 1964 are excluded from taxation under state law. This exclusion applies to federal civilian and military retirement systems. In addition, benefits received under the following state and local retirement plans are eligible for this exclusion: (a) Milwaukee Public School Teachers' Annuity and Retirement Fund; (b) Wisconsin State Teachers' Retirement System; (c) Employers' Retirement System of the City of Milwaukee; (d) Milwaukee County Employees' Retirement Systems; (e) Sheriffs' Annuity and Benefit Fund of Milwaukee County; (f) Policemen's Annuity and Benefit Fund of Milwaukee; and (g) Firemen's Annuity and Benefit Fund of Milwaukee.

## Proposal

A proposal to exempt up to \$5,000 in pension income from taxation (up to \$10,000 for married taxpayers filing joint returns) would reduce income tax revenues by an estimated \$107 million in 1999-00 and \$109 million in 2000-01.

The attachment to this memorandum provides distributional information on the proposal to exempt a portion of pension income. This information is from the 1997 Wisconsin tax sample, which has data from over 20,000 tax returns, weighted to reflect all taxpayers in 1997. However, changes over time in the number of taxpayers and the kinds and amounts of income, deductions and credits they claim cannot be shown. To the extent possible, changes in tax laws between 1997 and later years have been included. The fiscal effect shown in the attachment differs from the fiscal estimate outlined above because the table reflects 1997 data and the fiscal estimate is for the 1999-01 biennium.

I hope this information is helpful. If I can be of further assistance, please contact me.

KD/dls  
Attachment

## ATTACHMENT 1

### Distribution of Taxpayers with a Tax Decrease Under a Proposal to Exempt a Portion of Pension Income

Wisconsin Adjusted Gross Income	Taxpayers With a Tax Decrease				Average Decrease	Count of All Returns	% of All Returns in AGI Class
	Count	Percent of Count	Amount of Tax Decrease	Percent of Amount			
Under \$5,000	200	0.1%	-\$1,000	0.001%	-\$5	354,100	0.1%
5,000 to 10,000	3,700	1.4%	-169,000	0.169%	-46	283,100	1.3%
10,000 to 15,000	22,300	8.3%	-3,705,000	3.700%	-166	234,100	9.5%
15,000 to 20,000	30,000	11.1%	-8,273,000	8.262%	-276	214,700	14.0%
20,000 to 25,000	30,600	11.3%	-12,396,000	12.379%	-405	190,200	16.1%
25,000 to 30,000	26,200	9.7%	-11,135,000	11.120%	-425	157,400	16.6%
30,000 to 40,000	38,500	14.3%	-17,237,000	17.213%	-448	260,200	14.8%
40,000 to 50,000	34,600	12.8%	-13,874,000	13.855%	-401	214,600	16.1%
50,000 to 60,000	25,000	9.3%	-10,655,000	10.640%	-426	174,500	14.3%
60,000 to 70,000	17,200	6.4%	-7,222,000	7.212%	-420	126,000	13.7%
70,000 to 80,000	11,700	4.3%	-4,238,000	4.232%	-362	78,600	14.9%
80,000 to 90,000	8,200	3.0%	-3,443,000	3.438%	-420	53,700	15.3%
90,000 to 100,000	3,000	1.9%	-1,771,000	1.769%	-354	31,100	16.1%
100,000 to 150,000	9,300	3.4%	-3,620,000	3.615%	-389	56,900	16.3%
150,000 to 200,000	3,000	1.1%	-1,091,000	1.089%	-364	16,600	18.1%
200,000 to 250,000	1,400	0.5%	-390,000	0.389%	-279	7,300	19.2%
250,000 to 300,000	700	0.3%	-227,000	0.227%	-324	4,200	16.7%
300,000 and over	2,100	0.8%	-691,000	0.690%	-329	11,700	17.9%
<b>TOTALS</b>	<b>269,700</b>	<b>100.0%</b>	<b>-\$100,138,000</b>	<b>100.000%</b>	<b>-\$371</b>	<b>2,469,000</b>	<b>10.9%</b>

SOURCE: 1997 Wisconsin Tax Sample

- Approximately 269,700 taxpayers, or 10.9% of all taxpayers in 1997, would have a tax decrease under a proposal to exempt a portion of pension income.
- Taxpayers with income between \$15,000 and \$50,000 would receive 62.8% of the total tax reduction and make up 59.2% of all taxpayers with a tax decrease.
- For all taxpayers with a tax reduction, the average tax decrease would be \$371.
- Individuals without a tax benefit include those who do not have pension income, those who do not have a tax liability under current law or who pay the alternative minimum tax.



State of Wisconsin  
1999 - 2000 LEGISLATURE

LRB-4170/P1

MES.....

cm 11

PRELIMINARY DRAFT - NOT READY FOR INTRODUCTION

D-note

SOON

gem

1 AN ACT relating to: exempting from taxation certain amounts of pension  
2 income received by an individual.

INS  
ANL

**Analysis by the Legislative Reference Bureau**

This bill exempts from taxation up to \$5,000 of pension payments received each year by an individual, provided that such payments are not already exempt from taxation.

This bill will be referred to the joint survey committee on tax exemptions for a detailed analysis, which will be printed as an appendix to this bill.

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.

**The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:**

3 SECTION 1. 71.05 (1) (am) of the statutes is created to read:

4 71.05 (1) (am) Pension income. Except for a payment that is exempt under par.

5 (a) or that is exempt as a railroad retirement benefit, up to \$5,000 of payments  
6 received each year by an individual from a retirement plan offered by an employer.

7 SECTION 2. Initial applicability.



1 (1) This act first applies to taxable years beginning on January 1 of the year  
2 in which this subsection takes effect, except that if this subsection takes effect after  
3 July 31, this act first applies to taxable years beginning on January 1 of the year  
4 following the year in which this subsection takes effect.

5 (END)



## 1999 BILL

INSANL

- 1 AN ACT *to renumber* 71.05 (1) (a); and *to create* 71.05 (1) (a) 2. of the statutes;  
2 relating to: exempting from income taxation the pension benefits of certain  
3 teachers who taught in other states.

### *Analysis by the Legislative Reference Bureau*

Under current law, the pension benefits of certain public employes are exempt from state taxation. The pensions that are exempt include payments received from the U.S. civil service retirement system, the U.S. military employe retirement system, the Milwaukee city and county retirement systems, the police officer's annuity and benefit fund of Milwaukee, the Milwaukee public school teachers' retirement fund, the Wisconsin state teachers' retirement fund and the sheriff's annuity and benefit fund of Milwaukee County. For all of these pension plans, the exemption applies only to persons who were members of or retired from the plans as of December 31, 1963.

This bill creates a similar exemption for certain public school teachers who taught in other states. Under the bill, if a teacher lived in Wisconsin on December 31, 1963, and taught at a public elementary or secondary school in another state on December 31, 1963, the pension income received by that teacher from the state in which he or she taught is exempt from taxation by this state.

This bill will be referred to the joint survey committee on tax exemptions for a detailed analysis, which will be printed as an appendix to this bill.

(END OF INSERT)

**DRAFTER'S NOTE  
FROM THE  
LEGISLATIVE REFERENCE BUREAU**

LRB-4170/P1dn

MES.....

*cmh*

Please review this bill very carefully to ensure that it captures your intent. There are a number of different pensions that exist and the language in created s. 71.05 (1) (am) is very broad, but I'm not sure if it is too broad or too narrow. IRAs, for example, would not be covered by the bill because they are not payments received from a retirement plan offered by an employer. You may want the Department of Revenue to review the bill to see how ~~they~~ <sup>it</sup> would interpret ~~it~~ <sup>the bill</sup>.

Also, there is no requirement under the bill that the exemption be available only to retired persons. For example, an individual could have worked someplace for 30 years, retired and started collecting his or her pension and then decided to go back to work full time at age 59. Under the bill, his pension would be eligible for the exemption even though he is working full time. Is this consistent with your intent?

*or  
she*

*or her*

Marc E. Shovers  
Senior Legislative Attorney  
Phone: (608) 266-0129  
E-mail: Marc.Shovers@legis.state.wi.us

**DRAFTER'S NOTE  
FROM THE  
LEGISLATIVE REFERENCE BUREAU**

LRB-4170/P1dn  
MES:cmh:jf

January 12, 2000

Please review this bill very carefully to ensure that it captures your intent. There are a number of different pensions that exist and the language in created s. 71.05 (1) (am) is very broad, but I'm not sure if it is too broad or too narrow. IRAs, for example, would not be covered by the bill because they are not payments received from a retirement plan offered by an employer. You may want the Department of Revenue to review the bill to see how it would interpret the bill.

Also, there is no requirement under the bill that the exemption be available only to retired persons. For example, an individual could have worked someplace for 30 years, retired and started collecting his or her pension and then decided to go back to work full time at age 59. Under the bill, his or her pension would be eligible for the exemption even though he or she is working full time. Is this consistent with your intent?

Marc E. Shovers  
Senior Legislative Attorney  
Phone: (608) 266-0129  
E-mail: Marc.Shovers@legis.state.wi.us

## Shovers, Marc

---

**From:** Smith, Beth  
**Sent:** Thursday, January 13, 2000 3:17 PM  
**To:** Shovers, Marc  
**Subject:** RE:

We want it jacketed as a Senate bill. I thought he had to sign the form first.

-----Original Message-----

**From:** Shovers, Marc  
**Sent:** Thursday, January 13, 2000 3:16 PM  
**To:** Smith, Beth  
**Subject:** RE:

Do you mean that you want it jacketed for the Senate, instead of forwarded back to your office for the Senator to sign, requesting that it be jacketed?

Marc E. Shovers

Senior Legislative Attorney  
Legislative Reference Bureau  
Phone: (608) 266-0129  
Fax: (608) 264-8522  
e-mail: marc.shovers@legis.state.wi.us

-----Original Message-----

**From:** Smith, Beth  
**Sent:** Thursday, January 13, 2000 2:29 PM  
**To:** Shovers, Marc  
**Subject:**

In regard to LRB 4170, the draft is fine the way it is.

Please send us one that is ready for his signature.

Thank you.



State of Wisconsin  
1999 - 2000 LEGISLATURE

LRB-4170/11

MES:cmh

AMR

~~PRELIMINARY DRAFT - NOT READY FOR INTRODUCTION~~

TODAY

JACKET  
FOR  
SENATE

reger

- 1 AN ACT to create 71.05 (1) (am) of the statutes; relating to: exempting from  
2 taxation certain amounts of pension income received by an individual.

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3           (a) or that is exempt as a railroad retirement benefit, up to \$5,000 of payments

4           received each year by an individual from a retirement plan offered by an employer.

5           **SECTION 2. Initial applicability.**

6           (1) This act first applies to taxable years beginning on January 1 of the year

7           in which this subsection takes effect, except that if this subsection takes effect after

8           July 31, this act first applies to taxable years beginning on January 1 of the year

9           following the year in which this subsection takes effect.

10

(END)



# State of Wisconsin

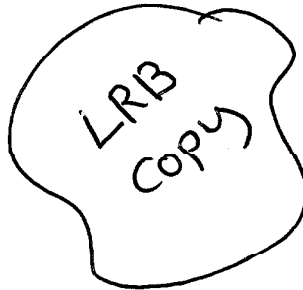
## LEGISLATIVE REFERENCE BUREAU

100 NORTH HAMILTON STREET  
P. O. BOX 2037  
MADISON, WI 53701-2037

LEGAL SECTION: (608) 266-3561  
REFERENCE SECTION: (608) 266-0341  
FAX: (608) 266-5648

STEPHEN R. MILLER  
CHIEF

February 22, 2000



### MEMORANDUM

**To:** Senator Wirch

**From:** Marc E. Shovers, Sr. Legislative Attorney, (608) 266-0129

**Subject:** Technical Memorandum to **1999 SB 359** (LRB 99-4170/1)

---

We received the attached technical memorandum relating to your bill. This copy is for your information and your file. If you wish to discuss this memorandum or the necessity of revising your bill or preparing an amendment, please contact me.



**MEMORANDUM**

February 18, 2000

**TO:** Marc Shovers  
Legislative Reference Bureau

**FROM:** Yeang-Eng Braun *YEB*  
Department of Revenue

**SUBJECT:** Technical Memorandum on SB 359 - Tax Exemption for Certain Amounts of Pension Income Received by an Individual

The proposed legislation makes no provision for the funding of the costs involved in administering the activities required. If the author wishes to provide funding, appropriation language could be developed and costs allocated in the following manner:

	<u>Chapter 20</u>	<u>Amount</u>	<u>FTE</u>
annual	s. 20.566 (1) (a)	\$ 34,900	

If you have any questions regarding these costs, please contact Jackie Wipperfurth at 266-9513.

YEB:MK:ds  
t:\fsn99-00\mk\sb359.tec