Assembly Committee on Ways and Means

DATE
Moved by Plale Seconded by Wood
AB 860 SB Clearinghouse Rule
AJR SJR
A SR Other
A/S Amdt
A/S Amdt to A/S Amdt
A/S Sub Amdt
A/S Amdt to A/S Sub Amdt
A/S Amdt to A/S Amdt to A/S Sub Amdt

Be recommended for:

- [x] Passage
- [ ] Introduction
- [ ] Adoption
- [ ] Rejection
- [ ] Indefinite Postponement
- [ ] Tabling
- [ ] Concurrence
- [ ] Nonconcurrence

	Committee Member	Aye	No	Absent	Not voting
1.	Rep. Mickey Lehman, chair	1			
2.	Rep. Tom Sykora, vice-chair	2			
3.	Rep. Bob Goetsch	3			
4.	Rep. Mike Huebsch	4			
5.	Rep. Frank Lasee	5			
6.	Rep. John Ainsworth	6			
7.	Rep. Suzanne Jeskewitz	7			
8.	Rep. Carol Owens	8			
9.	Rep. Joan Spillner	9			
10.	Rep. Wayne Wood	10			
11.	Rep. John La Fave	11			
12.	Rep. Lee Meyerhofer	12			
13.	Rep. Johnie Morris-Tatum	13			
14.	Rep. Jeffrey Plale	14			
15.	Rep. Bob Turner				
16.	Rep. Bob Ziegelbauer	15			
	Totals				

MOTION CARRIED [x] MOTION FAILED [ ]

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SB 409 yes AB898 yes
AB 853 yes
AB 894 yes
AB 726 yes
AB 860 yes
Joan Spillner
Votes

Joint Survey Committee on Tax Exemptions, March 16, 2000

Assembly Bill 860/Senate Bill 451 – Adopting Federal Internal Revenue Code Changes; Withholding by Purchaser of Lottery Prize

This bill adopts, for Wisconsin individual income and corporate income and franchise tax purposes, changes to the Internal Revenue Code (IRC) enacted through December 31, 2000. It also requires the purchaser of a lottery prize to withhold income tax from the payment made to the seller of the prize.

The Wisconsin income and franchise tax bases conform closely to the federal income tax bases. The state maintains conformity by adopting, each year, changes made to the IRC by Congress; AB 860/SB 451 is the vehicle for adopting the most recent changes to the IRC. Conformity to the federal tax base simplifies the calculation of state tax for individuals and businesses, since they can use federal income as the starting point of the state, rather than making a fresh computation of income.

The bill include several tax exemptions, all of which result in revenue losses to the state. However, other provisions increase state income and franchise tax revenues, so that the net effect of this bill is a $1.1 million revenue increase in FY01.

Exemptions in the bill include:

- Extension of the exclusion for employer-provided educational assistance to courses beginning before January 1, 2002. The exclusion had been scheduled to expire on June 1, 2000, and Wisconsin has allowed this exclusion for state purposes. The exclusion is allowed for tuition, fees, books, supplies and equipment up to $5,250 per year. This provision would reduce individual income tax revenues by $2.2 million in FY01.

- Extension of the election to expense certain environmental remediation costs to December 31, 2001. This election, which had been scheduled to expire after December 31, 2000, allows taxpayers to deduct these expenses immediately, rather than claiming depreciation deductions over several years. Wisconsin had previously adopted the expiring provision. This provision would reduce revenue by $0.1 million in FY01.

Additional provisions, which are not exemptions but rather increase revenues relate to (FY01 revenue gain indicated in parentheses):

- The treatment of gains from constructive ownership transactions involving financial assets and derivative contracts (+$0.2 million),

- Transfer of excess defined benefit pension plan assets to an account for retiree health benefits (+$0.1 million),

- Repeal of the installment method of accounting for accrual method taxpayers (+$2.9 million), and

- Changes in the treatment of real estate investment trusts (+$0.2 million).

The provision requiring purchasers of lottery prizes to withhold income tax from their payment to the sellers of the prize would help to ensure that the appropriate amount of tax is paid on the prize. The change is not expected to have a significant fiscal effect.

The Department of Revenue supports passage of this bill.

Prepared by: Dennis Collier, 266-5773
March 14, 2000

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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 ● http://www.dor.state.wi.us

Tommy G. Thompson
Governor

Cate Zeuske
Secretary of Revenue

DOR Testimony for Assembly Committee on Ways and Means
Wednesday, March 22, 2000

Assembly Bill 860/Senate Bill 451
Adopting Federal Internal Revenue Code Changes & Withholding by Purchaser of Lottery Prize

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The Wisconsin income and franchise tax bases conform closely to the federal income tax bases. The state maintains conformity by adopting, each year, changes made to the IRC by Congress; AB 860/SB 451 is the vehicle for adopting the most recent changes to the IRC. Conformity to the federal tax base simplifies the calculation of state tax for individuals and businesses, since they can use federal income as the starting point of the state, rather than making a fresh computation of income.

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- Changes in the treatment of real estate investment trusts (+$0.2 million).

The provision requiring purchasers of lottery prizes to withhold income tax from their payment to the sellers of the prize would help to ensure that the appropriate amount of tax is paid on the prize. The change is not expected to have a significant fiscal effect.

The Department of Revenue supports passage of this bill.

CORRESPONDENCE/MEMORANDUM **STATE OF WISCONSIN**
Department of Revenue

Date: March 27, 2000

To: Members, Assembly Committee on Ways and Means

From: Tom Ourada, Executive Assistant TO

Subject: IRC Update - Pension Assets for Retiree Benefits (AB 860 & SB 451)

In response to Rep. Wood's question regarding the provision of the IRC update that relates to pension assets for retiree benefits, I would like to provide further detail to expand on my comments at the committee's March 22 hearing.

This provision of the federal Tax Relief Extension Act of 1999 (Public Law 106-170) relates to corporate employers with defined benefit pension plans. The new law extends the past rule that allowed an employer to transfer excess assets from a defined benefit pension plan to an account within the same plan to pay for retiree health benefits (for those retirees entitled to receive such benefits upon retirement).

By transferring excess assets from the pension plan to a health benefits account within the same plan (referred to as a section 401(h) account), a corporation can avoid incurring the expense of paying for retiree health benefits. Rather, it can utilize the 401(h) account of the pension plan (which is exempt from income tax) to pay for those benefits. By avoiding the cost of funding the retiree health benefit expenditures, the profits (and corresponding taxable income) of the corporation will be higher to the extent of the avoided expense. The fiscal effect of higher corporate profits from this bill is estimated to be +$0.1 million in FY01 and +$0.2 in FY02.

The new law also affects the level of health benefits that are provided to retirees by replacing the minimum benefit standard with a minimum cost requirement. The minimum benefit standard required an employer to provide the same level of health benefits to retirees in the year of the transfer of excess assets and the four following years. The minimum cost requirement mandates that a group health plan or arrangement under which applicable health benefits are provided to retirees provide a minimum dollar level of retiree health expenditures for the year of the transfer and the following four years.

The new law maintains current provisions relating to reversions, disqualifications and prohibited transactions with respect to 401(h) accounts within a defined benefit pension plan. Therefore, the excess assets transferred from the pension plan to a 401(h) account are not included in gross income of the employer or subject to a federal excise tax on reversions.

If you have any questions, please feel free to contact me.

Assembly Republican Majority

BILL SUMMARY

AB 860: Internal Revenue Code Update

Date: XXXXX, 2000

BACKGROUND

Tax Code: Periodically, the Wisconsin Department of Revenue introduces legislation that will modify Wisconsin Tax code to bring it into conformity with the federal Internal Revenue Code. These IRC Updates are required as the United States Congress passes legislation that modifies the federal code.

Gambling Provisions: Under current law, a lottery prizewinner may designate all or part of the prize to another person, the assignee. Currently, the assignee is not required to withhold income taxes from the amount the assignee pays to the lottery prizewinner to purchase the rights to the prize.

SUMMARY OF AB 860

Tax Code: AB 860 modifies the Wisconsin code as a result of changes made to the federal code by Public Laws 106-36 and 106-170. A summary of the major code updates can be found in the Fiscal Estimate prepared by the Department of Revenue.

Gambling Provisions: Under AB 860, an assignee who purchases the rights to a lottery prize is required to withhold income taxes from the amount the assignee pays to the lottery prizewinner. Also, before the assignment of the lottery prize, the assignee must specify in an affidavit that they will withhold income taxes from the amount the assignee pays to the lottery prizewinner. Also, AB 860 requires the lottery administrator to report the federal income tax number of an assignee, if any, to DOR.

AMENDMENTS

None

FISCAL EFFECT

A fiscal estimate prepared by the Department of Revenue indicates that under AB 860, state revenues would increase by $1.1 million in FY01.

PROS

1. Conforming state tax code to the Internal Revenue Code would reduce confusion for taxpayers.
2. Conforming state tax code to the IRC would simplify tax administration for DOR

CONS

1. None apparent.

SUPPORTERS

Rep. John Gard, author; Sen. Brian Burke, lead co-sponsor; WI Department of Revenue.

OPPOSITION

None.

HISTORY

Assembly Bill 860 was introduced on March 8, 2000, and referred to the Joint Survey Committee on Tax Exemptions. A public hearing was held on March 16, 2000. On March 16, 2000, the Committee voted 9-0 to adopt the report of AB 860. On March 21, 2000, the Committee reported AB 860. On March 21, 2000, AB 860 was referred to the Assembly Committee on Ways & Means. On March 22, 2000, the Assembly Committee on Ways and Means voted 16-0 to recommend passage of AB 860.

CONTACT: Andrew Nowlan, Office of Rep. Michael Lehman

Assembly Republican Majority

BILL SUMMARY

AB 860: Internal Revenue Code Update

Date: March 28th, 2000

BACKGROUND

Tax Code: Periodically, the Wisconsin Department of Revenue introduces legislation that will modify Wisconsin Tax code to bring it into conformity with the federal Internal Revenue Code. These IRC Updates are necessary as the United States Congress passes legislation that modifies the federal code.

Gambling Provisions: Under current law, a lottery prizewinner may designate all or part of the prize to another person, the assignee. Currently, the assignee is not required to withhold income taxes from the amount the assignee pays to the lottery prizewinner to purchase the rights to the prize.

SUMMARY OF AB 860

Tax Code: AB 860 modifies the Wisconsin code as a result of changes made to the federal code by Public Laws 106-36 and 106-170. A summary of the major code updates can be found in the Fiscal Estimate prepared by the Department of Revenue.

Gambling Provisions: Under AB 860, an assignee who purchases the rights to a lottery prize is required to withhold income taxes from the amount the assignee pays to the lottery prizewinner. Also, before the assignment of the lottery prize, the assignee must specify in an affidavit that they will withhold income taxes from the amount the assignee pays to the lottery prizewinner. Also, AB 860 requires the lottery administrator to report the federal income tax number of an assignee, if any, to DOR.

AMENDMENTS

None

FISCAL EFFECT

A fiscal estimate prepared by the Department of Revenue indicates that under AB 860, state revenues would increase by $1.1 million in FY01.

PROS

1. Conforming state tax code to the Internal Revenue Code would reduce confusion for taxpayers.

2. Conforming state tax code to the IRC would simplify tax administration for DOR

CONS

1. None apparent.

SUPPORTERS

Rep. John Gard, author; Sen. Brian Burke, lead co-sponsor; WI Department of Revenue.

OPPOSITION

None.

HISTORY

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CONTACT: Andrew Nowlan, Office of Rep. Michael Lehman