

### Fiscal Estimate - 2001 Session

Original       Updated       Corrected       Supplemental

|  |  |  |             |
|--|--|--|-------------|
| <b>LRB Number</b> <b>01-4228/1</b>   |  | <b>Introduction Number</b> <b>AB-789</b> |             |
| <b>Subject</b>   |  |  |             |
| Exempting from income taxation national guard technician pensions; interest and penalty waivers  |  |  |             |
| <b>Fiscal Effect</b>   |  |  |             |
| <b>State:</b>  |  |  |             |
| <input type="checkbox"/> No State Fiscal Effect<br><input type="checkbox"/> Indeterminate<br><input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget<br><input type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input type="checkbox"/> Yes <input type="checkbox"/> No<br><input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs   |  |  |             |
| <b>Local:</b>  |  |  |             |
| <input type="checkbox"/> No Local Government Costs<br><input type="checkbox"/> Indeterminate<br>1. <input type="checkbox"/> Increase Costs      3. <input type="checkbox"/> Increase Revenue<br><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory<br>2. <input type="checkbox"/> Decrease Costs      4. <input type="checkbox"/> Decrease Revenue<br><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory<br>5. Types of Local Government Units Affected<br><input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities<br><input type="checkbox"/> Counties <input type="checkbox"/> Others<br><input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts |  |  |             |
| <b>Fund Sources Affected</b>   |  | <b>Affected Ch. 20 Appropriations</b>    |             |
| <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS  |  |  |             |
| <b>Agency/Prepared By</b>  |  | <b>Authorized Signature</b>              | <b>Date</b> |
| DOR/ Meredith Krejny (608) 261-8984  |  | Brian Pahnke (608) 266-2700              | 2/26/02     |

## Fiscal Estimate Narratives

DOR 2/26/02

|   |                  |                     |               |               |                 |
|---|------------------|---------------------|---------------|---------------|-----------------|
| LRB Number  | <b>01-4228/1</b> | Introduction Number | <b>AB-789</b> | Estimate Type | <b>Original</b> |
| <b>Subject</b>  |                  |                     |               |               |                 |
| Exempting from income taxation national guard technician pensions; interest and penalty waivers |                  |                     |               |               |                 |

### 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 1999. 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.

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 are estimated to 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 1999 is estimated to reduce state revenues by \$514,000 (450 technicians x \$381 x 3 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 x \$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 \$914,000 due to the one-time refund payments or debt forgiveness and \$675,000 annually due to exempt pensions.

**Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

|  |  |  |                   |
|--|--|--|-------------------|
| <b>LRB Number</b> 01-4228/1  |  | <b>Introduction Number</b> AB-789              |                   |
| <b>Subject</b>   |  |  |                   |
| Exempting from income taxation national guard technician pensions; interest and penalty waivers  |  |  |                   |
| <b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>                                |  |  |                   |
| -\$914,000 GPR-Rev.  |  |  |                   |
| <b>II. Annualized Costs:</b>   |  | <b>Annualized Fiscal Impact on funds from:</b> |                   |
|  |  | Increased Costs                                | Decreased Costs   |
| <b>A. State Costs by Category</b>  |  |  |                   |
| State Operations - Salaries and Fringes  |  | \$   |                   |
| (FTE Position Changes)   |  |  |                   |
| State Operations - Other Costs   |  |  |                   |
| Local Assistance   |  |  |                   |
| Aids to Individuals or Organizations   |  |  |                   |
| <b>TOTAL State Costs by Category</b>   |  | <b>\$</b>                                      | <b>\$</b>         |
| <b>B. State Costs by Source of Funds</b>   |  |  |                   |
| GPR  |  |  |                   |
| FED  |  |  |                   |
| PRO/PRS  |  |  |                   |
| SEG/SEG-S  |  |  |                   |
| <b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)</b> |  |  |                   |
|  |  | Increased Rev                                  | Decreased Rev     |
| GPR Taxes  |  | \$   | \$-675,000        |
| GPR Earned   |  |  |                   |
| FED  |  |  |                   |
| PRO/PRS  |  |  |                   |
| SEG/SEG-S  |  |  |                   |
| <b>TOTAL State Revenues</b>  |  | <b>\$</b>                                      | <b>\$-675,000</b> |
| <b>NET ANNUALIZED FISCAL IMPACT</b>  |  |  |                   |
|  |  | State  | Local             |
| NET CHANGE IN COSTS  |  | \$   | \$                |
| NET CHANGE IN REVENUE  |  | \$-675,000                                     | \$                |
| <b>Agency/Prepared By</b>  |  | <b>Authorized Signature</b>                    | <b>Date</b>       |
| DOR/ Meredith Krejny (608) 261-8984  |  | Brian Pahnke (608) 266-2700                    | 2/26/02           |