STATE OF WISCONSIN

REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS

2001 ASSEMBLY BILL 768

[Introduced by Representatives Krawczyk, Lippert, M. Lehman, Gard, Jensen, Grothman, Ott, Seratti, D. Meyer, Owens, J. Fitzgerald, Nass, Rhoades, Musser, Vrakas, Johnsrud, Hundertmark, Loeffelholz, Ward, Montgomery, Bies, Hahn, Ladwig, Wieckert, Leibham, Jeskewitz, Skindrud, Powers, Urban, Starzyk, Kaufert, Hines, Huebsch, Townsend, Pettis, Kestell, Walker, Underheim, Friske and Petrowski; cosponsored by Senators Burke, Baumgart, Erpenbach, Grobschmidt, M. Meyer, Risser and Wirch.]

General Nature of Proposal

Generally, under current law, for Wisconsin income tax purposes, state law makes reference to the Internal Revenue Code. Typically, every biennium, Wisconsin statutes relating to the income tax are updated to provide a more current reference to the Internal Revenue Code, as affected by recent federal legislation. 2001 Senate Bill 407 adopts, for income tax and franchise tax purposes, the changes to the Federal Internal Revenue Code made by the individual income and pension and individual retirement arrangement provisions of the Federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). The bill excludes a provision of EGTRRA relating to a deduction for higher education expenses because a similar deduction is already allowed under current state law. The bill also excludes a provision of EGTRRA relating to an estate tax rule for conservation easements. A number of the provisions of EGTRRA that would be adopted by the bill do not relate to tax exemptions. Those that do are described in the fiscal portion of this report.

Legality Involved

There are no questions of legality involved.

Fiscal Effect Upon the State and Its Subdivisions

The Department of Revenue estimates the fiscal effect of the provisions of the bill as follows:

Assumptions Used in Arriving at Fiscal Estimate

The bill adopts for Wisconsin individual income and corporate income and franchise tax purposes the provisions of the federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, except for a deduction for post-secondary education expenses and an estate tax exclusion.

The bill would reduce tax revenues by $8.55 million in FY02 and $19.4 million in FY03. Provisions of EGTRRA with a fiscal impact in the current biennium and the amount of that impact include (provisions generally take effect in tax year 2002, unless otherwise noted):

1) Increase in the amount of the exclusion for employer-provided adoption assistance from $5,000 to $10,000 per eligible child. (-$0.05 million in FY02, -$0.20 million in FY03)

2) Increases in the maximum annual contribution to an individual retirement account from $2,000 to $3,000 in 2002-2004, $4,000 in 2005-2007 and $5,000 in 2008 and thereafter for persons younger than age 50, and to $3,500 in 2002-2004, $4,500 in 2004, $5,000 in 2006-2007 and $6,000 in 2008 and thereafter for persons age 50 and older. (-$2.25 million in FY02, -$5.95 million in FY03)

3) Increases in the alternative minimum tax exemption amounts by $4,000 for married couples filing jointly and by $2,000 for other filers beginning in tax year 2001. (-$0.20 million in FY03)

4) Permanent extension of the exclusion for employer-provided educational assistance, which had been scheduled to expire on December 31, 2001, and extension of the exclusion to expenses for graduate-level courses. (-$2.70 million in FY02, -$4.65 million in FY03)

5) Increases in the annual contribution limit on education IRAs from $500 to $2,000 and in the income range over which the deduction is phased out for married couples filing jointly from federal adjusted gross income of $150,000 to $160,000 to income of $190,000 to $220,000. (-$1.05 million in FY02, -$2.25 million in FY03)

6) Increases in the income ranges for phasing out the student loan interest deduction, with the ranges indexed for inflation after 2002. New ranges are $100,000 to $130,000 for married couples filing jointly and $50,000 to $65,000 for other filers. ($-0.90 million in FY02, -$1.55 million in FY03)

7) Increases in contribution limits on defined contribution plans and in elective deferrals on a variety of other retirement savings plans. For defined contributions plans, contributions limits increase from $35,000 to $40,000 in 2002 and are indexed for inflation thereafter. For sec. 401(k) plans, sec. 403(b) annuities, and sec. 408(k) simplified employee pensions (SEP) plans, the maximum elective deferral is increased from $10,500 to $11,000 in 2002 and by $1,000 each year thereafter until the maximum reaches $15,000 in 2006, and then is indexed for inflation. These same elective deferral limits are allowed for sec. 457 tax-exempt organization and government plans, raised from the previous $8,500. The maximum elective deferrals under savings incentive match plan for employees plans is increased from $6,500 to $7,000 in 2002 and by $1,000 each year thereafter until the limit reaches $10,000 in 2005, and then is indexed for inflation. In addition, the compensation limit for employer deduction rules and for nondiscrimination tests for sec. 408(k) salary reduction SEPs, sec. 501(c)(9) voluntary employee benefit associations and sec. 501(c)(17)(A) supplemental unemployment benefit trusts is increased from $170,000 to $200,000 and indexed for inflation after 2002. (-$0.40 million in FY02, -$1.50 million in FY03).

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9) Increases in dollar limits on elective deferrals under several types of plans for persons age 50 and older. The additional catch-up contribution allowed for sec. 401(k)(11) or SIMPLE plans is $500 in 2002, $1,000 in 2003, $1,500 in 2004, $2,000 in 2005 and $2,500 in 2006. For other plans, the additional amount is $1,000 in 2002, $2,000 in 2003, $3,000 in 2004, $4,000 in 2005 and $5,000 in 2006. The additional deferrals for all plans are indexed for inflation after 2006. (-$0.50 million in FY02, -$1.20 million in FY03)

10) Increase in the contribution limit to 100% of compensation for defined contribution plans, tax-sheltered annuities and government plans. (-$0.20 million in FY02, -$0.40 million in FY03)

11) Elimination of the requirement that government and tax-exemption plan participants coordinate deferrals with contributions to other plans. (-$0.05 million in FY02, -$0.15 million in FY03)

12) Increases in the amount of deductible contributions by employers for defined contribution and SEP plans from 15% to 25% of contributions, and for money purchase plans to 25% of compensation or the amount required by sec. 401(k)(11), whichever is greater. (-$0.10 in FY03)

13) Exclusion from determination of employer deduction limits of salary reduction contributions elected by the employee to a cash or deferred arrangement under a sec. 401(k) plan, a salary reduction simplified employee pension (SARSEP), a tax-sheltered annuity or a SIMPLE account. (-$0.20 million in FY02, -$0.40 million in FY03)

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17) Permission for rollovers from government plans and tax-sheltered annuities to other retirement plans, and from these other plans to government plans and tax-sheltered annuities. (+$0.10 million in FY02)

18) Expansion of the deduction by corporations of dividends paid to an employee stock ownership plan and reinvested in qualified employer securities. (-$0.10 million in FY02, -$0.25 million in FY03)

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Public Policy Involved

The provisions of the bill relating to tax exemptions are good public policy.