

Fiscal Estimate Narratives

DOR 02/20/2002

LRB Number	01-4811/1	Introduction Number	AB-819	Estimate Type	Original
Subject					
Internal Revenue Code update					

Assumptions Used in Arriving at Fiscal Estimate

The bill would adopt for Wisconsin individual income and corporate income and franchise tax purposes the provisions of federal tax laws enacted during 2000 and 2001. These federal laws include: the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) enacted in 2001, and the Federal Sales Corporation Repeal and Extraterritorial Income Exclusion Act (FSCRA), the Community Renewal Tax Relief Act (CRTRA), which was incorporated into the Consolidated Appropriations Act, and the Installment Tax Correction Act (ITCA), all enacted in 2000. All provision of these laws would be adopted, except for a deduction for higher education expenses enacted in EGTRRA.

The bill would reduce revenues by \$8.55 million in FY02 and \$24.35 million in FY03. Provisions of the federal laws with a fiscal impact in the current biennium (shown in parentheses) would:

- 1) Increase 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) Increase the maximum annual contribution to an individual retirement account (IRA) 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) Increase 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) Extend permanently the exclusion for employer-provided educational assistance, which had been scheduled to expire on December 31, 2001, and expand the exclusion to expenses for graduate-level courses. (-\$2.70 million in FY02, -\$4.65 million in FY03)
- 5) Increase the annual contribution limit on education IRAs from \$500 to \$2,000 and the income range over which the deduction is phased out for married couples filing jointly from federal adjusted gross income (FAGI) 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) Increase the income ranges for phasing out the student loan interest deduction, with indexing 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) Extend from December 31, 2000, to December 31, 2003, the expiration for an election to immediately deduct otherwise depreciable environmental remediation expenditures. (-\$1.25 million in FY03)
- 8) Expand the special deduction for contributions of computer equipment to elementary and secondary schools and libraries and extend the deduction's expiration from December 31, 2000, to December 31, 2003. (-\$1.10 million in FY03)
- 9) Reduce the basis of stock received in tax-free exchanges by the amount of liability assumed in the exchange, but not below fair market value. (+\$0.20 million in FY03)
- 10) Repeal the foreign sales corporation provisions, enacting in their place an exclusion for extraterritorial income. (-\$2.80 million in FY03)
- 11) Increase the contribution limits on defined contribution plans and 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 plan, 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).

12) Increase the annual benefit limit under defined benefit plans from \$140,000 to \$160,000, indexed for inflation after 2002. (-\$0.10 million in FY02, -\$0.25 million in FY03)

13) Increase the 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)

14) Increase 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)

15) Eliminate 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)

16) Increase 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)

17) Exclude from determination of employer deduction limits the 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)

18) Clarify that an employer's determination that a contribution to a multiemployer plan is on account of a prior year is not a change in accounting method resulting in an adjustment in the employer's taxable income. (-\$0.05 million in FY03)

19) Increase the applicable percentage of current liability for the full-funding limit for defined benefit pension plans to 165% in 2002 and 170% in 2003, and repealing the percentage thereafter (previously, 160% in 2002, 165% in 2003-2004 and 170% thereafter). With repeal of this percentage, the full-funding limit will be the excess of the plan's accrued liability over the value of the plan's assets. (-\$0.05 million in FY02, -\$0.10 million in FY03)

20) Expand the exemption from prohibition for loans between a qualified plan and disqualified persons to sole proprietors, partners with an ownership interest exceeding 10% and S corporation employees or officers with an ownership interest exceeding 5%. (-\$0.10 million in FY02, -\$0.15 million in FY03)

21) Allow 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)

22) Expand 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)

23) Change the definition of top-heavy plan and key employee to limit the application of top-heavy rules that restrict the concentration of retirement plan benefit to key employees. (-\$0.05 million in FY03)

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
Internal Revenue Code update			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
-\$8.55 million GPR in FY02.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$-24,350,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$-24,350,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-24,350,000	\$
Agency/Prepared By		Authorized Signature	
DOR/ Dennis Collier (608) 266-5773		Brian Pahnke (608) 266-2700	
		Date	
		02/20/2002	