

Fiscal Estimate Narratives
DOR 2/4/02

LRB Number	01-4599/4	Introduction Number	SB-407	Estimate Type	Original
Subject					
Internal Revenue Code update; EGTRRA pension provisions only					

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).
- 8) Increase in 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)
- 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)

14) Clarification that an employer's determination that a contribution to a multiemployer plan is on account of a prior year is not a change in the method of accounting, which would subject the employer to an adjustment in taxable income. (-\$0.05 million in FY03)

15) Increases in 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)

16) Expansion of 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)

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)

19) Changes in the definition of top-heavy plan and key employee, thereby limiting the application of top-heavy rules, which seek to limit 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

LRB Number 01-4599/4		Introduction Number SB-407	
Subject			
Internal Revenue Code update; EGTRRA pension provisions only			
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		\$	\$-19,400,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$-19,400,000
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-19,400,000	\$
Agency/Prepared By		Authorized Signature	
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		Date	
		2/4/02	