

AB46

Assembly Hearing Slip

(Please print plainly)

Date: 2/28

Bill No. AB 46

Or Subject _____

Name Tom Orsak - DOR

Street Address or Route Number _____

City and Zip Code _____

Representing _____

Speaking in favor:	<input type="checkbox"/>
Speaking against:	<input type="checkbox"/>
Registering in favor:	<input type="checkbox"/>
Registering against:	<input type="checkbox"/>
Speaking for information only:	<input checked="" type="checkbox"/>
Neither for nor against:	<input type="checkbox"/>

Please promptly return this slip to the messenger at the committee.

Provided by:
Assembly Sergeant at Arms
411 West, State Capitol
Madison, WI 53708

Assembly Hearing Slip

(Please print plainly)

Date: 2.28.01

Bill No. Assembly 46

Or Subject Howards Law

Name Henry B Miller

Street Address or Route Number _____

City and Zip Code _____

Representing myself

Speaking in favor:	<input checked="" type="checkbox"/>
Speaking against:	<input type="checkbox"/>
Registering in favor:	<input type="checkbox"/>
Registering against:	<input type="checkbox"/>
Speaking for information only:	<input type="checkbox"/>
Neither for nor against:	<input type="checkbox"/>

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Madison, WI 53708

Assembly Hearing Slip

(Please print plainly)

Date: 2-28-01

Bill No. AB 44

Or Subject _____

Name REP. WARD

Street Address or Route Number 304 - N

City and Zip Code _____

Representing _____

Speaking in favor:	<input checked="" type="checkbox"/>
Speaking against:	<input type="checkbox"/>
Registering in favor:	<input type="checkbox"/>
Registering against:	<input type="checkbox"/>
Speaking for information only:	<input type="checkbox"/>
Neither for nor against:	<input type="checkbox"/>

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Representative John Ainsworth - Homestead Tax Credit Concerns

When an individual sells his/her business, he sometimes agrees to finance the new owner (child or trusted employee), especially if that new owner is currently unable to obtain adequate financing elsewhere. Because the seller has not received the total proceeds of the sale immediately, he may be unable to fund the entire cost of his retirement home.

Principal payments received from the sale of the business should not be included as income when considering eligibility for homestead credit. These payments are funds on which taxes have already been paid, have been invested in real estate and are now the retiree's own dollars being returned to him in the form of time payments from the sale of his investment (the real estate occupied by his business).

In addition, if a home is sold and financed by the seller as a part of that business (farm or Main Street business which includes living quarters) the interest portion of those time payments, which is offset by interest payment on the new home, should not be considered as income when considering eligibility for homestead credit.

The alternative would be for the seller to refuse to help the buyer in establishing ownership, demand full payment immediately and pay for his retirement home immediately. In his subsequent years, the sale of the business proceeds would not be considered when establishing eligibility for homestead credit.

June 6, 2000

TITLE Modify Definition of "Income" for Homestead and Farmland Preservation Credits

SUMMARY OF RECOMMENDATION:

Modify the definition of "income" for the purposes of the Homestead and Farmland Preservation credits to specify that: (1) nontaxable recoveries of a claimant's investment in a pension or annuity is excluded from "income" and only the taxable portion of the pension or annuity is included; (2) contributions made to a deferred comp, IRA and Keogh plan that are excluded or deducted from taxable income are not included in the definition of income; (3) that life insurance proceeds received by a beneficiary and nontaxable injury/illness benefits are included in the definition of income. These changes were included in 1999 AB 85.

DESCRIPTION OF CURRENT LAW AND PROBLEM

For homestead credit and farmland preservation credit purposes, "income" includes the **gross** amount of all pensions and annuities, amounts contributed to a deferred compensation plan that are excluded from wages, and amounts deducted for contributions to individual retirement accounts and Keogh plans. Life insurance proceeds received by a beneficiary and nontaxable injury or sickness benefits are not includable.

1. Gross pensions and annuities – It is inequitable to include the portion of a pension or annuity payment that represents a return of the claimant's investment in the pension or annuity plan. When amounts are withdrawn from a savings account or other investment plan, only the earnings portion (interest or dividends) is "income," not the portion the claimant deposited into the account. When stocks or capital assets are sold, only the gain from the sale is "income," not the cost of the stocks or assets.
2. Deferred compensation, individual retirement account, and Keogh plan contributions – Amounts that have been excluded or deducted from taxable income as contributions to a deferred compensation plan, an individual retirement account, or a Keogh plan are taxable (and thus includable as "income") at the time distributions from these plans are received. Requiring these amounts to also be included as "income" in the year of the contribution results in double-counting that income and is therefore inequitable.
3. Life insurance proceeds and injury or illness benefits – "Income" is intended to be a measure of a claimant's resources available to help pay property taxes or rent. Therefore, it is equitable to include life insurance proceeds received by a beneficiary of a life insurance policy upon an insured person's death, and nontaxable compensation received for an injury or illness, as "income" for homestead credit and farmland preservation credit purposes.

ADMINISTRATIVE IMPACT

Processing cost will likely increase minimally, because additional claimants will likely be eligible for homestead credit benefits.

FISCAL EFFECT

Minimal GPR revenue loss.

DRAFTING INSTRUCTIONS

See the attached copy of 1999 Assembly Bill 85, which accomplishes exactly the intent of this Legislative Proposal. These revisions modify "income" as follows:

1. Nontaxable recoveries of a claimant's investment in a pension or annuity plan (except social security and railroad retirement) are not includable in "income."

Example: Claimant A receives pension payments of \$6,000 for the year, consisting of \$4,000 of taxable income and \$2,000 representing a return of Claimant A's investment in the pension plan.

Only \$4,000 is "income." As a result of this modification, the \$2,000 recovery of Claimant A's investment is not includable in "income."

2. Excludable contributions to deferred compensation plans and deductions for contributions to Keogh plans and individual retirement accounts under section 219 of the Internal Revenue Code are not "income" in the year the contributions are made. These amounts would be "income" for homestead credit and farmland preservation credit purposes only when distributions are received from these plans.
3. Life insurance proceeds received by a beneficiary of a life insurance policy upon an insured person's death, and compensation for injuries or illness excluded from taxable income under section 104 of the Internal Revenue Code, must be included in "income" for homestead credit and farmland preservation credit purposes.

EFFECTIVE DATE AND/OR INITIAL APPLICABILITY

Claims filed for taxable years beginning on or after January 1 of the year of enactment, or January 1 of the year following enactment if enacted on or after August 1.

DOR CONTACT PERSON

Clay Seth
Policy Initiatives Advisor
266-8920

PREPARED BY

Mark Wipperfurth
Revenue Tax Specialist
266-8253

Ways & Means Committee
Preliminary Report on Referred Legislation
February 13, 2001

Bill: **AB 46**
Author: **Ward**
Date Referred: **01-25-2001**
Public Hearing: **02-28-2001**
Executive Session:

Relating Clause: **modifying the definition of "income" under the homestead tax credit.**

Comments from Department of Revenue-

According to Ward's office, DOR supports this legislation, though would prefer that life insurance proceeds be included when determining AGI under the homestead tax credit.

Comments from the Author-

Author's reasoning for introducing legislation:
At request of a constituent

Author's intent:
Reduce the AGI for individuals trying to qualify for the homestead tax credit

Does the Author want the legislation moved forward?

Yes No

If no, do we have this in writing?

Yes No

Is the legislation in its final form?

Yes No

If major changes are required, the author shall prepare and introduce the necessary amendments.

DOR prefers AB 140 (see above)

Comments from potentially affected parties-

FISCAL ESTIMATE FORM

2001 Session

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB # 01-1191/1

INTRODUCTION # AB-46

Admin. Rule #

Subject
Modify Income Definition for Homestead Credit – Pension Income

Fiscal Effect

State: No State Fiscal Effect
 Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

- Increase Existing Appropriation Increase Existing Revenues
 Decrease Existing Appropriation Decrease Existing Revenues
 Create New Appropriation

- Increase Costs - May be Possible to Absorb
 Within Agency's Budget Yes No
 Decrease Costs

Local: No Local Government Costs

1. Increase Costs
 Permissive Mandatory
 2. Decrease Costs
 Permissive Mandatory

3. Increase Revenues
 Permissive Mandatory
 4. Decrease Revenues
 Permissive Mandatory

5. Types of Local Governmental Units Affected:
 Towns Villages Cities
 Counties Others _____
 School Districts WTCS Districts

Fund Sources Affected

- GPR FED PRO PRS SEG SEG-S

Affected Ch. 20 Appropriations

20.835 (2)(c)

Assumptions Used in Arriving at Fiscal Estimate:

This bill modifies the definition of household income used in the Homestead tax credit program by excluding from income the nontaxable portion of pensions and annuities as well as tax deductible payments to IRAs, Keogh accounts and deferred compensation.

Based on a simulation using the 1999 Wisconsin Individual Income Tax Model, it is estimated that this bill will increase Homestead expenditures by \$2.3 million annually. This estimate was calculated using available information on tax year 1999 Homestead credit claimants and was adjusted to reflect the statutory increase in the Homestead credit income threshold for tax year 2000 and thereafter. Information is not available for filers who currently cannot claim the Homestead credit but who would become eligible for the credit under this bill.

Long-Range Fiscal Implications:

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department of Revenue Meredith Krejny, (608) 261-8984	Yeang-Eng Braun (608) 266-2700 <i>Yeang Eng Braun</i>	2/5/01

FISCAL ESTIMATE WORKSHEET

Detailed Estimate of Annual Fiscal Effect

2001 Session

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB # 01-1191/1

Admin. Rule #

INTRODUCTION # AB-46

Subject
 Modify Income Definition for Homestead Credit – Pension Income

I. One-Time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	Annualized Fiscal impact on State funds from:	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringe	\$	\$ -
(FTE Position Changes)	(FTE)	(- FTE)
State Operations-Other Costs		-
Local Assistance		-
Aids to Individuals or Organizations	2.3 million	-
TOTAL State Costs by Category	\$ 2.3 million	\$ -
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
GPR	\$ 2.3 million	\$ -
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	\$	\$ -
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S		-
TOTAL State Revenues	\$	\$ -

NET ANNUALIZED FISCAL IMPACT

	STATE	LOCAL
NET CHANGE IN COSTS	\$ +2.3 million	\$
NET CHANGE IN REVENUES	\$	\$

Agency/Prepared by: (Name & Phone No.)	Authorized Signature/Telephone No.	Date
Wisconsin Department of Revenue Meredith Krejny, (608) 261-8984	Yeang-Eng Braun (608) 266-2700 <i>Yeang Eng Braun</i>	2/5/01