Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2003 Session

☐ Original ☐ Updated ☒ Corrected ☐ Supplemental

LRB Number **03-4026/1**	Introduction Number **SB-421**

Subject

Internal Revenue Code update; Public Law 108-121

Fiscal Effect

State:

☐ No State Fiscal Effect
☐ Indeterminate
☐ Increase Existing Appropriations
☐ Decrease Existing Appropriations
☐ Create New Appropriations
☐ Increase Existing Revenues
☒ Decrease Existing Revenues
☒ Increase Costs - May be possible to absorb within agency's budget ☒ Yes ☐ No
☐ Decrease Costs

Local:

☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
☐ Towns ☐ Village ☐ Cities
☐ Counties ☐ Others
☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 3/1/2004

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Assumptions Used in Arriving at Fiscal Estimate

This bill adopts, for state income and franchise tax purposes, changes to the Internal Revenue Code made by Public Law 108-121, the Military Family Tax Relief Act of 2003 (MFTRA).

MFTRA provides tax relief for members of the military serving in the Middle East and their families that will affect the tax returns filed for 2003. Wisconsin taxpayers who claim the tax relief on their 2003 federal returns would need to make adjustments on their state returns to recognize differences between state and federal law until Wisconsin adopts these provisions in 2004, at which time these taxpayers would need to file amended returns for 2003 to claim this tax relief for Wisconsin purposes.

This bill would reduce state income tax revenues annually by $500,000, due to a deduction for travel expenses for National Guard and Reserve personnel. The ongoing loss from other provisions would be minimal. However, because most of the provisions of MFTRA are retroactive, there would be a one-time loss of $1.3 million in FY05 in addition to the annual revenue loss of $0.5 million. This would consist of -$0.2 million from a military death benefit exclusion, -$0.3 million from easing a restriction on the exclusion for the gain from the sale of a residence, and -$0.8 million from the travel expenses deduction. Thus, the total revenue loss in FY05 would be $1.8 million. The provisions of MFTRA that would be adopted for state tax purposes under this bill include the following:

□ The military death benefit is doubled from $6,000 to $12,000 and the full amount of the benefit is excluded from income; previously, one-half of the benefit was taxable. These changes are retroactive to September 11, 2001, and thus apply to military operations in Afghanistan and Iraq, as well as other locations since that date.

□ The act clarifies that dependent care assistance provided by the U.S. Department of Defense is a qualified military benefit that is excluded from a taxpayer's gross income. The exclusion is effective for tax years beginning after December 31, 2002.

□ The act eases a restriction on the exclusion for the gain from the sale of a residence for uniformed and foreign service personnel. Under current law, taxpayers may exclude up to $250,000 ($500,000 for married couples filing jointly) of gain from the sale of a principal residence if they owned and used the property as a principal residence for two or more years during the five years preceding the sale. Uniformed and foreign service personnel called to active duty away from home may elect to suspend the five-year test, for one property, for up to five years. If the election is made, the five-year period does not include any period, up to five years, during which the service member is on extended duty (more than 90 days) at least 50 miles from home or in government quarters under government orders. The provision is retroactive to sales made after May 6, 1997.

□ An exclusion from income is provided for reimbursement paid to members of the military for losses on the sale of their homes resulting from declines in home values due to a military base closure or reduction in operations. The exclusion, effective on November 12, 2003, is limited to the fair market value of the property.

□ MFTRA provides a deduction from gross income for travel expenses for members of the National Guard and Reserve when they travel more than 100 miles away from home and must stay away overnight. Under previous law, the deduction was from adjusted gross income, and thus limited to persons itemizing their deductions. The deduction applies to expenses paid or incurred for tax years starting after December 31, 2002.

□ MFTRA expands the income and estate tax relief provided under the Victims of Terrorism Act of 2001 to astronauts who die in the line of duty, effective for deaths occurring after December 31, 2002. These provisions benefit the families of the astronauts killed in the space shuttle Columbia accident.

MFTRA also allows the filing extension provided to military personnel serving in a combat zone under current law to troops deployed in contingency operations, that is, those who may become involved in military actions. Wisconsin automatically adopts federal filing extensions under current law. Others provisions of the act do not have a substantive effect on Wisconsin.

Long-Range Fiscal Implications

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Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

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

One-time revenue loss in FY05, in addition to the ongoing loss, of $1.3 million from adopting provisions retroactively.

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, ets.)

	Increased Rev	Decreased Rev
GPR Taxes	$	$-500,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$-500,000**

NET ANNUALIZED FISCAL IMPACT

	State	Local
NET CHANGE IN COSTS	$	$
NET CHANGE IN REVENUE	$-500,000	$

Agency/Prepared By	**Authorized Signature**	**Date**
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