

*STATE OF WISCONSIN**REPORT OF THE JOINT SURVEY COMMITTEE ON TAX EXEMPTIONS**2003 ASSEMBLY BILL 155*

[Introduced by Representatives Musser, Loeffelholz, Freese, Lassa, Pettis, Seratti, Turner, J. Fitzgerald, Plouff, McCormick, Hahn, Krawczyk, Suder, Owens, Albers, Bies, Gunderson, Hines and Ainsworth; cosponsored by Senators Schultz, Kedzie, Welch, Stepp and Wirch.]

**General Nature of Proposal**

Generally, under current law, income received from the federal government by armed forces and reserve component members serving in a combat zone is excluded from income for federal and state income tax purposes. The bill would extend the state income tax exemption to the pay (basic, special, and incentive) of a reserve component member (Reserves and National Guard) called to federal active duty, regardless of whether the person is serving in a combat zone. The exemption would apply to any amounts of military pay that are paid to the person that relate to the period of time during which the person is on active duty. The exemption would include pay that members of the National Guard and Reserves receive during their weekend and two-week annual training.

The exemption in the bill would first apply to tax years beginning on January 1, 2004, unless the bill is enacted after July 31, in which case the exemption would first apply to tax years beginning on January 1, 2005.

**Legality Involved**

There are no questions of legality involved.

**Fiscal Effect Upon the State and Its Subdivisions**

The Department of Revenue explains the fiscal effect of the bill as follows:

As of March 2003, 3,980 members of the Wisconsin reserves and National Guard have been mobilized. In addition, all reservists and National Guard members received active duty pay for the annual required two-week training period. Based on annual payroll data from 2002, adjusted by the growth in wages and salaries from 2002 to 2003, the annual payroll for active duty for 2003 is estimated at \$51 million. This amount includes \$12.4 million in training pay.

Income received by reservists who are on active duty and serving in a combat zone is excluded from income for federal and state tax purposes. Therefore, this bill would apply to active reservists who do not serve in a combat zone. The number of Wisconsin reservists mobilized to serve in a combat zone is unknown.

Assuming an effective marginal tax rate of 5.5%, if the total active duty payroll for reservists and National Guard members, estimated at \$51 million, qualified for this exemption, the revenue loss from this bill would be \$2.8 million (\$51 million X 0.055). However, to the extent that a substantial number of reservists are serving in a combat zone, this revenue loss would be less.

#### **Public Policy Involved**

The bill is good public policy if it is amended by Assembly Substitute Amendment 1 and if it is further amended to provide that a person who claims the active duty deduction under the bill may not also claim the Armed Forces Tax Credit under s. 71.07 (6m), Stats.