



## Fiscal Estimate Narratives

DOR 11/26/2003

LRB Number	03-3546/1	Introduction Number	AB-647	Estimate Type	Original
<b>Subject</b>					
Tax exemption for military income received by active duty armed forces members; sunset armed forces member tax credit					

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, an active duty member of the U.S. armed forces may claim a nonrefundable credit against income tax otherwise due for up to \$200 earned in military income from the federal government for services performed while stationed outside the U.S.

This bill would eliminate the current armed forces member tax credit effective taxable years beginning January 1, 2004. Effective taxable years beginning on January 1, 2004, the bill would also exempt from taxation all military income received from the federal government by an individual who is on active duty in the U.S. armed forces.

According to the Wisconsin National Guard website, there are 1,670 Wisconsin national guard members and 1,100 Wisconsin reservists currently mobilized. According to the Defense Manpower Data Center, 6.7% of active duty personnel are officers, the average annual pay of enlisted and officers is \$22,624 and \$52,943, respectively. Enlisted personnel and officers are on active duty for an average of 156 days and 130 days, respectively. All 12,900 Wisconsin national guard members and reservists are required to complete a two week annual training period during which time they receive military pay and are considered to be on active duty.

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. There are about 1,270 Wisconsin national guardsmen currently on active duty and serving in a combat zone. However, the number of Wisconsin reservists mobilized to serve in a combat zone is unknown.

Assuming about 1,500 Wisconsin military personnel are on active duty and not serving in a combat zone at any given point throughout the year, other than during the two-week training period, annual military pay to Wisconsin active duty personnel totals \$14.7 million. The payroll for the annual training period totals \$12.6 million. Assuming an average marginal tax rate of 5.5%, exempting this pay from taxation would decrease state income tax revenues by \$1.5 million (\$27.3 million x .055). Expiration of the armed forces member tax credit would result in an increase in state revenues of \$0.8 million. The resulting fiscal effect of this bill would be a net decrease in revenues of \$0.7 million (\$1.5 million - \$0.8 million). However, this fiscal effect may be overstated in that some of these active duty personnel are serving in a combat zone and therefore by law already receive an exclusion from taxation of military pay.

### Long-Range Fiscal Implications

## Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
  Updated
  Corrected
  Supplemental

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<b>Subject</b>			
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<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
	State Operations - Salaries and Fringes	\$	
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$-700,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$-700,000</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		State	Local
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$-700,000	\$
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
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