

Fiscal Estimate Narratives
DOR 4/15/2005

LRB Number 05-1160/1	Introduction Number AB-335	Estimate Type Original
Subject No individual retirement account early withdrawal penalty if purchasing long-term care insurance		

Assumptions Used in Arriving at Fiscal Estimate

This bill would allow a taxpayer to avoid the state penalty on an early withdrawal from an Individual Retirement Account (IRA) if the distribution from the IRA is used to purchase long-term care insurance. Under federal law, the penalty for early withdrawal from an IRA is 10%. Wisconsin charges a penalty equal to 33% of the federal penalty. If the 33% penalty is waived for purchasers of long-term care insurance, the number of taxpayers who would purchase long-term care insurance is unknown.

On 2003 individual income tax returns, 26,700 taxpayers claimed a subtraction for long-term care insurance and 80,000 Wisconsin taxpayers had IRA penalties totaling over \$17 million with an average state penalty of approximately \$215.

Some unknown percentage of the 26,700 taxpayers purchasing long-term care insurance would use early withdrawals from IRAs to pay for this insurance. Assuming the average penalty of \$215 for these taxpayers, if 5% or 1,335 taxpayers use early IRA withdrawals to buy the insurance, the revenue loss would be \$287,000. If 25% or 6,675 taxpayers use early IRA withdrawals to buy the insurance, the revenue loss would be \$1.4 million.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
No individual retirement account early withdrawal penalty if purchasing long-term care insurance			
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 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		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$SeeText	\$
Agency/Prepared By		Authorized Signature	Date
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