

Fiscal Estimate Narratives

DOR 1/28/2008

LRB Number	07-2822/1	Introduction Number	AB-0681	Estimate Type	Original
Description Exempting from taxation the pension benefits of certain retired federal employees					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, the pension benefits of certain public employees are exempt from state taxation. The pensions that are exempt include the U.S. Civil Service, Milwaukee city and county, Milwaukee police officers and public school teachers, Wisconsin state teachers' retirement fund, and the sheriff's annuity and benefit fund of Milwaukee County. For these plans, the exemption only applies to persons who were members of or were retired from the plans on December 31, 1963. It is estimated that this U.S. Civil Service pension exemption will reduce revenue by \$6.7 million in tax year 2008. Certain military and uniformed service pensions are also exempt, but do not have the December 31, 1963 requirement.

Under 2007 Wisconsin Act 20, beginning in tax year 2009 up to \$5000 of payments or distributions received each year by an individual will be exempt from taxation if the claimant is at least 65 years of age and the claimant has federal adjusted gross income of less than \$15,000 in the year to which the claim relates (\$30,000 for married joint filers).

This bill exempts from taxation all payments received each year from the U.S. Civil Service Retirement System (CSRS). Payments received from the CSRS are also not subject to any of the penalties on distributions from retirement plans.

According to information from the National Association of Retired Federal Employees and the Federal Office of Personnel Management, Wisconsin accounts for approximately 1% of federal civil service pensions. Applying Wisconsin's share to forecasted participation levels and benefit amounts from the Congressional Budget Office, it is estimated that approximately 22,000 Wisconsin CSRS annuitants will receive \$530 million in 2008.

Using the 2005 Individual Income Tax Model, it is estimated that the average effective marginal tax rate for seniors is 3.9%. As a result, the total fiscal effect of exempting all CSRS pension income is estimated to be \$21 million. As mentioned above, a portion of CSRS pension income is already exempt from taxation in Wisconsin, so the estimated fiscal effect of the bill for tax year 2008 is \$14 million annually.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description Exempting from taxation the pension benefits of certain retired federal employees			
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	\$	\$-14,000,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$-14,000,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$-14,000,000	\$
Agency/Prepared By		Authorized Signature	Date
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