



## Fiscal Estimate Narratives

DOR 2/1/2007

LRB Number	07-0785/1	Introduction Number	SB-003	Estimate Type	Corrected
<b>Description</b> Exempting from taxation retirement plan income received by an individual					

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, the pension benefits of certain public employees are exempt from state taxation. Pension plans that are exempt from taxation include the following: U.S. Civil Service or military, 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.

This bill would exempt from taxation up to \$2,500 of income received from a retirement plan in tax year 2007 if the income is not already exempt from taxation. The maximum allowable exemption would increase from \$2,500 to \$5,000 in 2008, \$10,000 in 2009, \$15,000 in 2010, and \$20,000 in 2011 and thereafter.

Using the 2005 Individual Income Tax Model, inflated for 2007 income levels and law, an exemption of up to \$2,500 for each person with retirement income would reduce taxes on approximately 391,000 returns. State income tax revenues would decrease by \$58 million to \$88 million for tax year 2007. A range, rather than a specific amount, is given because tax returns do not include information about the source of pension distributions for married couples. The lower bound assumes that all pension income is attributed to one spouse, while the upper bound assumes that the pension income is divided evenly between both spouses.

Apportioning the tax year effect to fiscal years, it is likely that the entire tax year 2007 revenue decrease would be felt in fiscal year 2008. The fiscal year 2007 revenue impact would be minimal.

### Long-Range Fiscal Implications

Similar simulations using the 2005 Individual Income Tax Model, inflated for tax years 2008 through 2011 were completed to estimate the costs during the remainder of the phase-in period of the bill. State income tax revenue is estimated to decrease by \$106 million to \$157 million in tax year 2008, \$188 million to \$268 million in tax year 2009, \$259 million to \$357 million in tax year 2010, and \$324 million to \$429 million in tax year 2011.

Translating these tax year effects to fiscal year effects, the estimated decrease in revenue is \$106 million to \$159 million for fiscal year 2008, \$143 million to \$207 million for fiscal year 2009, \$220 million to \$308 million for fiscal year 2010, and \$288 million to \$389 million for fiscal year 2011.

## Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 07-0785/1		<b>Introduction Number</b> SB-003	
<b>Description</b> Exempting from taxation retirement plan income received by an individual			
<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		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
<b>TOTAL State Revenues</b>		<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$SeeText	\$
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
DOR/ Bradley Caruth (608) 261-8984		Rebecca Boldt (608) 266-6785	1/31/2007