A

2007 DRAFTING REQUEST

Bill

Received: **12/19/2006**

Received By: **jkreye**

Wanted: **As time permits**

Identical to LRB:

For: **Administration-Budget**

By/Representing: **Easton**

This file may be shown to any legislator: **NO**

Drafter: **jkreye**

May Contact:

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Subject: **Tax, Other - miscellaneous**

Extra Copies:

Submit via email: **NO**

Pre Topic:

DOA:......Easton, BB0241 -

Topic:

Internal Revenue Code update

Instructions:

See Attached

Drafting History:

Vers.	Drafted	Reviewed	Typed	Proofed	Submitted	Jacketed	Required
/?	jkreye 01/08/2007	csicilia 01/25/2007		_______ _______			State Tax
/1		csicilia 01/30/2007	pgreensl 01/26/2007	_______ _______	cduerst 01/26/2007		State Tax
/2	jkreye 02/01/2007	csicilia 02/01/2007	rschluet 01/30/2007	_______ _______	sbasford 01/30/2007		State Tax
/3			jfrantze 02/02/2007	_______ _______	mbarman 02/02/2007		

FE Sent For:

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Vers.	Drafted	Reviewed	Typed	Proofed	Submitted	Jacketed	Required
/?	jkreye		1/26 p8	~~1/26~~ p8/13			

FE Sent For:

<END>

2007-09 Budget Bill Statutory Language Drafting Request

- Topic: IRC Update
- Tracking Code: BBO241
- SBO team: Tax and Local Government
- SBO analyst: Easton
  - Phone: 6-7597
  - Email: Darren.easton@wisconsin.gov
- Agency acronym: DOR
- Agency number: 566
- Priority (Low, Medium, High): Medium

Kreye, Joseph

From: Held, Carol L - DOR
Sent: Thursday, January 04, 2007 11:08 AM
To: Gates-Hendrix, Sherrie L - DOR; Kreye, Joseph
Cc: Crane, Lili B - DOR; Hardt, Diane L - DOR; Hanson, Jeffrey W - DOR; Ramirez, Amelia - DOR; Boldt, Rebecca A - DOR; Brennan, Audra D - DOR
Subject: Drafting Instructions for IRC Update

Attachments: drafting instructions irc update rev1.doc

Here are the drafting instructions. The intent is to adopt the public laws, with certain exceptions, that were enacted prior to December 2006 as approved by Secretary Morgan.

After we have completed a review of Public Law 109-432, which was enacted December 20, 2006, we may be proposing an amendment to adopt some of the provisions in that federal law.

drafting instructions
irc upda...

If you have any questions, please contact me.

Carol Held
Wisconsin Department of Revenue
266-5464

DRAFTING INSTRUCTIONS FOR IRC UPDATE

Use 2005 LRB 4839/1 as the starting point and make the following changes:

1. Bill sections **2** (s. 71.01(6)(m)), **10** (s. 71.22(4)(m)), **18** (s. 71.22(4m)(k)), **26** (s. 71.26(2)(b)13), **34** (s. 71.34(1g)(m)), and **42** (s. 71.42(2)(L)), relating to taxable years that begin after 12/31/97 and before 1/1/99:

   Repeal ss. 71.01(6)(m), 71.22(4)(m), 71.22(4m)(k), 71.26(2)(b)13, 71.34(1g)(m), instead of amending them.

2. Bill sections **3** (s. 71.01(6)(n)), **4** (s. 71.01(6)(o)), **5** (s. 71.01(6)(p)), **11** (s. 71.22(4)(n)), **12** (s. 71.22(4)(o)), **13** (s. 71.22(4)(p)), **19** (s. 71.22(4m)(L)), **20** (s. 71.22(4m)(m)), **21** (s. 71.22(4m)(n)), **27** (s. 71.26(2)(b)14), **28** (s. 71.26(2)(b)15), **29** (s. 71.26(2)(b)16), **35** (s. 71.34(1g)(n)), **36** (s. 71.34(1g)(o)), **37** (s. 71.34(1g)(p)), **43** (s. 71.42(2)(m)), **44** (s. 71.42(2)(n)), and **45** (s. 71.42(2)(o)), relating to taxable years that begin after 12/31/98 and before 1/1/04:

   a. Also exclude from the "and as amended by" language:

   - Section 301(a) of P.L. 107-147
   - Section 316 of P.L. 108-311
   - Sections 211, 242, and 847 of P.L. 108-357
   - Sections 1348 and 1351 of P.L. 109-58

   b. Add to the "and as amended by" language:

   P.L. 109-280, excluding sections 811 and 844

3. Bill sections **6** (s. 71.01(6)(q)), **14** (s. 71.22(4)(q)), **22** (s. 71.22(4m)(o)), **30** (s. 71.26(2)(b)17), **38** (s. 71.34(1g)(q)), and **46** (s. 71.42(2)(p), relating to taxable years that begin after 12/31/03 and before 1/1/05:

   a. Also exclude from the "and as amended by" language:

   - Section 301(a) of P.L. 107-147
   - Section 316 of P.L. 108-311
   - Sections 211, 242, and 847 of P.L. 108-357
   - Sections 1348 and 1351 of P.L. 109-58

   b. Add to the "and as amended by" language:

   - P.L. 109-227
   - P.L. 109-280, excluding sections 811 and 844

4. Bill sections **7** (s. 71.01(6)(r)), **15** (s. 71.22(4)(r)), **23** (s. 71.22(4m)(p)), **31** (s. 71.26(2)(b)18), **39** (s. 71.34(1g)(r)), and **47** (s. 71.42(2)(q)), relating to taxable years that begin after 12/31/04 and before 1/1/06:

   a. Also exclude from the "and as amended by" language:

- Section 301(a) of P.L. 107-147
- Section 316 of P.L. 108-311
- Sections 211, 242, and 847 of P.L. 108-357
- Sections 1348 and 1351 of P.L. 109-58

b. Add to the "and as amended by" language:

- P.L. 109-222, excluding sections 101, 207, 209, 503, 512, and 513
- P.L. 109-227
- P.L. 109-280, excluding sections 811 and 844

5. Bill sections **8** (s. 71.01(6)(s)), **16** (s. 71.22(4)(s)), **24** (s. 71.22(4m)(q)), **32** (s. 71.26(2)(b)19), **40** (s. 71.34(1g)(s)), and **48** (s. 71.42(2)(r)), relating to taxable years that begin after 12/31/05:

a. Add that these sections apply for taxable years that begin before January 1, 2007.

b. Also exclude from the definition of "Internal Revenue Code":

- Section 301(a) of P.L. 107-147
- Section 316 of P.L. 108-311
- Sections 211, 242, and 847 of P.L. 108-357
- Sections 1348 and 1351 of P.L. 109-58
- Section 11146 of P.L. 109-59

c. Add to the "and as amended by" language:

- P.L. 109-222, excluding sections 101, 207, 209, 503, 512, and 513
- P.L. 109-227
- P.L. 109-280, excluding sections 811 and 844

6. For taxable years that begin after December 31, 2006, create the following statutory sections: 71.01(6)(t), 71.22(4)(t), 71.22(4m)(r), 71.26(2)(b)(20), 71.34(1g)(t), and 71.42(2)(s).

In these sections, "Internal Revenue Code" means the federal Internal Revenue Code as amended to December 31, 2006, excluding the provisions that were excluded in LRB 4839/1 in bill sections **8** (s. 71.01(6)(s)), **16** (s. 71.22(4)(s)), **24** (s. 71.22(4m)(q)), **32** (s. 71.26(2)(b)19), **40** (s. 71.34(1g)(s)), and **48** (s. 71.42(2)(r)) and excluding the following:

- Section 301(a) of P.L. 107-147
- Section 316 of P.L. 108-311
- Sections 211, 242, and 847 of P.L. 108-357
- Sections 1348 and 1351 of P.L. 109-58
- Section 11146 of P.L. 109-59
- Sections 101, 207, 209, 503, 512, and 513 of P.L. 109-222
- Section 811 and 844 of P.L. 109-280
- P.L. 109-432

7. Repeal ss. 71.738(1d) and (2d) and 71.765. Instead, create provisions near ss. 71.01(7), 71.22(5m), and 71.34(1m) which provide the following:

Notwithstanding [refer to the applicable definition of "Internal Revenue Code"], section 101 of P.L. 109-222, relating to the extension of the increased Internal Revenue Code section 179 expense deduction applies for property used in farming that is acquired and placed in service in taxable years beginning on or after January 1, 2008, by a person who is actively engaged in farming. For purposes of this paragraph, "actively engaged in farming" has the meaning given in 7 CFR 1400.201, and "farming" has the meaning given in section 464(e)(1) of the Internal Revenue Code.

8. Amend s. 71.26(3)(s) by striking "964" and adding "965", effective for taxable years beginning January 1, 2006.

9. Amend ss. 71.24 (7) and 71.44(3) to read as follows:

EXTENSIONS. ~~In the case of a~~ <u>A</u> corporation required to file a return~~, when sufficient reason is shown, the department of revenue may on written request allow an extension of 30 days~~ <u>shall be allowed an automatic extension of time to file of 7 months</u> ~~or~~ until the original due date of the corporation's <u>corresponding</u> federal return, whichever is later~~, if the corporation has not received an extension on its federal return~~. Any extension of time granted by law or by the internal revenue service for the filing of corresponding federal returns shall extend the time for filing under this subchapter to 30 days after the federal due date if ~~a copy of any extension requested of the internal revenue service is filed with~~ <u>the corporation reports that extension in the manner specified by the department on</u> the return. ~~Termination of an automatic extension by the internal revenue service, or its refusal to grant such automatic extension, shall similarly require that any returns due under this subchapter are due on or before 30 days after the date for termination fixed by the internal revenue service.~~ Except for payments of estimated taxes, income or franchise taxes payable upon the filing of the tax return shall not become delinquent during such extension period, but shall be subject to interest at the rate of 12% per year during such period.

10. Add to the nonstatutory provision on page 114 of LRB 4839/1 a reference to P.L. 109-280, excluding sections 811 and 844 of P.L. 109-280.

Wisconsin Department of Revenue
Division of Research and Policy
November 6, 2006

INTERNAL REVENUE CODE UPDATE
LAWS ENACTED THROUGH AUGUST, 2006

A. INTRODUCTION

Wisconsin's individual income and corporate income and franchise tax bases closely conform to the bases for the federal individual and corporate income taxes. Conformity is achieved through references in Chapter 71 of the Wisconsin Statutes to the federal Internal Revenue Code (IRC). To maintain conformity, these references must be updated to adopt changes made since the most recent update for federal IRC changes through 2004.

During 2005 and 2006, Congress enacted seven bills that affect the IRC:

- Public Law 109-1 – not recommended
- Public Law 109-7
- Public Law 109-58, the Energy Tax Incentives Act (ETIA)
- Public Law 109-59, the Safe, Accountable, Flexible, Efficient Transportation Equity Act (SAFETEA)
- Public Law 109-73, the Katrina Emergency Tax Relief Act (KETRA)
- Public Law 109-135, the Gulf Opportunity Zone Act (GOZA)
- Public Law 109-151, the Employee Retirement Preservation Act (ERPA)
- Public Law 109-222, Tax Increase Prevention Act of 2005 (TIPRA)
- Public Law 109-227, Heroes Earned Retirement Opportunities Act (HEROA)
- Public Law 109-280, Pension Protection Act of 2006 (PPA)

see 05 LRB-4839/1

Provisions of these laws that relate to federal credits, federal excise taxes, federal bonds, federal administrative provisions, and federally-mandated studies do not apply for Wisconsin tax purposes. Provisions not previously adopted related to amortization and accelerated depreciation and expensing are not recommended for adoption. One exception to this relates to section 179 expense deductions allowed under TIPRA for persons actively engaged in farming.

The department is also recommending simplifying the process for corporate filers for filing extensions by basing the Wisconsin filing deadlines on federal requirements.

Sections B and C describe the provisions that are recommended for adoption. Provisions that should not be adopted are described in Section D. Certain items that are not recommended for inclusion do not take effect until 2010 and therefore do not need to be adopted at this time. As some of these have significant fiscal effects in later years, the Department recommends analyzing these further prior to adoption.

Adopting these laws at the same time they apply for federal purposes, with the exceptions identified above, and would reduce state revenues by an estimated $3.0 million in FY07, $.54 million in FY08 and $3.2 million in FY09. Table 1 shows the estimated fiscal impacts of provisions with non-minimal impact on Wisconsin tax revenues.

In addition to the above law changes, Wisconsin statutes should be amended to exclude several sections of previously enacted federal laws. In particular, section 301(a) of Public Law 107-147, section 316 of Public Law 108-311, sections 211, 242 and 847 of Public Law

108-357 should be excluded. Excluding these sections will ensure that all provisions related to depreciation and amortization are determined under IRC provisions in effect on December 31, 2000. Excluding these sections will ensure consistent treatment across different types of property and will have minimal to no fiscal effect.

TABLE 1
FISCAL EFFECT OF ADOPTING FEDERAL TAX PROVISIONS ENACTED IN 2005

Federal Tax Change	Effective Date	Fiscal Effect ($ millions)		
		FY07	FY08	FY09
Public Law 109-7				
Mitigation Payments	1/7/05	minimal-	minimal-	-0.05
Energy Tax Incentives Act				
Treatment of Certain Income of Electric Cooperatives	01/01/06	miminal-	-0.05	-0.06
Energy Efficicney Commercial Buildings Property Deduction	12/31/05	-0.42	-0.16	minimal-
Modification of recapture rules for Sec. 197 Intangibles	8/8/05	0.06	minimal+	minimal+
Katrina Emergency Tax Relief Act				
Enhanced deduction for food inventory		-0.15	-	-
Extend replacement period for nonrecognition of gain	9/23/05	-0.35	-0.08	minimal-
Tax Increase Prevention and Reconciliation Act				
Increase in AMT exemption levels	1/01/06	-1.00	-	-
Pension Protection Act				
Increase funding rules for single-employer plans	12/31/06	2.5	4.4	2.7
Indexing IRA income limits	12/31/06	-0.12	-0.40	-0.70
Rollover by nonspouse beneficiaries of certain retirment plan distributions	12/31/06	-0.10	-0.20	-0.26
Excess pension assets for future medical benefits	08/17/06	miminal-	-0.06	-0.05
Allowance for medical benefit reserve	12/31/06	miminal-	-0.05	-0.07
Tax free pension distributions used for health & long term care insurance - public safety officers	12/31/06	-1.38	-1.80	-1.97
Automatic enrollment in defined contribution plans	12/31/07	0.00	-0.76	-2.10
Tighten condition of charitable goods	08/17/06	0.07	0.30	0.36
Tax-free IRA distributions for charitable giving	12/31/05-1/1/08	-1.30	-0.94	-0.37
S-corporation basis adjustment for charitable giving	12/31/05-1/1/08	-0.50	-0.06	minimal-
Extend enhanced deduction for food inventory	12/31/05-1/1/08	-0.37	-0.67	-0.64
TOTAL		-3.02	-0.54	-3.20

B. INDIVIDUAL INCOME TAX

1. Qualified disaster mitigation payments excluded from gross income

Federal Law Change: Under Public Law 109-7, qualified disaster mitigation payments are excluded from gross income. The IRS had ruled that payments received under the Robert T. Stafford Disaster Relief and Emergency Assistance Act and the Natural Flood Insurance Act were exempt from taxation until June 2004, when they became taxable. This act specifically excludes the above payments from gross income. There is no increase in the basis. Property sold under certain hazard mitigation programs is treated as an involuntary conversion.

Effective Date: Amounts received before, on, or after April 15, 2005.

Fiscal effect: -Minimal in FY07 and FY08, -$55,000 in FY09.

Public Law 109-73 Katrina Emergency Tax Relief Act of 2005 and Gulf Opportunity Zone Act of 2005 (provisions originally found in the Katrina Act and expanded by the Gulf Opportunity Act include the fiscal effect total for both acts).

2. Penalty-free withdrawals from retirement plans

Federal law Change: Wisconsin currently applies 33% of the 10% federal penalty for early withdrawal from retirement accounts. For distributions from August 25, 2005, through December 31, 2006, victims of Hurricanes Katrina, Rita, and Wilma may withdraw up to $100,000 from an IRA or eligible retirement plan without penalty.

Taxpayers who are able to repay the distributions have three years to repay the funds to qualify for rollover treatment and exclude the repayments from income. Otherwise, they will be taxed on their distribution.

Effective Date: Distributions on or after 8/25/05 and before 1/1/07.

Fiscal effect (includes Katrina and Gulf Acts): -Minimal.

3. Recontributions of withdrawals from retirement plans for home purchases cancelled due to Hurricanes Katrina, Rita, or Wilma.

Federal Law Change: First-time home buyers who withdrew funds from an IRA or other eligible retirement plan after February 28, 2005, (and before August 29 for homes located in the Katrina disaster area, before September 24, 2005, for those in the Rita disaster area, and before October 24, 2005, for those in the Wilma disaster area) for the purchase or construction of a first-time home in a hurricane disaster area but could not complete that purchase or construction because of Hurricanes Katrina, Rita, or Wilma may put the funds back into their IRA or other eligible retirement plan without penalty if they do so before March 1, 2006.

Effective Date: Distributions received after 2/28/05 and before 8/29/05.

Fiscal effect (includes Katrina and Gulf Acts): -Minimal.

4. Loans from qualified retirement plans for relief relating to Hurricanes Katrina, Rita, or Wilma.

Federal Law Change: Under current federal law, loans from qualified retirement plans are treated as taxable distributions. An exception is allowed for loans up to $50,000 for the purchase of a principal residence if the loan is repaid within five years. The act increases the limit from $50,000 to $100,000 for hurricane victims whose principal place of residence was in one of the three hurricane disaster areas on August 28 (Katrina), September 23 (Rita), and October 23 (Wilma). Loans must be made on or after September 24, 2005, for Hurricane Katrina victims, and on or after December 21, 2005, for Hurricanes Rita and Wilma and before January 1, 2007.

Furthermore, if a taxpayer had a qualifying outstanding loan on August 25 (Katrina victims), September 23 (Rita victims) or October 23 (Wilma victims) any payments due between those dates and December 31, 2006, are extended for one year.

Effective Date: December 21, 2005 (date of enactment).

Fiscal effect (includes Katrina and Gulf Acts): -Minimal.

5. Increase in standard mileage rate for charitable use of a vehicle related to Hurricane Katrina.

Federal Law Change: The standard mileage rate for the personal use of automobiles for charitable purposes is $0.14 per hour. Effective August 25, 2005, the standard mileage rate for the personal use of automobiles to provide charitable services related to Hurricane Katrina is 70% of the standard business mileage rate. As a result, the new standard mileage rate for Katrina-related charitable use of a vehicle is $0.29 per mile during the period of August 25, 2005, through August 31, 2005, and $0.34 per mile from

September 1, 2005, to December 31, 2005. Wisconsin's standard mileage rate for charitable use of a vehicle is 14 cents per mile.

Effective Date: 8/25/05 through 12/31/06.

Fiscal effect: -Minimal.

6. **Mileage reimbursements to charitable volunteers excluded from gross income for providing relief related to Hurricane Katrina.**

   Federal Law Change: Reimbursement received by a volunteer for the cost of using a passenger automobile in connection with providing relief to Hurricane Katrina victims is excluded from income up to the amount that equals the full standard business mileage rate: $0.405 per mile for the period August 25 though August 31, 2005, and $0.485 per mile for the period September 1 through December 31, 2005.

   Effective Date: 8/25/05 through 12/31/06.

   Fiscal effect: -Minimal.

7. **Exclusions of certain cancellations of indebtedness for certain taxpayers affected by Hurricane Katrina.**

   Federal Law Change: Ordinarily, income from the discharge of indebtedness is generally taxable. Under KETRA, discharges of non-business debts (such as mortgages) made from August 25, 2005, to December 31, 2006, are excluded from income for individuals whose principal residence was in the Hurricane Katrina disaster area on August 25, 2005. Unlike with other provisions, similar relief was not extended to victims of Hurricanes Rita and Wilma.

   Effective Date: Discharges made on or after 8/25/05 and before 1/1/07.

   Fiscal effect: -Minimal.

8. **Allow residents of Hurricane disaster areas who experienced a loss of income due to Hurricanes Katrina, Rita or Wilma to elect to use prior year's income in the calculation of the earned income credit and the refundable child tax credit.**

   Federal Law Change: Taxpayers can use their 2004 earned income to calculate their earned income credit and additional child tax credit for 2005 if their 2005 earned income is less than their 2004 earned income; and if their main home was in the Gulf Opportunity (GO) Zone, the Hurricane Katrina disaster area, the Rita GO Zone, the Hurricane Rita disaster area, the Wilma GO Zone or the Hurricane Wilma disaster area. In any of the Hurricane disaster areas, residents must have been displaced from their homes to be allowed to use the prior year's income to figure these credits.

   Effective Date: Taxable year that includes the date of the hurricane (tax year 2005).

   Fiscal effect (includes both Katrina and Gulf Acts): -Minimal.

9. **IRS authorized to adjust application of tax laws for hurricane victims.**

   Federal Law Change: The IRS may adjust the application of tax laws for taxable years beginning in 2005 or 2006 to ensure that taxpayers do not lose any deduction or credit or experience a change of filing status because of temporary relocations as a result of Hurricanes Katrina, Rita or Wilma.

Effective Date: Taxable years beginning in 2005 or 2006.

Fiscal effect: -Minimal.

10. Gross income exclusion for lodging furnished by an employer.

Federal Law Change: GOZA provides that a qualified employee's gross income does not include the value of any in-kind lodging provided to the employee, the employee's spouse or dependents by or on behalf of a qualified employer for any month during the tax year. The amount of the exclusion for any month cannot exceed $600. The exclusion is only available for lodging provided during the six-month period beginning on January 1, 2006. The exclusion does not apply for purposes of Social Security and Medicare taxes or unemployment tax.

A qualified employee is a person whose principal residence was in the Gulf Opportunity Zone on August 28, 2005, and who performs substantially all of his or her employment services in the Gulf Opportunity Zone for the qualified employer who has furnished the lodging. A qualified employer is any employer with a trade or business in the Gulf Opportunity Zone.

Effective Date: December 21, 2005 (date of enactment).

Fiscal Effect: -Minimal, probably zero.

11. Including combat pay as earned income for purposes of earned income credit.

Federal Law Change: A taxpayer may choose to treat combat zone compensation that is otherwise excluded from gross income under IRC Sec. 112 as earned income for purposes of the earned income credit. This was scheduled to end on December 31, 2005 but was extended through December 31, 2006, by GOZA.

Effective Date: December 31, 2005 (date of enactment).

Fiscal Effect: -Minimal.

12. Increase alternative minimum tax exemption amount for 2006.

Federal Law Change: Under TIPRA, married joint filers may exempt $62,550 from the alternative minimum tax (AMT) and single filers may exempt $42,500. Prior to TIPRA, the 2006 AMT exemption amounts were to revert to the 2001 levels of $45,000 for married joint filers and $33,750 for single filers.

Effective Date: Taxable year beginning after December 31, 2005

Fiscal Effect: Using the federal AMT exemption levels for the WI AMT calculation will reduce collections by an estimated $1 million in FY06.

13. Modification of Exclusion for Citizens Living Abroad.

Federal Law Change: TIPRA raises the foreign-earned income exclusion allowed for certain taxpayers living abroad from $80,000 to $82,400. Limits exclusion allowed for foreign housing costs.

Effective Date: Taxable years after December 31, 2005.

Fiscal Effect: +Minimal.

14. Allow sec. 179 expensing for persons actively engaged in farming.

Federal Law Change: TIPRA extends the higher expensing deduction allowed under sec. 179 from 2008 to 2010. Wisconsin has not adopted federal treatment with regard to sec. 179 expensing. However, 2005 Wisconsin Act 362 created s. 71.765, Wis. Stats., to provide that for property acquired and placed in service in taxable years beginning on or after January 1, 2008, a person who is actively engaged in farming may compute an expense deduction on property used in farming under any subsequent change to sec. 202 of P.L. 108-27 and sec. 201 of P.L. 108-357.

Under s. 71.765, Wis. Stats, this would not apply unless a federal law change enacted after December 31, 2005, revises sec. 202 of P.L. 108-27 or section 201 of P.L. 108-357. (Sec. 202 of P.L. 108-27 increased the amount that may be expensed under sec. 179 IRC from $25,000 to $100,000 and the phase out amount from $200,000 to $400,000, for taxable years beginning after 2002 and before 2006. Section 201 of P.L. 108-357 extended the 2006 date to 2008.)

The sec. 179 expense deduction has been extended for federal purposes. However, it was not extended by revising either sec. 202 of P.L. 108-27 or sec. 201 of P.L. 108-357, but rather by TIPRA.

In order to have the sec. 179 expense deduction apply for Wisconsin for persons actively engaged in farming, s. 71.765, Wis. Stats., must be amended to refer to the extension of sec. 179 expenses allowed by TIPRA (sec. 101 of P.L. 109-222).

Effective Date: Taxable years beginning on or after January 1, 2008.

Fiscal Effect: Minimal revenue decrease in the year of the deduction and increase in revenue in subsequent years.

15. Allow contributions to IRAs from excluded combat zone pay.

Federal Law Change: Under current law, contributions to an IRA are deductible to the extent that the contributions do not exceed taxable earned income. Under the HEROA, members of the armed forces serving in combat zones may make contributions to an IRA even if the compensation on which such contributions are based is excluded from gross income.

Effective Date: Taxable years beginning after December 31, 2003.

Fiscal Effect: Minimal.

16. Inflation indexing of certain income limits for IRAs.

Federal Law Change: PPA indexes the income limits for IRA contributions beginning in 2007. The indexing applies to the income limits for deductible contributions for active participants in an employer-sponsored retirement plan, the income limits for deductible contributions if the individual is not an active participant in a plan but his or her spouse is, and the income limits for Roth IRAs. The phase out ranges are not indexed.

Effective Date: Taxable years beginning after 2006.

Fiscal Effect: -$120,000 in FY07, -$410,000 in FY08, -$700,000 in FY09.

17. Extends retirement plans and IRA treatment to nonspouse beneficiaries.

Federal Law Change: Current law allows a taxpayer to roll over his or her deceased spouse's interest in a qualified retirement plan, government plan or IRA into an IRA. Thus, the inherited IRA is treated as the IRA of the surviving spouse, in which case the surviving spouse may make contributions to the IRA and the same rules apply for distributions of the inherited IRA as for other IRAs of the surviving spouse. PPA extends this treatment to nonspouse beneficiaries.

Effective Date: Distributions after December 31, 2006.

Fiscal Effect: -$110,000 in FY07, -$210,000 in FY08, -$260,000 in FY09.

18. Automatic enrollment in defined contribution retirement plans.

Federal Law Change: PPA makes it easier for firms to offer automatic enrollment in defined-contribution pension plans, thereby increasing participation in plans and the amount of contributions that would be made on a pre-tax basis.

Effective Date: Plan years beginning after December 31, 2007.

Fiscal Effect: -$800,000 in FY08, -$2.1 million in FY09.

19. Permit tax-free distributions from governmental retirement plans.

Federal Law Change: Under PPA, pension distributions from governmental retirement plans used to pay for health insurance are excludible from income, up to a maximum of $3,000 annually. The provision applies only to retired public safety officers.

Effective Date: For distributions in taxable years beginning after December 31, 2006.

Fiscal Effect: -$1.4 million in FY07, -$1.8 in FY08, -$2.0 in FY09.

20. Clarify condition of charitable contributions.

Federal Law Change: PPA tightens the rules for donation of clothing and household goods; such donations must be in good condition and cannot have a minimal value.

Effective Date: Contributions made after August 17, 2006.

Fiscal Effect: +$66,000 in FY07, +$290,000 in FY08, +$360,000 in FY09.

21. Allow tax free IRA distributions for charity.

Federal Law Change: PPA allows tax-free distributions from IRAs for charitable purposes through December 21, 2007. The maximum annual cap is $100,000.

Effective Date: Distributions made in taxable years beginning after December 31, 2005 but before January 1, 2008.

Fiscal Effect: -$1.3 million in FY07, -$1 million in FY08, - $400,000 in FY09.

22. Basis adjustment to S-corp stock for charitable contributions.

Federal Law Change: Under current law, if an S corporation contributes money or property to charity, each shareholder reduces the basis in the stock of the S corporation by the amount of the charitable contribution that flows through to the shareholder. Under PPA, the reduction of a shareholder's basis equals the shareholder's pro rata share of the adjusted basis of the contributed property.

Effective Date: Contributions made in taxable years beginning after December 31, 2005 and before January 1, 2008.

Fiscal Effect: -$470,000 in FY07, -$64,000 in FY08 and minimal in FY09.

CORPORATE INCOME AND FRANCHISE TAX

1. Elimination of Sunset on Treatment of Certain Income of Electric Cooperatives.

Federal Law Change: Certain local benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies and other similar organizations are exempt from tax if at least 85% of the income of the organization consists of amounts collected from members for the sole purpose of meeting losses and expenses. The 85% test is applied annually so that an electric cooperative could be taxable one year and exempt the next. A revenue ruling, set to expire in 2007, interprets "income" for the 85% test as "gross income."

ETIA eliminates the sunset date for the rules. As a result, certain income received or accrued by tax exempt rural electric cooperatives will continue to be exempt if it is from certain open access electric energy transmission or distribution services, nuclear decommissioning transactions, asset exchange or conversion transactions for purposes of the 85% test. In addition, the sunset date for rules pertaining to treatment of load loss transactions in the 85% test is also eliminated.

Effective Date: For tax years beginning on August 8, 2005.

Fiscal Effect: -Minimal in FY 07; -$50,000 in FY 08, -$60,000 in FY09.

2. Energy Efficiency Commercial Buildings Property Deduction.

Federal Law Change: The ETIA creates a deduction for costs from depreciable energy-efficient commercial building property certified pursuant to a plan to reduce overall energy and power costs and placed in service after December 31, 2005, and before January 1, 2008. The maximum is $1.80 per square foot and the basis of the property must be reduced.

Effective Date: For property placed in service after December 31, 2005, and before January 1, 2008.

Fiscal Effect: -$416,000 in FY 07 and -$159,000 in FY 08.

3. Modification of Recapture Rules for Sec. 197 Intangibles Amortization.

Federal Law Change: IRC section 197 amortizable property is generally an intangible held by a taxpayer in the conduct of a trade or business. The cost of a section 197 intangible is recoverable using a 15-year straight line method of amortization. Gain on the sale of property must be recaptured as ordinary income to the extent of deductions previously claimed. The recapture amounts are computed separately for each item of property. Calculating the amortization recapture separately allows for manipulation that could lead to gain being taxed at the lower capital gain rates.

Under the ETIA, if multiple section 197 properties are sold or disposed of in a single transaction or in a series of transactions, the seller must calculate recapture as if all of the intangibles were a single asset. Allocation of sales proceeds to specific assets is unnecessary for determining amortization recapture. The new recapture rules do not apply to intangibles that have an adjusted basis that exceeds fair market value (sold at a loss).

Effective Date: For dispositions of property after August 8, 2005.

Fiscal Effect: $60,000 in FY 07 and + Minimal in FY 08.

4. Enhanced Deductions for Contributions of Food Inventories to Individuals.

Federal Law Change: Under the Katrina Act (KETRA), noncorporate taxpayers may claim an enhanced deduction for qualified donations of food inventory that was formerly limited to C corporations. Contributions of "apparently wholesome food" must occur on or after August 28, 2005, and before January 1, 2006, and be to a qualified charity or private operating foundation for use in the care of the ill, the needy or infants.

The amount of the enhanced deduction equals the lesser of (1) the donated item's basis plus one-half of the item's appreciation, or (2) two times the donated item's basis. The amount of appreciation is the amount of gain that would be realized if the donated item was sold at fair market value on the date of the gift. The total deduction for donations must not exceed 10% of the taxpayer's net income from the trades or businesses making the donations. Prior to this provision, the deduction was limited to the donor's basis of the donated items.

PPA extends the provision through December 31, 2007.

Effective Date: For contributions made on or after August 28, 2005, in tax years ending after that date, and before January 1, 2008.

Fiscal Effect: -$520,000 in FY 07, -$670,000 in FY08, -$640,000 in FY09.

5. Enhanced Deductions for Contributions of Book Inventories to Public Schools.

Federal Law Change: The KETRA allows C corporations to claim an enhanced deduction for qualified donations of book inventories to public schools that occur on or after August 28, 2005, and before January 1, 2006. A qualified contribution must be to an elementary or secondary school that maintains a regular faculty and curriculum with a regularly enrolled student body. The school must certify in writing that the books are suitable for use in the school's educational programs and that it will actually use the books.

Effective Date: For contributions on or after August 28, 2005, in tax years ending after that date, and before January 1, 2006. PPA extends the provision through December 31, 2007.

Fiscal Effect: -Minimal.

6. Nonrecognition of Gain for Property Located in Katrina Disaster Area.

Federal Law Change: Generally, an involuntary conversion of property occurs when property is damaged, destroyed, stolen or condemned, and the owner receives other property or money in payment, such as insurance. Generally, the owner does not have to report a gain (if any) if the property is replaced within four years for a principal residence in a presidentially declared disaster area and two years for business property.

Under the KETRA, the replacement period for business and residential property in the Katrina disaster area that is converted on or after August 25, 2005, due to the hurricane is extended from two to five years. The extension applies only if substantially all of the use of the replacement property is in the Katrina disaster area.

Effective Date: September 23, 2005.

Fiscal Effect: -$350,000 in FY 07; -$75,000 in FY 08.

7. Extension of Parity Limits for Mental Health Benefits.

Federal Law Change: The Mental Health Parity Act of 1996 contains rules regarding parity of mental health benefits with medical and surgical benefits. Plans that offer mental health benefits are not allowed to impose annual or lifetime dollar limits on mental health benefits that are not also imposed on medical and surgical benefits. Plans are not required to offer mental health benefits. The provision was set to expire on December 31, 2005.

ERPA extends the parity provision for an additional year, through December 31, 2006.

Effective Date: January 1, 2006.

Fiscal Effect: -Minimal in FY 07 and F08.

8. Wage Limitation for Qualified Production Activity Income.

Federal Law Change: Under TIPRA, the Form W-2 wage limit for the deduction will be based on wages allocable to domestic production activities, rather than all of a company's Form W-2 wages. TIPRA also simplifies the rules for determining W-2 wages of partners and S-corporation shareholders.

Effective Date: Taxable years after May 17, 2006.

Fiscal Effect: +Minimal.

9. Superfund settlement funds exempt.

Federal Law Change: Under TIPRA, escrow funds established for hazardous waste sites under agreement with the Environmental Protection Agency under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) are exempt so long as the funds are controlled by a government agency.

Effective Date: Accounts and funds established after May 17, 2006 and before January 1, 2011.

Fiscal Effect: Minimal.

10. Active Business Test for Tax Free Corporate Spin Offs & Clarification of Disqualified Investment Corporations.

Federal Law Change: (a) TIPRA simplifies active business test for tax-free corporate spin-offs. In a spin-off, a corporation distributes stock in a subsidiary that it controls to its shareholders. The shareholders receiving the stock do not have to surrender any of their stock in the parent corporation. The receipt of the stock is tax-free if immediately after the stock distribution, the parent and subsidiary corporations are engaged in the active conduct of a trade or business. Under the law change, all members of the parent corporation's affiliated group and all members of the subsidiary's affiliated group are considered when determining if the active business test is met. By applying the active business test at the group level, corporate groups do not have to restructure in order for a spin-off to be tax-free.

(b) Also under TIPRA, tax-free treatment will no longer apply to a corporate spin-off if either the parent corporation or the subsidiary corporation is a disqualified investment corporation immediately after the transaction and any person who did not hold at least 50% of the value of the corporation's stock before the transaction holds 50% or more of the disqualified investment corporation after the transaction. A corporation is a disqualified investment corporation if at least two thirds of the fair market value of all of its assets consists of investment assets.

Effective Date: (a) Distributions made after May 17, 2006 and on or before December 31, 2010.

(b) Distributions made after May 17, 2006.

Fiscal Effect: Minimal.

11. Interest Expense Deduction.

Federal Law Change: A corporation's interest expense deduction is limited when the corporation pays interest to a related person that is exempt from U.S. tax. Corporations try to get around the limitation by using partnerships. The law change codifies the IRS's proposed regulations that apply the limitations to corporate partners. The corporation's share of the partnership's interest income or interest expense is treated as interest income or expense of the corporation.

Effective Date: Taxable years beginning on or after May 17, 2006.

Fiscal Effect: Minimal.

12. Treatment of Sale or Exchange of Self-Created Musical Works

Federal Law Change: Under TIPRA taxpayers may elect to treat the sale or exchange of self created musical work as a capital asset (taxed at 15%) rather than ordinary income (that can be taxed as high as 35%).

Effective Date: Sales and exchanges in taxable years beginning after May 17, 2006 and before January 1, 2011.

Fiscal Effect: Minimal.

13. Distributions by Regulated Investment Company (RIC)

Federal Law Change: Nonresident aliens and foreign (non-U.S.) corporations generally are taxed on net gains from the disposition of U.S. real property. Net gains from the disposition of U.S. real property passed through from a regulated investment company (RIC) or a real estate investment trust (REIT) are taxable only if certain conditions are met.

a. Under TIPRA, distributions by a RIC to foreign shareholders of amounts attributable to the sale of U.S. real property interests are not treated as income under the Foreign Investment in Real Property Tax Act (FIRPTA) unless the RIC is a real property holding company.

b. Also under TIPRA, distributions by a RIC of amounts attributable to sale of U.S. real property interests are not treated as FIRPTA gains if certain conditions are met; they are treated as dividend distributions.

Effective Date: (1) Dividends with respect to taxable years of RICs beginning after December 31, 2004.

a. Taxable years beginning after December 31, 2005, except that no amount shall be withheld with respect to any distribution before May 17, 2006 if not required under any provision then in effect.

Fiscal Effect: +Minimal.

14. Prevention of tax avoidance on investments through wash sales transactions

Federal Law Change: TIPRA modifies the law related to the tax avoidance on investments of foreign persons in U.S. real property through wash sales transactions.

Effective Date: Taxable years beginning after December 31, 2005, except that no the amendment will not apply to any distribution occurring before 39 days after May 17, 2006.

Fiscal Effect: Minimal

15. Repeal of foreign sales corporation extraterritorial income exclusion

Federal Law Change: When foreign sales corporation (FSC) treatment was repealed, an exception was created for transactions involving FSCs under binding contracts. Similarly, when the federal extraterritorial income exclusion was repealed, a binding contract provision was retained (none of the extraterritorial income exclusion provisions were adopted by Wisconsin). The World Trade Organization Appellate Body found that the binding contract relief provisions are prohibited export subsidies.

TIPRA repeals the foreign sales corporation extraterritorial income exclusion binding contract relief.

Effective Date: Taxable years beginning after May 17, 2006.

Fiscal Effect: Minimal.

16. Funding rules for employer pension plans

Federal Law Change: PPA alters the funding rules for single-employer, defined benefit plans. The changes would result in lower contributions to plans initially and higher contributions later, thereby increasing taxable corporate profits and revenues initially and lowering profits and revenues later.

Effective Date: Plan years after 2007.

Fiscal Effect: +$2.5 million in FY07, +$4.4 million in FY08, +$2.7 million in FY09.

17. Use of excess pension assets for future retirees

Federal Law Change: PPA allows transfers of excess pension assets to retiree medical accounts to fund the expected cost of retiree medical benefits for the current and future years.

Effective Date: Transfers after August 17, 2006.

Fiscal Effect: -Minimal in FY07, - $60,000 in FY08, -$50,000 in FY09.

18. Allowance of reserve for medical benefits

Federal Law Change: Current law provides a deduction for contributions to accounts to fund current year medical benefits. PPA allows deductions for contributions to fund a reserve for future medical benefits provided through qualified associations. These are associations formed for purposes other than obtaining insurance but that offer health insurance coverage to members of the association, such as the American Association of Retired Persons (AARP).

Effective Date: Taxable years after December 31, 2006.

Fiscal Effect: -Minimal in FY07, -$50,000 in FY08, -$70,000 in FY09.

19. Federalizing filing extensions to 30 days after the federal due date or extended due date

Under current law, Wisconsin corporation tax returns are due by the 15th day of the 3rd month following the close of a corporation's taxable year (March 15 for a calendar-year filer). A corporation may receive one of the several extensions for filing its Wisconsin franchise or income tax return. With the move to electronic filing, the Internal Revenue Service is considering eliminating paper extension forms and granting automatic 6-month extensions to all taxpayers.

The complexity of Wisconsin's extension provisions in sec. 71.24(7), Wis. Stats., makes it difficult for taxpayers to comply. To simplify the process for receiving extensions of time to file corporation returns, the department recommends amending sec. 71.24(7) to eliminate Wisconsin-only extensions and to allow an automatic extension of 7 months or 30 days after the federal due date, whichever is later. Rather than requiring the taxpayer to attach a copy of the extension form to the Wisconsin return filed, require the taxpayer to report the extended due date in the manner specified by the department.

Effective Date: Taxable years that begin on January 1, 2006.

Fiscal Effect: Minimal

20. Amend W-2 filing requirement to match IRS requirement for electronic reporting.

Federal Law Change: The provision requires electronic reporting of withholding statements for employers with 250 or more employees. The change replaces language referring to magnetic media filing with language referring to electronic filing. Wisconsin currently adheres to the 250 employee threshold.

Effective Date: Withholding statements filed after December 31, 2006.

Fiscal Effect: Minimal

D. PROVISIONS NOT RECOMMENDED FOR ADOPTION

1. **Public Law 109-1.** Allows taxpayers to treat charitable contributions made in January 2005 for tsunami relief as a charitable contribution made in 2004.

   Effective Date: Amounts received before, on, or after April 15, 2005.

   Fiscal effect: minimal.

2. **Modification to Special Rules for Nuclear Decommissioning Costs.** Utilities that own or operate a nuclear power plant are required to decommission the plant at the end of its useful life. The utility may elect to currently deduct certain contributions it makes to a Nuclear Decommissioning Reserve Fund established to help pay the decommissioning costs, rather than wait and take the deduction when the costs are actually paid or incurred. The special rules for decommissioning cost deductions were modified in the ETIA to remove certain restrictions on the amount of contributions that are deductible. A taxpayer may now make deductible contributions sufficient to cover the present value of 100 percent of a nuclear power plant's estimated decommissioning costs.

109-58

   Effective Date: For tax years beginning after December 31, 2005.

   Fiscal Effect: -$740,000 in FY 07 and -$525,000 in FY 08.

3. **Deduction for Capital Costs Incurred in Complying with EPA Sulfur Regulations.** The Environmental Protection Agency (EPA) has issued rules that limit the amount of sulfur in gasoline and highway diesel fuel. Small business refiners may elect to expense up to 75% of costs paid or incurred in complying with EPA requirements, rather than depreciate them. The ETIA allows a small business refiner cooperative to elect to allocate all or a portion of the permitted deduction among any other cooperatives that directly hold an ownership interest in the refiner.

109-58

   Effective Date: For expenses paid or incurred after December 31, 2002, in tax years ending after that date.

   Fiscal Effect: -$114,000 in FY 07 and +Minimal in FY 08.

4. **Determination of Small Refiner Exception to Oil Depletion Deduction.** Oil and gas producers are generally allowed to claim depletion deductions determined under the cost depletion method. Independent producers and royalty owners are exempt from this rule and may use a percentage depletion method that is limited to a certain percentage of the average daily production of domestic oil and natural gas. The percentage depletion method does not apply to retailers or refiners whose refining operations exceed 50,000 barrels per day. The ETIA increases the 50,000 barrel limitation to 75,000 barrels. The 75,000 barrel limit is determined based on average refinery runs for the tax year rather than actual runs.

109-58

   Effective Date: Taxable years ending after August 8, 2005.*Fiscal Effect:* -$70,000 in FY 07; -Minimal in FY 08.

5. **Tax Treatment of State Ownership of Railroad Real Estate Investment Trust.** The Transportation Act treats a state-owned railroad real estate investment trust (REIT) as a tax-exempt governmental entity if certain conditions are met. Income of the qualified corporation is treated as accruing to the state. A state must own all of the outstanding stock of a corporation that is a REIT on August 10, 2005, and is a non-operating class III railroad.

109-59?

   Effective Date: On or after the date that a state becomes owner of all of the outstanding stock of a qualified corporation through the action of the corporation's board of directors, so long as the state becomes owner of all of the voting stock on or before December 31, 2003, and becomes owner of all of the outstanding stock of the corporation on or before December 31, 2006.

Fiscal Effect: -Minimal in FY 06 and FY 07.

109-135

6. **Temporary suspension of limitations for qualified charitable contributions** GOZA temporarily eliminates the 50% of adjusted gross income limitation on the deductibility of charitable contributions for cash contributions made by individuals from August 28, 2005, through December 31, 2005; these contributions need not be related to hurricane relief. The corporate limit on contributions is also lifted for donations made from August 28, 2005, through December 31, 2005, to a qualified charitable organization for Hurricane Katrina, Rita or Wilma relief efforts.

   Effective Date: Paid beginning 8/28/05 and ending 12/31/05.

   Fiscal effect: $6.1 million in FY07, $203,000 in FY08, and minimal thereafter (includes corporate and individual).

7. **Sunset of Deduction for Clean-Fuel Vehicles** Taxpayers are allowed a deduction of up to $2,000 for the cost of most qualified clean-fuel vehicles placed in service during the tax year. The deduction increases to $5,000 for certain clean-fuel trucks, vans, and buses with gross vehicle weight of 10,000 pounds, and to $50,000 for trucks or vans with gross vehicle weight of more than 26,000 pounds. The deduction is scheduled to be phased out.

   Prior to the Working Families Tax Relief Act of 2004 (WFTRA), the deduction would have been reduced by 25% for property placed in service in 2004, 50% for property placed in service in 2005, and 75% for property placed in service in 2006. No deduction would have been available for property placed in service in 2007. WFTRA eliminated the phase out for 2004 and 2005.

   109-58

   The ETIA accelerates the phase-out of the deduction so that no deduction is available for property placed in service in 2006. The deduction is replaced with an alternative motor vehicles credit.

   Effective Date: August 8, 2005.

   Fiscal Effect: +Minimal in both years.

8. **Allow sec. 179 expensing through 2010**.

   109-222

   Federal Law Change: TIPRA extends the higher expensing deduction allowed under sec. 179 from 2008 to 2010. Wisconsin has not adopted federal treatment with regard to sec. 179 expensing.

   Effective Date: For tax years after 2007 and before 2010.

   Fiscal effect: -$5.4 million in FY08, -$11.1 million in FY09.

9. **Amortization of musical works and copyrights over five year period.**

   109-222

   Federal Law Change: Under TIPRA, taxpayers may elect to amortize expenses incurred in creating or acquiring any musical composition or any copyright of a musical composition over a five-year period rather than the depreciation based on the income forecast method (adjusted basis times the ratio of the income generated by the property in the taxable year to total estimated income generated over 10 years).

Effective Date: Property placed in service in taxable years beginning after December 31, 2006 and before January 1, 2011.

Fiscal Effect: Minimal.

10. Amortization of geological expenditures for certain integrated oil companies.

109-222

Federal Law Change: TIPRA replaces the two-year amortization for geological expenditures with five years for integrated oil companies that have an average daily worldwide production of crude oil of at least 500,000 barrels for the taxable year, gross receipts in excess of $1 billion in 2005 and an ownership interest in a crude oil refiner of 5% or more.

Effective Date: Amounts paid or incurred after May 17, 2006.

Fiscal Effect: +$72,000 in FY06, +$121,000 in FY07, +$133,000 in FY08.

11. Modifies treatment of below-market loans for continuing care facilities.

109-222

Federal Law Change: Under current law, lenders who provide below-market interest loans must report as taxable income an imputed interest payment. An exception is provided for loans made to a continuing care facility by lenders who are 65 years or older up to a maximum aggregate loan of $163,300. TIPRA removes the maximum aggregate loan amount. Thus, no below-market loans made to continuing care facilities by lenders who are 65 or older would impose reporting requirements for imputed payments.

Effective Date: Calendar years beginning after December 31, 2005 for loans made before, on, or after that date and before calendar years after 2010.

Fiscal Effect: Minimal.

12. Eliminates the $100,000 AGI ceiling for IRA conversions

109-222

Federal Law Change: Current law prohibits taxpayers from converting traditional IRAs to Roth IRAs if their income exceeds $100,000 and prohibits taxpayers whose income exceeds $160,000 from contributing to a Roth IRA.

TIPRA eliminates the $100,000 AGI ceiling for converting a traditional IRA to a Roth IRA. A conversion is treated as a taxable distribution but is not subject to an early withdrawal penalty. Taxable distributions from conversions made in 2010 can be reported over two years. The bill in effect eliminates the income ceiling for Roth IRA contributions insofar as a taxpayer who is prohibited from contributing to a Roth IRA can first contribute to a traditional IRA and then convert the traditional IRA to a Roth IRA.

Effective Date: Taxable year beginning after December 31, 2009.

Fiscal Effect: -$842,000 in FY09.

Joint Committee of Taxation estimates a revenue increase beginning in 2011 (total federal revenue gain of $6.4 billion for the 2009-2015 period); however, Urban Institute-Brookings Institution Tax Policy Center estimates a federal revenue loss of $100 billion through 2049.

13. Extend higher IRA contributions and other retirement arrangements.

109-280

Federal Law Change: PPA makes permanent the changes to IRAs and other retirement provisions introduced in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Changes made in EGTRRA were sunsetted at the end of 2010.

The major changes made under EGTRRA affecting individual income tax collections include the following:

- Increased traditional IRA contributions to $4,000 (but no more than the individual's compensation) in 2006 and $5,000 in 2008-2010.
- Allowed catch-up contributions for older workers ($1,000 after 2005 for IRAs, $2,5000 for SIMPLE plans, $5,000 for 401(k) plans)

Changes affecting corporate tax collections include:

- Increased dollar limits on defined contribution plans ($44,000 in 2006), elective deferrals (including $15,000 in 2006 for 401(k) plans), 457 plan deferrals ($15,000 in 2006) and SIMPLE plan contributions ($10,000 in 2006).
- Increased annual benefit limit under a defined benefit plan ($175,000 for 2006)
- Created Roth 401(k) and 403(b) plans.
- Enhanced rollover rules and provided greater portability for 403(b) and 457 plans.

Effective Date: August 17, 2006.

Fiscal Effect: No effect until FY11; -$16 million by FY13 for individual income tax and -$9 million by FY13 for corporate tax collections.

14. Treatment of annuities and life insurance with long term care insurance feature.

109-280

Federal Law Change: PPA changes the rules that apply to life and long-term care insurance to allow certain withdrawals from annuities for payment for long-term care insurance to be tax free.

Effective Date: For annuities issued after December 31, 1996 but only with respect to long-term care insurance purchased in taxable years beginning after December 31, 2009.

Fiscal Effect: No effect until FY10; -$11 million by FY15.

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