

Fiscal Estimate Narratives
DOR 2/28/2007

LRB Number 07-1041/1	Introduction Number AB-0060	Estimate Type Original
Description 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 2008 if the income is not already exempt from taxation and the recipient is at least 62 years of age by the end of the taxable year. The maximum allowable exemption would increase by \$2,500 each year until it becomes \$20,000 in tax year 2015.

The fiscal estimates were calculated using the 2005 Individual Income Tax Model. The model was inflated for 2008 income levels and law, adjusted to reflect the upcoming full social security income exemption, and adjusted to reflect the increasing number of individuals with retirement income. An exemption of up to \$2,500 for each person age 62 or higher with retirement income is estimated to reduce taxes on approximately 235,000 returns. State income tax revenues would decrease by \$36 million to \$51 million for tax year 2008. 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 when they are both age 62 or higher.

Apportioning the tax year effect to fiscal years, the fiscal year 2008 revenue impact would be \$16 million to \$23 million.

Long-Range Fiscal Implications

Similar simulations using the 2005 Individual Income Tax Model, adjusted for tax years 2009 through 2015 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 the following amounts:

FY2009, \$52 million to \$72 million
FY2010, \$86 million to \$118 million
FY2011, \$121 million to \$162 million
FY2012, \$155 million to \$205 million
FY2013, \$189 million to \$245 million
FY2014, \$224 million to \$286 million
FY2015, \$260 million to \$328 million

Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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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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