

Fiscal Estimate Narratives

DOR 3/25/2008

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|---|------------------|---------------------|----------------|---------------|-----------------|
| LRB Number | 07-3739/1 | Introduction Number | AB-0952 | Estimate Type | Original |
| Description changing the income tax exemption for payments received by senior citizens from certain retirement plans or accounts. | | | | | |

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.

Additionally, under 2007 Wisconsin Act 20, beginning in tax year 2009 up to \$5,000 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 removes the limit on federal adjusted gross income of claimants from the retirement exemption in 2007 Wisconsin Act 20. The bill also changes the exemption amount. Under the bill, the exempt amount for tax year 2009 would be \$500 and the amount would increase to \$1,000 in tax year 2010. After 2010, the exemption would increase by \$1,000 per year until it reached \$20,000 in tax year 2029. After 2029, the exemption amount would be adjusted annually by a percentage equal to the percentage increase in Wisconsin per capita income.

Using the 2005 Individual Income Tax Model, inflated for 2009 income levels and law, revenue would decrease by \$3.6 million to \$6.1 million for tax year 2009. 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. Inflating for 2010 income levels and law, a \$1,000 exclusion would decrease revenue by \$9.6 million to \$14.6 million.

Long-Range Fiscal Implications

During the phase in period, the fiscal effect will increase annually. Although it is not possible to reasonably estimate the fiscal effect in tax year 2029, if the \$20,000 exemption was allowed in tax year 2009, it would be estimated to reduce revenue by \$142 million to \$168 million.

Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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|--|---|--|-----------------|
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| Description changing the income tax exemption for payments received by senior citizens from certain retirement plans or accounts. | | | |
| 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, ets.) | | | |
| | | 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 | |
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| | | Date | |
| | | 3/25/2008 | |