



**WISCONSIN LEGISLATIVE COUNCIL
AMENDMENT MEMO**

2007 Assembly Bill 28

**Assembly Substitute
Amendment 1 and Assembly
Amendment 1**

Memo published: March 21, 2007

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ASSEMBLY SUBSTITUTE AMENDMENT 1

The substitute amendment would create a deduction from the state income tax for amounts received by an individual from a retirement plan classified as a “qualified retirement plan” under the United States Internal Revenue Code (IRC).

A “qualified plan” under federal tax law is a retirement plan that meets certain requirements to qualify it for deductible contributions and tax-deferred earnings for federal tax purposes. These requirements are specified in Section 401 of the IRC and include nondiscrimination requirements, vesting requirements, and a limit on the amount of contributions to the plan for each year. There are many types of qualified plans, including traditional pension plans, IRAs, self-employed pension plans, 401(k) plans, and deferred compensation plans. Income from all of these plans would be deductible under the substitute amendment.

The maximum amount of the deduction, per person (married couples could each claim the deduction), would be \$20,000 per year. However, the maximum deduction would not be available until the 2012 tax year. Before 2012, the amount of the deduction would be phased in over a five-year period beginning in taxable year 2008. In 2008, the maximum deduction would be \$2,500; in 2009, \$5,000; in 2010, \$10,000; in 2011, \$15,000; and \$20,000 in 2012 and thereafter.

The substitute amendment also provides that the Wisconsin income tax penalty for early withdrawals from a qualified retirement plan does not apply to retirement income that is exempt under the substitute amendment.

ASSEMBLY AMENDMENT 1

Assembly Amendment 1 to the substitute amendment clarifies that the tax exemption under the substitute amendment does not apply to distributions from retirement plans that are not included in

federal adjusted gross income. For example, income received from a Roth IRA is not included in federal adjusted gross income because it is not taxable and because of this, it is not included as income for Wisconsin income tax purposes. Assembly Amendment 1 clarifies that the exemption under the substitute amendment does not apply to income that is exempt under another provision of state or federal law.

Legislative History

Assembly Substitute Amendment 1 and Assembly Amendment 1 were introduced by Representative Lothian. On March 21, 2007, the Assembly Committee on Ways and Means adopted Assembly Amendment 1 by a vote of Ayes, 11; Noes, 0; and Absent, 2; adopted Assembly Substitute Amendment 1 by a vote of Ayes, 11; Noes, 0; and Absent, 2; and recommended that bill for passage, as amended, by a vote of Ayes, 11; Noes, 0; and Absent, 2.

WF:jb;ksm