AN ACT to amend 71.05 (1) (ae) (intro.); to repeal and recreate 71.05 (1) (ae)

1. to 4.; and to create 71.05 (1) (ae) 5. to 22. of the statutes; relating to:

changing the income tax exemption for payments received by senior citizens from certain retirement plans or accounts.

Analysis by the Legislative Reference Bureau

Under current law, the pension benefits of certain public employees are exempt from state taxation. The pensions that are exempt include payments received from the U.S. Civil Service Retirement System, the U.S. Military Employee Retirement System, the Milwaukee City and County Retirement Systems, the police officer’s annuity and benefit fund of Milwaukee, the Milwaukee public school teachers’ retirement fund, the Wisconsin state teachers’ retirement fund, and the sheriff’s annuity and benefit fund of Milwaukee County. For most of these pension plans, the exemption applies only to persons who were members of or retired from the plans as of December 31, 1963, although this limitation does not apply to retirement payments received from the U.S. Military Employee Retirement System or from payments received from the U.S. government that relate to service with the U.S. Coast Guard, the commissioned corps of the National Oceanic and Atmospheric Administration, or the commissioned corps of the U.S. Public Health Service.

Also under current law, for taxable years beginning after December 31, 2008, 2007 Wisconsin Act 20 (the biennial budget act) creates an individual income tax exemption for up to $5,000 in payments or distributions received by certain individuals from a traditional individual retirement account (IRA), or from a
qualified retirement plan under the Internal Revenue Code (IRC), if such payments are not already exempt from taxation. Under the IRC, “qualified” plans include certain pension plans, profit-sharing plans, money purchase plans, stock bonus plans, annuity plans, 401 (k) plans, Keogh plans, SIMPLE plans, government or 457 plans, and IRAs.

The exemption created in the biennial budget act may only be claimed by an individual who is at least 65 years old and whose federal adjusted gross income (FAGI) is less than certain specified amounts. If the claimant is single or files as a head of household, FAGI must be less than $15,000; if the claimant is married and a joint filer, FAGI must be less than $30,000; or, if the claimant is married and a separate filer, the sum of both spouses’ FAGI must be less than $30,000.

This bill changes the provision enacted in the biennial budget act by setting the exemption amount at $500 for taxable year 2009, $1,000 for taxable year 2010, and then increasing the exemption amount by $1,000 each year until the exemption amount reaches $20,000 in taxable year 2029. For taxable years beginning after 2029, the exemption is increased each year by a percentage equal to the percentage increase in Wisconsin per capita income. This bill also repeals the limitations on claiming the exemption based the claimant’s FAGI.

Because this bill relates to an exemption from state or local taxes, it may be referred to the Joint Survey Committee on Tax Exemptions for a report to be printed as an appendix to the bill.

For further information see the state fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. 71.05 (1) (ae) (intro.) of the statutes, as created by 2007 Wisconsin Act 20, is amended to read:

71.05 (1) (ae) Pension, individual retirement income. (intro.) Except for a payment that is exempt under par. (a), (am), or (an), or that is exempt as a railroad retirement benefit, for taxable years beginning after December 31, 2008, up to $5,000 one of the following amounts of payments or distributions received each year by an individual, who is at least 65 years of age before the close of the taxable year to which the exemption claim relates, from a qualified retirement plan under the Internal Revenue Code or from an individual retirement account established under 26 USC 408, if all of the following conditions apply:
SECTION 2. 71.05 (1) (ae) 1. to 4. of the statutes, as created by 2007 Wisconsin Act 20, are repealed and recreated to read:

71.05 (1) (ae) 1. For taxable years beginning after December 31, 2008, and before January 1, 2010, $500.
2. For taxable years beginning after December 31, 2009, and before January 1, 2011, $1,000.
3. For taxable years beginning after December 31, 2010, and before January 1, 2012, $2,000.
4. For taxable years beginning after December 31, 2011, and before January 1, 2013, $3,000.

SECTION 3. 71.05 (1) (ae) 5. to 22. of the statutes are created to read:

71.05 (1) (ae) 5. For taxable years beginning after December 31, 2012, and before January 1, 2014, $4,000.
6. For taxable years beginning after December 31, 2013, and before January 1, 2015, $5,000.
7. For taxable years beginning after December 31, 2014, and before January 1, 2016, $6,000.
8. For taxable years beginning after December 31, 2015, and before January 1, 2017, $7,000.
9. For taxable years beginning after December 31, 2016, and before January 1, 2018, $8,000.
10. For taxable years beginning after December 31, 2017, and before January 1, 2019, $9,000.
11. For taxable years beginning after December 31, 2018, and before January 1, 2020, $10,000.
12. For taxable years beginning after December 31, 2019, and before January 1, 2021, $11,000.

13. For taxable years beginning after December 31, 2020, and before January 1, 2022, $12,000.

14. For taxable years beginning after December 31, 2021, and before January 1, 2023, $13,000.

15. For taxable years beginning after December 31, 2022, and before January 1, 2024, $14,000.

16. For taxable years beginning after December 31, 2023, and before January 1, 2025, $15,000.

17. For taxable years beginning after December 31, 2024, and before January 1, 2026, $16,000.

18. For taxable years beginning after December 31, 2025, and before January 1, 2027, $17,000.

19. For taxable years beginning after December 31, 2026, and before January 1, 2028, $18,000.

20. For taxable years beginning after December 31, 2027, and before January 1, 2029, the maximum subtraction amount from the previous year increased by a percentage equal to the percentage increase in Wisconsin per capita personal income, as determined by the department of revenue based on the most recent data available from the federal
Bureau of Economic Analysis, comparing the increase between the year for which the most recent data is available and the previous year.