

Fiscal Estimate Narratives

DOR 12/14/2009

LRB Number	09-3843/1	Introduction Number	AB-0608	Estimate Type	Original
Description Adopting Internal Revenue Code provisions related to individual retirement accounts					

Assumptions Used in Arriving at Fiscal Estimate

This bill adopts a provision from federal law (sec. 512 of Public Law 109-222) for Wisconsin purposes. This law relates to individual retirement accounts (IRAs).

Contributions to traditional IRAs are generally deductible for taxpayers but distributions are taxable. Conversely, contributions to Roth IRAs are not deductible, but distributions are not taxable. For 2009, taxpayers with incomes above \$120,000 (\$176,000 for married joint filers) may not contribute to Roth IRAs. Although taxpayers may contribute to traditional IRAs at any income level, the contributions are only deductible for filers with income below \$65,000 (\$109,000 for married joint filers). Taxpayers may also convert traditional IRAs to Roth IRAs by effectively taking a distribution from the traditional IRA, paying tax on the distribution, and then making a contribution to a Roth IRA.

Prior to this law, taxpayers could convert traditional IRAs to Roth IRAs only if their income did not exceed \$100,000. This law eliminates the \$100,000 limit on traditional IRA to Roth IRA conversions beginning in tax year 2010. This effectively eliminates the income ceiling for Roth IRA contributions insofar as a taxpayer who is otherwise prohibited from contributing to a Roth IRA can make a non-deductible contribution to a traditional IRA and immediately convert the amount to a Roth IRA.

For individuals who convert traditional IRAs to Roth IRAs in 2010, the law also allows them to pay tax on the converted amount over two years rather than paying the full amount in the year the conversion is made.

For Wisconsin purposes, under current law, a taxpayer who takes advantage of the federal law change to convert a traditional IRA to a Roth IRA may be liable for an early distribution penalty (on the traditional IRA) and an excess contribution penalty (on the Roth IRA). In the short term, assuming some taxpayers would convert their IRAs even in the absence of this bill, the bill would reduce revenue by eliminating those penalties. However, assuming some taxpayers would refrain from converting their IRAs in the absence of this bill, the bill would increase revenue to the extent that these taxpayers will report the distributions for the converted IRAs. By making Roth IRAs more available, this bill will reduce revenue in the long term because distributions from Roth IRAs are not taxable.

This bill is expected to increase revenue by \$1.0 million in FY 2011 and \$1.5 million in FY 2012. It is expected to reduce revenue by -\$1.7 million in FY 2013.

Long-Range Fiscal Implications

This bill will reduce revenue in the long term because it makes Roth IRAs more available to high income individuals and distributions from Roth IRAs are not taxable.

Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description Adopting Internal Revenue Code provisions related to individual retirement 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, 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	
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		Date	
		12/14/2009	