



**Fiscal Estimate Narratives**  
**DOR 12/15/2009**

LRB Number <b>09-3727/1</b>	Introduction Number <b>SB-416</b>	Estimate Type <b>Original</b>
<b>Description</b> Adopting Internal Revenue Code provisions related to individual retirement accounts		

**Assumptions Used in Arriving at Fiscal Estimate**

This bill adopts provisions from two federal laws for Wisconsin purposes: sec. 512 of Public Law 109-222 and sec. 811 of Public Law 109-280. These laws relate to individual retirement accounts (IRAs) and other retirement arrangements.

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.

**Sec. 512 of Federal Public Law 109-222**

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 portion of the bill is expected to have the following revenue effects for Wisconsin: \$1.0 million in FY 2011, \$1.5 million in FY 2012, -\$1.7 million in FY 2013.

**Sec 811 of Federal Public Law 109-280**

This law makes permanent changes to IRAs and other retirement provisions that would otherwise have sunsetted at the end of 2010. Under the sunset provisions, the IRA and other retirement provisions would revert to 2001 levels. As a result, for tax year 2011 and thereafter:

- 1) The maximum contribution to traditional or Roth IRAs is \$5,000 (\$6,000 for individuals over 50) rather than reverting to the 2001 level of \$2,000.
- 2) Limits on elective deferrals are \$15,000 for 401(k) and 457 plan deferrals and \$10,000 for SIMPLE plan contributions. Those limits were \$7,500 and \$6,000 respectively for 2001.
- 3) Limits on defined benefit plans are \$175,000 rather than \$140,000 for 2001.
- 4) Individuals can continue to make contributions to Roth 401(k) and 403(b) plans.

Under the bill, the same changes would be made permanent for Wisconsin purposes; in the absence of this bill the provisions would sunset. As with sec. 512 of P.L. 109-222, Wisconsin taxpayers who conform to this

federal law would be subject to certain state penalties.

This portion of the bill is expected to decrease revenue by \$13.0 million in FY 2011, \$33.3 million in FY 2012, and \$40.4 million in FY 2013.

Combining the fiscal effects of adopting the two federal provisions, the bill is expected to reduce revenue by \$12.0 million in FY 2011, \$31.8 million in FY 2012, and \$42.1 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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<b>Description</b> Adopting Internal Revenue Code provisions related to individual retirement accounts			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes	\$		\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
<b>TOTAL State Costs by Category</b>	<b>\$</b>		<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
	Increased Rev		Decreased Rev
GPR Taxes	\$		\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
<b>TOTAL State Revenues</b>	<b>\$</b>		<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
	State		Local
NET CHANGE IN COSTS	\$		\$
NET CHANGE IN REVENUE	\$SeeText		\$
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
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