

Fiscal Estimate Narratives

DOR 8/8/2019

LRB Number	19-3794/1	Introduction Number	SB-336	Estimate Type	Original
Description exempting from taxation the pension benefits of certain retired federal employees					

Assumptions Used in Arriving at Fiscal Estimate

Under current state law, social security benefits are exempt from Wisconsin income tax. Moreover, pensions received by persons who were members of or retired from Milwaukee City and county retirement funds, the state teachers' retirement fund, and the federal civil service retirement system (CSRS) prior to January 1, 1964 are exempt from Wisconsin income tax. In addition, veterans' pensions are exempt from Wisconsin income tax.

Wisconsin also exempts up to \$5,000 of payments or distributions from a qualified retirement plan or individual retirement account (IRA) 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).

Under federal law, until 1984, employment by the federal government was covered under CSRS and not by social security. In 1984, the federal government created the Federal Employees Retirement System (FERS). Federal employees who began working for the federal government in 1984 or later are covered by FERS instead of CSRS. Some federal employees who had been covered by CSRS switched to FERS, and some stayed in CSRS. Work under FERS is covered by social security. Federal employees who remained in CSRS after 1983 are not covered by social security.

This bill provides a new exemption for payments received from CSRS, to the extent that such payments are not already exempt. The exemption is limited to no more than \$8,000 for 2019, and \$16,000 for 2020 and thereafter.

According to a February 2018 Congressional Research Service report on the federal employees' retirement system, Wisconsin had 28,441 annuitants in FY16. Moreover, about 71.5% of annuitants were covered by CSRS, suggesting about 20,335 CSRS annuitants. Based on a simulation of individuals with federal civil service retirement income, adjusted for existing exclusions and FERS members, the bill will reduce revenue by approximately \$7.5 million in fiscal year 2020 and \$11.7 million annually beginning in fiscal year 2021.

Note that this analysis reflects estimate individual income tax rates for 2019 and 2020 resulting from 2019 Wisconsin Acts 9 and 10. To the extent the rate changes resulting from the acts differ from current estimates, the fiscal effect would be slightly higher or lower.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2019 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description exempting from taxation the pension benefits of certain retired federal employees			
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	\$	\$-11,700,000
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$-11,700,000
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$-11,700,000	\$
Agency/Prepared By		Authorized Signature	Date
DOR/ Bradley Caruth (608) 261-8984		Michael Oakleaf (608) 261-5173	8/8/2019