



Tod Ohnstad

STATE REPRESENTATIVE

September 12, 2019

Assembly Committee on Ways and Means
Assembly Bill 221
Representative Tod Ohnstad

Chairman Macco and members of the Committee on Ways and Means, thank you for the opportunity to provide testimony on Assembly Bill 221, bipartisan legislation to eliminate a tax disparity between retired federal workers receiving social security and former federal employees not receiving social security, but instead receiving a pension.

I am joined in supporting this legislation by lead authors Representative Mike Kuglitsch (R-New Berlin) and Senators Dale Kooyenga (R-Brookfield) and Fred Risser (D-Madison) in introducing the legislation, with a total of 26 cosponsors from both parties in both houses who have signed on thus far.

I was made aware of the inequitable treatment of these two types of federal retirement plans by Rick Gallo and local Kenosha members of the National Active and Retired Federal Employees Association. This seemed like a common sense issue of fairness, and I was happy to work with my constituents to develop the legislation.

Prior to 1984, all federal employees were covered by the Civil Service Retirement System (CSRS) rather than social security. Beginning in 1984, all new federal employees and those who chose to change plans were covered by the Federal Employees Retirement System (FERS), which is covered by social security.

State law exempts social security benefits from the state income tax. It also provides an exemption for civil service pensions for employees who were members prior to 1964. However, post-1964 CSRS federal employees are excluded from this provision and their pensions are taxed in Wisconsin.

The state's tax laws create a donut-hole where certain federal retirees are still being taxed based on their older plans. Our bill aims to provide level treatment among these retired workers and how their benefits are taxed by the state. Neighboring Illinois, for example, exempts both social security and federal pensions from state taxes. This legislation was largely based on a law passed and signed by then-Governor Mike Pence in Indiana in 2015.

While the number of retirees affected by this provision will decrease over time, the bill currently impacts about 20,000 Wisconsinites including postal workers, civilian employees of the armed forces, the Army Corps of Engineers, Department of Veterans' Affairs employees, and Treasury Department employees, among others.

I would like to note that we have received technical suggestions from the Department of Revenue regarding cross-references in the bill and the timing of implementation, as we are now later in the year and 2019 tax documents are already being prepared for tax season next year. The authors will work with DOR and the committee to ensure the bill works as intended. These could relatively easily be addressed with a simple amendment on the implementation timing and adding suggested technical cross-references.

Thank you for your time today, and I would appreciate your support when Assembly Bill 221 comes for a vote before this committee.

65th ASSEMBLY DISTRICT



MIKE KUGLITSCH

STATE REPRESENTATIVE • 84TH ASSEMBLY DISTRICT

DATE: September 12, 2019
RE: **2019 Assembly Bill 221**
TO: Assembly Committee on Ways and Means
FROM: Representative Mike Kuglitsch
SUBJECT: Exempting from taxation the pension benefits of certain retired federal employees.

Thank you Chair Macco and Members of the Committee for your consideration of Assembly Bill 221, which eliminates a tax disparity between federal retired workers getting social security and federal retirees receiving a federal pension.

Current state law exempts social security benefits from state income tax, but not all federal retirees receive social security.

94% of current federal employees are enrolled in the Federal Employee Retirement System and are included in the social security system.

The remaining 6% were hired prior to 1984 and are enrolled in the Civil Service Retirement System and currently pay income tax against their benefits to the state of Wisconsin.

As of 2016, there are 20,000 members of the Civil Service Retirement System in Wisconsin who are currently paying income tax on their federal pension and Assembly Bill 221 is designed to equal the playing field for all federal retirees.

AB 221 exempts from income tax the pension of retirees in the Civil Service Retirement System prior to 1984.

The number of retirees AB 221 benefits is slowly diminishing due to old age, so Mr. Chair and Members of the Committee, the time to act is now.

Thank you, I ask for your support of this legislation and I am happy to take any questions.



DALE KOOYENGA
WISCONSIN STATE SENATOR

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September 12, 2019

TO: Members of the Assembly Committee on Ways and Means

FR: Senator Dale Kooyenga

RE: Assembly Bill 221

Thank you for holding a public hearing on Assembly Bill 221. This bill would eliminate a tax disparity that currently exists between retired workers receiving social security and federal employees receiving a federal pension.

Until 1984, employees of the federal government were covered under the federal civil service retirement system (CSRS) and not by social security. In 1984, the federal government created the Federal Employees Retirement System (FERS) and employees who began working for the federal government at or after this time were covered under FERS.

Under current law, social security benefits are exempt from Wisconsin income tax. In addition to social security benefits, CSRS pensions for employees who were members prior to 1964 receive an exemption from Wisconsin income tax. However, post-1964 CSRS federal employees do not receive this exemption, therefore, their pensions are subject to the Wisconsin income tax.

Assembly Bill 221 would eliminate this disparity by exempting payments received from CSRS regardless of whether a former employee was a member before or after 1964. This would affect 20,000 Wisconsinites across the armed forces, Army Corps of Engineers, Department of Veterans' Affairs employees, United States Postal Service, and Treasury Department.

By treating social security and federal pensions the same, AB 221 would simply even the playing field for retired federal workers and the taxation of their benefits.

Thank you again for hearing AB 221 and I respectfully ask for your support.