



## Legislative Fiscal Bureau

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February 1, 2024

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 1021/Senate Bill 978: Retirement Income Exclusion, Tax Year 2024

On January 29, 2024, Assembly Bill 1021 (AB 1021) was introduced and referred to the Joint Committee on Finance. An identical companion bill, Senate Bill 978 (SB 978), was introduced and referred to the Joint Committee on Finance on January 30, 2024. AB 1021 and SB 978 are hereafter referred to as "the bill."

### **BACKGROUND**

The starting point for determining Wisconsin adjusted gross income (AGI) is federal AGI, which itself is derived from gross income. This includes income from all sources, unless a specific exclusion is provided. Income that is earned and contributed to a pre-tax retirement account is excluded from federal (and state) AGI. Distributions from a pre-tax retirement account are generally included in federal and state AGI.

Under current law, the following retirement income categories are excluded from Wisconsin AGI: (a) Social Security benefits; (b) payments from the U.S. military employee retirement system and U.S. government retirement payments received by members of the U.S. Coast Guard, the Commissioned Corps of the National Oceanic and Atmospheric Administration, and the Commissioned Corps of the Public Health Service; (c) income from certain public retirement systems if the individual was a member of, or retired from, that system prior to 1964; and (d) up to \$5,000 of retirement income for taxpayers aged 65 or over with federal AGI of less than \$15,000 per filer, or less than \$30,000 for married-joint filers. Together, these provisions are estimated to reduce individual income tax revenues by nearly \$950 million in tax year 2024 under current law (the exclusion for Social Security benefits accounts for an estimated \$900 million [95%] of this total).

### **SUMMARY OF BILL**

Beginning in tax year 2024, the bill would exclude the first \$75,000 of retirement income

currently subject to state tax received by each individual who is at least 65 years of age before the close of the taxable year. For married-joint filers where both spouses have attained age 65, the maximum exclusion would equal \$150,000. The bill would prohibit a taxpayer who claims this exclusion from claiming any state income tax credits provided under current law in the same tax year. The Appendix provides a list of the credits that would be disallowed under the bill. Nonresidents would be prohibited from claiming the exclusion, and part-year residents could claim the exclusion only for the portion of their retirement income which is sourced to Wisconsin.

For purposes of the exclusion, retirement income would include payments or distributions received each year by an individual from a qualified retirement plan under specified provisions of the Internal Revenue Code [such as distributions from a pension, 401(k), or 403(b)] or from an individual retirement account (IRA) established under specified federal law provisions. The exclusion would not apply to any retirement income which is already exempt under current state law (to prevent an exclusion from being claimed twice on the same income). Distributions from qualified after-tax retirement plans for which tax had already been paid (such as a Roth IRA, Roth 401(k), or Roth 403(b) plan) would not receive an additional tax benefit under the bill.

## **FISCAL EFFECT**

The bill is estimated to reduce individual income tax collections by \$658.2 million in 2024-25 and \$472.4 million annually thereafter.

A distributional table is provided as an attachment. As displayed in the table, it is estimated that 294,780 filers would receive total tax decreases of \$466.2 million in tax year 2024 under the bill, for an average decrease of \$1,582.

Prepared by: Dan Spika  
Attachments

## ATTACHMENT

### AB 1021/SB 978: Exempt First \$75,000 of Retirement Income if Aged 65 or Older (up to \$150,000 Married-Joint), Tax Year 2024

<u>Wisconsin Adjusted Gross Income</u>	<u>Taxpayers with a Tax Decrease</u>					<u>Count of All Returns</u>	<u>Percent of all Returns in AGI Class</u>
	<u>Count</u>	<u>Percent of Count</u>	<u>Amount of Tax Decrease</u>	<u>Percent of Decrease</u>	<u>Average Decrease</u>		
Under \$5,000	368	0.1%	\$17,122	<0.1%	\$47	466,270	0.1%
5,000 to 10,000	285	0.1	37,827	<0.1	133	207,100	0.1
10,000 to 15,000	474	0.2	50,661	<0.1	107	167,800	0.3
15,000 to 20,000	3,334	1.1	350,894	0.1	105	147,620	2.3
20,000 to 25,000	11,696	4.0	1,393,463	0.3	119	143,830	8.1
25,000 to 30,000	15,918	5.4	3,728,438	0.8	234	150,890	10.5
30,000 to 40,000	41,545	14.1	15,077,243	3.2	363	301,040	13.8
40,000 to 50,000	42,239	14.3	28,195,794	6.0	668	276,640	15.3
50,000 to 60,000	34,833	11.8	37,131,911	8.0	1,066	230,640	15.1
60,000 to 70,000	27,314	9.3	40,196,874	8.6	1,472	179,180	15.2
70,000 to 80,000	22,199	7.5	41,815,303	9.0	1,884	145,160	15.3
80,000 to 90,000	16,896	5.7	38,196,566	8.2	2,261	115,060	14.7
90,000 to 100,000	13,600	4.6	35,241,270	7.6	2,591	97,920	13.9
100,000 to 125,000	22,801	7.7	68,350,152	14.7	2,998	196,500	11.6
125,000 to 150,000	13,292	4.5	46,570,373	10.0	3,504	140,440	9.5
150,000 to 200,000	12,999	4.4	51,323,302	11.0	3,948	156,570	8.3
200,000 to 250,000	5,779	2.0	22,242,677	4.8	3,849	68,550	8.4
250,000 to 300,000	2,922	1.0	10,928,108	2.3	3,740	33,720	8.7
300,000 to 500,000	4,396	1.5	16,668,335	3.6	3,792	48,260	9.1
500,000 to 1,000,000	1,523	0.5	7,078,414	1.5	4,648	19,700	7.7
1,000,000 and over	<u>367</u>	<u>0.1</u>	<u>1,645,528</u>	<u>0.4</u>	4,484	<u>8,010</u>	4.6
<b>Total</b>	<b>294,780</b>	<b>100.0%</b>	<b>\$466,240,255</b>	<b>100.0%</b>	<b>\$1,582</b>	<b>3,300,900</b>	<b>8.9%</b>

--In tax year 2024, it is estimated that a total of 294,780 filers (8.9% of all filers) would receive tax decreases totaling \$466.2 million, for an estimated average decrease of \$1,582.

--Taxpayers with Wisconsin AGI under \$100,000 would comprise 78.3% of all filers with a decrease and would receive 51.8% of the estimated decrease. Their estimated average tax decrease would be \$1,047 in tax year 2024.

--Taxpayers with Wisconsin AGI of \$100,000 or more would represent 21.7% of all filers with a decrease and would receive 48.2% of the decrease. Their estimated average tax decrease would be \$3,508 in tax year 2024.

--Among all taxpayers receiving a tax decrease, 93.1% (274,517) would no longer have any net tax liability on their retirement income in tax year 2024.

Based on a simulation of tax year 2024 by the Department of Revenue.

## APPENDIX

The following tax credits are available to be claimed by individuals in tax year 2024 under current law, but could not be claimed if an individual were to claim the proposed exclusion for retirement income under the bill.

### **Nonrefundable Individual Income Tax Credits**

- Married Couple Credit
- Itemized Deduction Credit
- Property Tax/Rent Credit
- Working Families Credit
- Taxes Paid to Other States Credit
- Child and Dependent Care Expenses Credit
- State Historic Rehabilitation Credit
- Angel Investment Credit
- Unused Credits Carried Forward from Prior Years

### **Refundable Individual Income Tax Credits**

- Earned Income Tax Credit
- Homestead Credit
- Veterans and Surviving Spouses Property Tax Credit
- Repayment (Claim of Right) Credit

### **Nonrefundable Business Tax Credits**

- Community Rehabilitation Program Credit
- Early Stage Seed Investment Credit
- Employee College Savings Account Contribution Credit
- Insurance Security Fund Assessment Credit
- Low-Income Housing Credit
- Manufacturing and Agriculture Credit
- Nonrefundable Research Credit
- Supplement to the Federal Historic Rehabilitation Credit
- Unused Credits Carried Forward from Prior Years

### **Refundable Business Tax Credits**

- Business Development Credit
- Electronics and Information Technology Manufacturing Zone (Foxconn) Credit
- Enterprise Zone Credit
- Farmland Preservation Credits
- Refundable Research Credit