Legislative Fiscal Bureau

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Expand Retirement Income Exclusion
(General Fund Taxes -- Income and Franchise Taxes)

[LFB 2023-25 Budget Summary: Page 196, #9]

CURRENT LAW

Under the state individual income tax, the amount of income subject to taxation is based on Wisconsin adjusted gross income (AGI). To determine Wisconsin AGI, several modifications are made to federal AGI. In general, these modifications can either increase Wisconsin AGI (if the amounts are not taxable under federal law but are at least partially taxable under state law), or decrease Wisconsin AGI (if the amounts are taxable under federal law but are only partially taxable, or not taxable, under state law). Modifications decreasing Wisconsin AGI can generally be classified into deductions (for expenses incurred) and exclusions (for classes or types of income).

Under current law, an exclusion is provided for payments or distributions received each year by an individual from a qualified retirement plan under the Internal Revenue Code, or from an individual retirement account (IRA) established under specified provisions of federal law, if the individual: (a) is at least 65 years of age before the close of the taxable year to which the exclusion relates; and (b) has federal AGI below $15,000 if a single or head-of-household filer, or below $30,000 (income combined with their spouse) if a married filer. The maximum exclusion under current law is $5,000.

Exclusions serve to reduce taxable income (the amount of income actually subject to tax), so their value depends on the tax rate which would have otherwise applied to that income. For example, a $10,000 exclusion would yield a tax benefit of $500 for a taxpayer facing a marginal effective tax rate of 5%.

In tax year 2021, a total of 94,622 filers claimed exclusions of $447.5 million under the

AGI-limited retirement income provision, for an average deduction claimed of $4,730, resulting in a revenue reduction of almost $500,000. A DOR analysis of these taxpayers showed that these exclusions yielded an average tax benefit of $5 in tax year 2021 (the average effective tax rate for these taxpayers was 0.11% that year). By contrast, the average effective tax rate for all state taxpayers in tax year 2021 was 3.97%.

Taxable income is calculated under current law by subtracting the state sliding scale standard deduction and personal exemptions from Wisconsin AGI. The parameters of the state standard deduction under current law are displayed in the table below.

Current Law Sliding Scale Standard Deduction, Tax Year 2023

Filing Status	Wisconsin AGI	Standard Deduction
Single	Less than $18,400	$12,760
	$18,400 to $124,733	$12,760-12.0% (WAGI-$18,400)
	Greater than $124,733	$0
Married, Joint	Less than $26,550	$23,620
	$26,550 to $145,976	$23,620-19.778% (WAGI-$26,550)
	Greater than $145,976	$0
Married, Separate	Less than $12,600	$11,220
	$12,600 to $69,330	$11,220-19.778% (WAGI-$12,600)
	Greater than $69,330	$0
Head-of-Household	Less than $18,400	$16,480
	$18,400 to $53,778	$16,480-22.515% (WAGI-$18,400)
	Greater than $53,778	Single Standard Deduction

A personal exemption of $700 is provided under current law for the taxpayer, their spouse if a married-joint filer, and each of the taxpayer's qualifying dependents. An additional $250 exemption is provided for each individual who has reached the age of 65 before the close of the relevant tax year.

DISCUSSION POINTS

1. Tax benefits for retirement income can be viewed as a way to mitigate the impact of taxation on those living on fixed incomes. This is especially true for lower-income individuals, whom the current law AGI-limited retirement income exclusion is intended to assist. The exclusion is provided exclusively to individuals who have reached the age of 65. Similarly, all the alternatives presented in this paper are available only to individuals aged 65 and over.

2. Attachment 1 displays the estimated distribution of state individual income net tax liability from retirement income under current law for Wisconsin individual income tax filers aged 65 and over in tax year 2023. Therefore, Attachment 1 can be viewed as the full population of filers with taxable retirement income who could potentially benefit from any of the proposed tax benefits discussed in this paper. As demonstrated in Attachment 1, a total of 387,513 filers aged 65 and older

(11.8% of all individual income tax filers) are estimated to have $627.6 million of state net tax liability from retirement income in tax year 2023, for an average of $1,620. Attachment 1 is based on a simulation of tax year 2023 performed by the Department of Revenue (DOR).

3. For additional context, Attachment 2 provides the estimated distribution in tax year 2023 of federally taxable income from pensions, annuities, and IRAs for all state individual income filers, regardless of age. As shown in Attachment 2, which is also based on a DOR simulation of tax year 2023, a total of 967,737 filers (which represents 29.6% of all state individual income tax filers) are estimated to have federally taxable retirement income totaling $25.0 billion in tax year 2023, for an average of $25,829 of such retirement income. These data imply that 60% of individual filers with federally taxable retirement income are under the age of 65 and/or have no state tax liability under current law.

4. The Committee could consider expanding the current law exclusion for retirement income to $5,500, rather than $5,000, beginning in tax year 2023. The maximum federal AGI amounts used to determine eligibility for the exclusion could be increased to be less than: (a) $30,000 for single and head-of-household filers; and (b) $60,000 for married filers. No exclusion would be permitted for filers with federal AGI above these thresholds [Alternative 1a]. In tax year 2023, it is estimated that 29,368 filers (0.9% of all filers, but 7.6% of filers in Attachment 1) would receive tax benefits totaling $4.5 million under Alternative 1a, for an average tax benefit of $152 relative to current law. Individual income tax collections would be reduced by an estimated $4.5 million in 2023-24 and $4.1 million in 2024-25.

The provisions of Alternative 1a were included in AB 43/SB 70. The fiscal estimate differs from the Administration's estimate under AB 43/SB 70 ($8.1 million annually), because the estimate in this paper is based on a DOR simulation of tax years 2023 and 2024.

5. The federal AGI limits for claiming the retirement income exclusion ($15,000/$30,000 married) have not been adjusted for inflation since the exclusion was established in tax year 2009. Meanwhile, the sliding scale standard deduction has generally been inflation-adjusted each year during that time. The result is that many individuals and families at these income levels already have low (or zero) taxable income under current law, due to the standard deduction and personal exemptions.

For example, as shown in the table, a married-joint filer with Wisconsin AGI of $25,000 would receive a standard deduction of $23,620 in tax year 2023. Assuming both spouses are at least 65 (and thus eligible for the AGI-limited retirement exclusion), the filer would also receive two personal exemptions totaling $1,900. Based on their Wisconsin AGI, it is likely this filer would meet the federal AGI requirements to claim the retirement income exclusion under current law. However, this filer would not have any taxable income due to the standard deduction and personal exemptions exceeding their Wisconsin AGI, and would not receive any additional benefit from the exclusion. Similarly, filers with Wisconsin AGI just above the maximum standard deduction amount may have resulting taxable income that is lower than the full amount of the exclusion they could otherwise utilize. In this way, many otherwise eligible taxpayers cannot use the full (or any) amount of the retirement income exclusion under current law, and the average tax benefit has been steadily eroding as a result.

6. Because the average effective tax rate for taxpayers claiming the retirement income exclusion is so small (0.11%), this could be seen as a major justification to increase the AGI eligibility thresholds for claiming the exclusion [as under Alternative 1a]. However, as the value of the standard deduction rises over time, the tax benefit would erode in the future if the proposed higher AGI threshold were not adjusted for inflation. Namely, the standard deduction amount would approach (or surpass) the new, higher AGI limit under Alternative 1a, which would reduce the value of the exclusion, or render it unusable altogether.

7. To avoid erosion of the retirement income exclusion in future years, the Committee could decide to inflation-adjust the proposed AGI thresholds for claiming the retirement exclusion ($30,000/$60,000), beginning in tax year 2024 [Alternative 1b]. To further account for the impact of inflation on the value of the retirement income exclusion since its inception, Alternative 1b would increase the maximum exclusion amount to $7,000. This higher retirement income exclusion amount is presented because, if the $5,000 exclusion had been indexed to inflation annually since its creation in tax year 2009, it would have increased to $6,932 for tax year 2023.

In tax year 2023, it is estimated that 29,369 filers (0.9% of all filers, but 7.6% of filers in Attachment 1) would receive tax benefits totaling $4.8 million under Alternative 1b, for an average tax benefit of $163 relative to current law. Alternative 1b is estimated to reduce individual income tax collections relative to current law by $4.8 million in 2023-24 and $5.2 million in 2024-25.

Under Alternative 1b, the AGI thresholds and the $7,000 maximum exclusion would be adjusted each year for inflation in the same manner as the standard deduction under current law, beginning in tax year 2024. That is, the AGI threshold would be increased by the percentage change in the consumer price index for all urban consumers (CPI-U) as reported by the U.S. Department of Labor, for the month of August of the previous year over the CPI-U for August, 2022. The indexing adjustment would be the same as that presented under LFB Paper #363 for other income tax benefits that have been effectively reduced by inflation.

8. The retirement income exclusion under current law phases out completely once federal AGI reaches the specified thresholds. When an income limit is imposed on receipt of a tax benefit, sound tax policy would suggest that the limit include a phase-out over a range of incomes in order to avoid a severe cliff effect. A cliff effect is most severe when a tax benefit is fully disallowed as soon as income reaches a certain dollar amount, because this creates a significant and immediate increase in the marginal effective rate of tax paid by an individual with income over the relevant threshold. The immediate elimination of the retirement income exclusion under current law [and Alternatives 1a and 1b] may discourage taxpayers from earning or receiving other types of income in order to remain below the relevant threshold. This distortionary effect can decrease economic efficiency and output.

9. Alternatives 2a and 2b are the same as Alternatives 1a and 1b, respectively, but would proportionally phase out the exclusion over the next $10,000 of federal AGI ($20,000 for married-joint filers). As a result, the exclusion would be fully disallowed once federal AGI reaches $40,000 ($80,000 for married-joint filers) in tax year 2023. For example, a single taxpayer with $35,000 of Wisconsin AGI in tax year 2023 would receive an exclusion equal to 50% of their allowable retirement income {1- [($35,000 - $30,000) / $10,000] = 0.5}, yielding a maximum exclusion of

$2,750 under Alternative 2a and $3,500 under Alternative 2b. By contrast, under Alternatives 1a and 1b, the same taxpayer would not be able to exclude any amount of retirement income.

10. By establishing a phaseout range of $10,000 ($20,000 married-joint), Alternatives 2a and 2b would soften the cliff effect present under current law [and Alternatives 1a and 1b] by reducing the marginal effective rate of tax that would otherwise be paid by individuals earning just above the income threshold. Alternative 2a would provide a maximum exclusion amount of $5,500.

In tax year 2023, it is estimated that 71,981 filers (2.2% of all filers, but 18.6% of filers in Attachment 1) would receive tax benefits totaling $10.8 million under Alternative 2a, for an average tax benefit of $150 relative to current law. Alternative 2a is estimated to reduce individual income tax collections by $10.8 million in 2023-24 and $10.1 million in 2024-25. As with Alternative 1a, the fiscal estimate of Alternative 2a is lower in 2024-25 than in 2023-24, which reflects the eroding impact of inflation on tax benefits that are not indexed each year.

11. Alternative 2b would differ from Alternative 2a in that it would also include the higher maximum exclusion amount of $7,000, and would annually inflation-adjust that amount, as well as the AGI thresholds, beginning in tax year 2024. In tax year 2023, it is estimated that 72,052 filers (2.2% of all filers, but 18.6% of filers in Attachment 1) would receive tax benefits totaling $12.2 million under Alternative 2b, for an average tax benefit of $170 relative to current law. Alternative 2b is estimated to reduce individual income tax collections by $12.2 million in 2023-24 and $13.2 million in 2024-25.

12. Every two years, this office prepares an informational paper which reviews the individual income tax provisions in each state with such a tax. Based on that review, seven states (including Wisconsin) limited retirement-based tax preferences to taxpayers below a specified income threshold. However, in so limiting their retirement tax benefits, only two other states (Montana and Oregon) employed comparable income thresholds to the amounts proposed under Alternatives 1a/1b and 2a/2b. By contrast, New Jersey enabled taxpayers with gross income of $100,000 or less to exclude a flat amount of retirement income, with lower exclusion amounts provided for taxpayers with gross income between $100,000 and $150,000. Similarly, Rhode Island enabled taxpayers to exclude up to $15,000 of retirement income if their federal AGI was not greater than $87,200 ($109,050 for married-joint).

13. The Committee could view the income thresholds proposed above for claiming the exclusion as too restrictive, and could decide to increase the federal AGI threshold for claiming the exclusion to: (a) $100,000 for single and head-of-household filers; (b) $150,000 for married-joint filers; and (c) $75,000 for married-separate filers. The exclusion would proportionally phase out over the next: (i) $20,000 of AGI for single/head-of-household filers; (ii) $25,000 for married-joint filers; and (iii) $12,500 for married-separate filers [Alternatives 3a and 3b].

14. Alternative 3a would provide a maximum exclusion amount of $5,500 [the same amount as under Alternatives 1a and 2a]. In tax year 2023, it is estimated that 250,806 filers (7.7% of all filers, but 64.7% of filers in Attachment 1) would receive tax benefits totaling $88.9 million under Alternative 3a, for an average tax benefit of $354 relative to current law. Alternative 3a is estimated

to reduce individual income tax collections by $93.5 million in 2023-24 and $91.1 million in 2024-25.

15. It should be noted that the estimated fiscal impacts of Alternatives 1a through 2b are significantly less than the impacts estimated under Alternatives 3a through 4b, primarily because the latter set of alternatives expands tax benefits to a greater number of filers than the former. Several recent legislative proposals would provide additional tax preferences for retirement income, ranging from exempting additional categories of retirement income (such as certain federal employee pensions under AB 285/SB 281) to excluding the first $100,000 ($200,000 married-joint) of taxable retirement income for taxpayers aged 67 or older. Moreover, policy discussions during the most recent Wisconsin gubernatorial campaign included proposals to fully exempt retirement income from the individual income tax.

16. For Alternatives 3a through 4b, the total estimated tax reduction on a tax year basis is different than the reduction on a fiscal year basis. Each of these alternatives is assumed to result in a small one-time revenue impact in 2023-24 that results from certain taxpayers adjusting their estimated payments to account for the tax reduction prior to filing their tax year 2023 state income tax return.

17. Alternative 3b would include the higher maximum exclusion amount of $7,000 [the same amount as under Alternatives 1b and 2b] beginning in tax year 2023, and would annually inflation-adjust that amount, as well as the AGI thresholds, beginning in tax year 2024. In tax year 2023, it is estimated that 250,823 filers (7.7% of all filers, but 64.7% of filers in Attachment 1) would receive tax benefits totaling $108.4 million under Alternative 3b, for an average tax benefit of $432 relative to current law. Alternative 3b is estimated to reduce individual income tax collections relative to current law by $114.2 million in 2023-24 and $116.3 million in 2024-25.

18. Proponents of broad-based tax benefits for retirement income have argued that these benefits can incentivize higher-income retirees to remain in Wisconsin as opposed to moving to lower-tax jurisdictions. By reducing their tax liability, proponents argue that these retirees choosing to remain in, or move to, the state will have more income remaining to donate to Wisconsin charities or otherwise stimulate the state economy.

19. This office's analysis of tax year 2021 individual income tax provisions in the 43 states (including the District of Columbia) with such a tax that year found that, besides military retirement income: (a) 27 states exempted some amount of retirement income regardless of a taxpayer's overall income; and (b) three states (Mississippi, New Hampshire, and Pennsylvania) did not subject any retirement income to state taxation. Eight states did not impose a state income tax in tax year 2021.

20. If the Committee wishes to provide additional tax benefits for retirees regardless of their income, it could decide not to impose any income limitation for claiming the retirement income exclusion [Alternatives 4a and 4b]. Alternative 4a would provide a $5,500 maximum exclusion amount.

In tax year 2023, it is estimated that 298,622 filers (9.1% of all filers, but 77.1% of filers in Attachment 1) would receive tax benefits totaling $114.5 million under Alternative 4a, for an average tax benefit of $383 relative to current law. Alternative 4a is estimated to reduce individual income tax collections relative to current law by $126.2 million in 2023-24 and $116.9 million in 2024-25.

21. Alternative 4b would provide the higher maximum exclusion amount of $7,000 beginning in tax year 2023, and would annually inflation-adjust that amount, beginning in tax year 2024. In tax year 2023, it is estimated that 298,623 filers (9.1% of all filers, but 77.1% of filers in Attachment 1) would receive tax benefits totaling $140.6 million under Alternative 4b, for an average tax benefit of $471 relative to current law. Alternative 4b is estimated to reduce individual income tax collections relative to current law by $155.4 million in 2023-24 and $147.5 million in 2024-25.

22. It is estimated that 22.9% of filers aged 65 or older shown in Attachment 1 would not receive a tax decrease under any of the proposed alternatives in this paper relative to current law. In general, these would be filers presently with $5,000 or less of eligible retirement income who are also under the current law federal AGI threshold for claiming the exclusion, yet have sufficient Wisconsin AGI to incur a state tax liability under current law.

23. Opponents may counter that providing broad-based tax benefits for retirement income is inequitable. They argue that it provides an additional tax benefit in retirement for income on which tax was not paid in the first instance (when the individual was working), such as from pre-tax contributions to pensions, 401ks, and/or IRAs. By contrast, an individual generating the same amount of income from wages would be subject to tax as those wages are earned, and would not receive a future state tax benefit from those wages. Relatedly, a March, 2023, report from the Institute on Taxation and Economic Policy found that the median state's senior citizens incur state income tax liability that is one-third less than that of younger families with similar incomes.

Further, opponents may point out that providing an equivalent tax benefit for all recipients of retirement income regardless of their means [such as under Alternatives 4a and 4b] ignores an individual's ability to pay tax, thereby undermining a central feature of the state's current progressive income tax structure. They argue that exclusions for retirement income tend to disproportionately benefit higher-income individuals with sufficient resources to make tax-advantaged contributions during their working years. For example, as shown in Attachment 2, among all filers with federally taxable retirement income in tax year 2023, those with Wisconsin AGI of $100,000 or more are estimated to comprise 22.5% of all such filers, yet are estimated to account for 38.0% of all such retirement income in that year. Moreover, exclusions only benefit taxpayers with a net tax liability, who tend to have higher incomes than filers without a net tax liability.

24. Critics could also posit that providing a retirement income exclusion when that income is realized undermines the benefit of maintaining a Roth account under current law (wherein tax is paid upon initial contribution to the account, and no tax is owed upon distribution from the account). Taxpayers must decide whether to invest in a Roth or pre-tax retirement account decades before withdrawing funds from those accounts based on the tax laws in place at the time of the contribution. This results in disparate tax treatment of otherwise comparable individuals who previously paid tax on their retirement savings when contributed.

25. Finally, opponents of tax incentives for retirement income may note the slow workforce growth, aging population of workers at or near retirement age, and limited in-migration that have combined to constrain labor supply in Wisconsin. They may contend that providing additional tax

benefits for nonworking individuals would divert state resources that could otherwise be used to attract and retain working-age adults to ameliorate these workforce challenges.

26. In addition to the retirement income exclusion discussed in this paper, the following retirement income categories are excluded from the state individual income tax under current law: (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; and (c) income from certain public retirement systems if the individual was a member of, or retired from, that system prior to 1964. Including the retirement exclusion discussed herein, these provisions are estimated to reduce individual income tax revenues by nearly $900 million in tax year 2023 under current law (the exclusion for Social Security benefits accounts for an estimated $845 million of this total). Additionally, the state provides a $250 personal exemption for taxpayers aged 65 and over, and offers a refundable homestead credit designed to offset property tax liabilities for lower-income homeowners and renters, especially senior citizens without earned income. Given this, the Committee could reason that current law already provides substantial tax benefits for retirement income and for taxpayers of more advanced age.

27. Moreover, current population estimates published by the Department of Administration and demographic data from the U.S. Census Bureau find that: (a) the proportion of the Wisconsin population that is of retirement age is projected to increase from 17.9% in 2020 to 23.7% in 2040; and (b) the total number of retirement-aged Wisconsin residents over this same time period is expected to increase by 47%, from 1.05 million residents to 1.54 million. To the extent this projected demographic trend occurs, the cost of providing additional tax benefits for retirement income will increase in the future.

28. The alternatives described in this paper are estimated to benefit, at most, 9.1% of all individual income tax filers in tax year 2023. Several legislative proposals have been offered during the 2023-24 session that would provide substantial tax relief to a greater number of taxpayers, such as multiple bills that would phase in a flat individual income tax rate over a period of several years. Constituents at public hearings on the biennial budget testified in support of these policies.

29. In light of these factors, the Committee may prefer to pursue tax relief measures that apply to a broader swath of taxpayers, or may wish to fund other budgetary priorities. In either case, it may choose to take no action on expanding the exclusion [Alternative 5].

ALTERNATIVES

Expand Exclusion Amount Only

1a. Expand the current law exclusion for income received from a qualified retirement plan by a person aged 65 or older who meets certain income requirements, beginning in tax year 2023. Provide that the maximum annual exclusion is increased to $5,500. Increase the maximum federal AGI amounts used to determine eligibility for the exclusion to be less than: (a) $30,000 for single and head-of-household filers; and (b) $60,000 for married filers. Stipulate that, for filers with federal AGI above these thresholds, no exclusion is permitted. Estimate reduced individual income tax collections relative to current law of $4,500,000 in 2023-24 and $4,100,000 in 2024-25.

ALT 1a	**Change to Base**
GPR-Tax	- $8,600,000

1b. Adopt Alternative 1a beginning in tax year 2023, except provide that the maximum retirement income exclusion amount is increased to $7,000. Beginning in tax year 2024, provide that the $7,000 exclusion amount, and the AGI thresholds of $30,000/$60,000 at which the exclusion is eliminated, are increased by the percentage change between the 12-month average of the CPI-U for August of the previous year over the 12-month average of the CPI-U for August, 2022, provided the adjustment is not negative. Estimate reduced individual income tax collections relative to current law of $4,800,000 in 2023-24 and $5,200,000 in 2024-25.

ALT 1b	**Change to Base**
GPR-Tax	- $10,000,000

Expand Exclusion Amount and Provide Income Phaseout Threshold

2a. Adopt Alternative 1a beginning in tax year 2023, except provide that the exclusion is phased out proportionally over the next $10,000 of federal AGI ($20,000 for married-joint filers). Estimate reduced individual income tax collections relative to current law of $10,800,000 in 2023-24 and $10,100,000 in 2024-25.

ALT 2a	**Change to Base**
GPR-Tax	- $20,900,000

2b. Adopt Alternative 1b beginning in tax year 2023, except provide that the exclusions are phased out proportionally over the next $10,000 of federal AGI ($20,000 for married-joint filers). Estimate reduced individual income tax collections relative to current law of $12,200,000 in 2023-24 and $13,200,000 in 2024-25.

ALT 2b	**Change to Base**
GPR-Tax	- $25,400,000

Expand Exclusion Amount and Expand Income Phaseout Threshold

3a. Beginning in tax year 2023, adopt the expanded exclusion amount of $5,500 [the same as under Alternative 1a] and provide that the exclusion is available to filers with federal AGI less than or equal to: (a) $100,000 for single/head-of-household filers; (b) $150,000 for married-joint filers; and (c) $75,000 for married-separate filers. Specify that the exclusion is phased out proportionally over the next $20,000 of AGI for single/head-of-household filers, $25,000 of AGI for married-joint filers, and $12,500 for married-separate filers. Estimate reduced individual income tax collections relative to current law of $93,500,000 in 2023-24 and $91,100,000 in 2024-25.

ALT 3a	Change to Base
GPR-Tax	- $184,600,000

3b. Adopt Alternative 3a beginning in tax year 2023, except provide that the exclusion amount is increased to $7,000. Beginning in tax year 2024, stipulate that this $7,000 exclusion amount and the federal AGI thresholds of $100,000/$150,000/$75,000 are indexed annually for inflation [in the same manner as under Alternative 1b]. Estimate reduced individual income tax collections relative to current law of $114,200,000 in 2023-24 and $116,300,000 in 2024-25.

ALT 3b	Change to Base
GPR-Tax	- $230,500,000

Expand Exclusion Amount for all Taxpayers Regardless of Income

4a. Beginning in tax year 2023, increase the maximum retirement exclusion amount to $5,500 and provide the exclusion to all eligible taxpayers, regardless of income. Estimate reduced individual income tax collections relative to current law of $126,200,000 in 2023-24 and $116,900,000 in 2024-25.

ALT 4a	Change to Base
GPR-Tax	- $243,100,000

4b. Adopt Alternative 4a beginning in tax year 2023, except provide that the maximum retirement income exclusion amount is increased to $7,000. Beginning in tax year 2024, provide that this $7,000 exclusion amount is indexed annually for inflation [in the same manner as under Alternative 1b]. Estimate reduced individual income tax collections relative to current law of $155,400,000 in 2023-24 and $147,500,000 in 2024-25.

ALT 4b	Change to Base
GPR-Tax	- $302,900,000

5. Take no action.

Prepared by: Dan Spika
Attachments

ATTACHMENT 1

State Individual Income Net Tax Liability from Retirement Income under Current Law for Taxpayers Aged 65 and Over, Tax Year 2023

	Taxpayers 65 and Older with Taxable Retirement Income						
Wisconsin Adjusted Gross Income	Count	Percent of Count	Amount	Percent of Amount	Average	Count of all Returns	Percent of all Returns
Under $5,000	5,187	1.3%	$454,995	0.1%	$88	443,160	1.2%
5,000 to 10,000	2,407	0.6	643,509	0.1	267	203,257	1.2
10,000 to 15,000	2,229	0.6	699,457	0.1	314	165,250	1.3
15,000 to 20,000	5,937	1.5	1,196,036	0.2	201	146,273	4.1
20,000 to 25,000	16,452	4.2	2,747,232	0.4	167	139,468	11.8
25,000 to 30,000	19,846	5.1	5,572,268	0.9	281	147,073	13.5
30,000 to 40,000	51,651	13.3	20,329,281	3.2	394	295,963	17.5
40,000 to 50,000	49,513	12.8	34,497,255	5.5	697	274,230	18.1
50,000 to 60,000	41,267	10.6	43,356,704	6.9	1,051	230,129	17.9
60,000 to 70,000	32,691	8.4	45,824,811	7.3	1,402	180,223	18.1
70,000 to 80,000	26,809	6.9	46,925,860	7.5	1,750	147,339	18.2
80,000 to 90,000	21,326	5.5	43,650,095	7.0	2,047	116,778	18.3
90,000 to 100,000	17,294	4.5	39,669,135	6.3	2,294	99,364	17.4
100,000 to 125,000	29,914	7.7	80,400,725	12.8	2,688	198,252	15.1
125,000 to 150,000	18,409	4.8	57,490,236	9.2	3,123	142,659	12.9
150,000 to 200,000	19,282	5.0	70,369,840	11.2	3,650	160,793	12.0
200,000 to 250,000	8,878	2.3	36,647,218	5.8	4,128	71,032	12.5
250,000 to 300,000	4,895	1.3	21,518,956	3.4	4,396	35,027	14.0
300,000 to 500,000	7,916	2.0	40,969,387	6.5	5,176	49,286	16.1
500,000 to 1,000,000	3,704	1.0	21,379,816	3.4	5,772	20,719	17.9
1,000,000 and over	1,906	0.5	13,265,829	2.1	6,960	8,535	22.3
Total	387,513	100.0%	$627,608,645	100.0%	$1,620	3,274,810	11.8%

Based on a DOR simulation of tax year 2023.

ATTACHMENT 2

Estimated Distribution of Federally Taxable Retirement Income From Pensions, Annuities, and IRAs, Tax Year 2023

Wisconsin Adjusted Gross Income	Count	Percent of Count	Amount	Percent of Amount	Average
Under $5,000	120,719	12.5%	$1,317,771,556	5.3%	$10,916
5,000 to 10,000	48,674	5.0	590,231,401	2.4	12,126
10,000 to 15,000	39,594	4.1	515,173,556	2.1	13,011
15,000 to 20,000	44,881	4.6	646,467,099	2.6	14,404
20,000 to 25,000	44,607	4.6	710,874,728	2.8	15,936
25,000 to 30,000	46,384	4.8	837,522,418	3.4	18,056
30,000 to 40,000	88,135	9.1	1,806,810,431	7.2	20,500
40,000 to 50,000	78,391	8.1	1,831,547,516	7.3	23,364
50,000 to 60,000	67,018	6.9	1,766,674,892	7.1	26,361
60,000 to 70,000	54,977	5.7	1,601,385,640	6.4	29,128
70,000 to 80,000	46,949	4.9	1,496,309,534	6.0	31,871
80,000 to 90,000	37,648	3.9	1,265,577,101	5.1	33,616
90,000 to 100,000	32,426	3.4	1,123,311,306	4.5	34,642
100,000 to 125,000	62,659	6.5	2,255,132,308	9.0	35,991
125,000 to 150,000	43,070	4.5	1,648,486,745	6.6	38,275
150,000 to 200,000	48,318	5.0	2,067,512,022	8.3	42,790
200,000 to 250,000	22,750	2.4	1,133,229,153	4.5	49,812
250,000 to 300,000	11,898	1.2	643,206,518	2.6	54,060
300,000 to 500,000	17,784	1.8	1,114,935,758	4.5	62,693
500,000 to 1,000,000	7,507	0.8	429,123,392	1.7	57,163
1,000,000 and over	3,348	0.3	194,248,230	0.8	58,019
Total	967,737	100.0%	$24,995,531,304	100.0%	$25,829

Based on a DOR simulation of tax year 2023.