Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2005 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 05-2801/1	Introduction Number AB-402

Subject

Individual income tax credit for certain social security benefits

Fiscal Effect

State:
- ☐ No State Fiscal Effect
- ☐ Indeterminate
- ☐ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☒ Decrease Existing Revenues
- ☒ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☒ No
- ☐ Decrease Costs

Local:
- ☐ No Local Government Costs
- ☐ Indeterminate
- 1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
- 2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
- 3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
- 4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
- 5. Types of Local Government Units Affected
  ☐ Towns ☐ Village ☐ Cities
  ☐ Counties ☐ Others
  ☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☒ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

20.566(3)(a) and 20.566(1)(a)

Agency/Prepared By	Authorized Signature	Date
DOR/ Kirstin Nelson (608) 261-8984	Rebecca Boldt (608) 266-6785	5/6/2005

Fiscal Estimate Narratives

DOR 5/6/2005

LRB Number 05-2801/1	Introduction Number AB-402	Estimate Type Original
Subject		
Individual income tax credit for certain social security benefits		

Assumptions Used in Arriving at Fiscal Estimate

Under current Wisconsin law, up to 50% of social security benefits are taxable when the recipient's income exceeds $25,000 for a single individual or $32,000 for a married couple filing jointly. This bill creates a nonrefundable individual income tax credit for taxable amounts of social security benefits. As drafted, the bill only allows those taxpayers that are taxed on more than 50% of their social security to claim this credit. Anyone taxed on only 50% of their social security benefits could not claim the credit. The bill phases in the credit over five years as follows: 20% in 2006, 40% in 2007, 60% in 2008, 80% in 2009, and 100% in 2010. The credit is calculated by multiplying the taxpayer's taxable social security benefits by their marginal tax rate and then by the allowable credit beginning with 20% in 2006 as stated above.

According to a simulation using the 2003 Wisconsin Individual Income Tax Model, adjusted to reflect current law and the growth in social security benefits from 2003 to the years affected, this bill, as drafted, would reduce state revenues by approximately $342 million from tax year 2006 through tax year 2010. Assuming the revenue loss is partly experienced through estimated payments, the fiscal year revenue losses would be as follows: $7 million in FY2006, $24 million in FY2007, $43.4 million in FY2008, $65.4 million in FY2009, $91 million in FY2010, and $106 million in FY2011 and thereafter.

If the bill includes all those with taxable social security, and not just those that are taxed on more than 50% of their social security benefits, then the fiscal effect would be as follows: $8.5 million in FY2006, $28.4 million in FY2007, $51.3 million in FY2008, $77.4 million in FY2009, $107.2 million in FY2010, and $125 million in FY2011 and thereafter.

The bill would result in an increase in departmental costs associated with one-time programming costs of $20,000 and annual costs of $50,750 for 1.25 FTE positions.

Long-Range Fiscal Implications

If this bill is adopted as drafted, it will reduce state tax revenues annually by $106 million in FY2011 and thereafter because the credit will apply to 100% of taxable social security benefits beginning in tax year 2010.

Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **05-2801/1**	Introduction Number **AB-402**

Subject

Individual income tax credit for certain social security benefits

I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

-$7 million in FY2006, -$24 million in FY2007, -$43.4 million in FY2008, and -$65.4 million in FY2009 and $91 million in FY2010. $20,000 increased costs for adding a line to the individual income tax system.

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$50,000	
(FTE Position Changes)		
State Operations - Other Costs	750	
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	**$50,750**	**$**
B. State Costs by Source of Funds		
GPR	50,750	
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, ets.)

	Increased Rev	Decreased Rev
GPR Taxes	$	$-106,000,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$-106,000,000**

NET ANNUALIZED FISCAL IMPACT

	State	Local
NET CHANGE IN COSTS	$50,750	$
NET CHANGE IN REVENUE	$-$106,000,000 (FY2011)	$

Agency/Prepared By	**Authorized Signature**	**Date**
DOR/ Kirstin Nelson (608) 261-8984	Rebecca Boldt (608) 266-6785	5/6/2005