

Fiscal Estimate Narratives

DOR 9/14/2023

LRB Number	23-4180/1	Introduction Number	SB-0406	Estimate Type	Original
Description exempting from taxation certain pension payments received by an individual for service in the U.S. Foreign Service					

Assumptions Used in Arriving at Fiscal Estimate

Under current state law, 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).

This bill exempts from taxation all retirement payments received from the federal government that relate to service with the U.S. Foreign Service, provided that such payments are not already exempt from taxation.

According to the American Foreign Service Association 2016 Annual Report, there were about 16,000 U.S. Foreign Service retirees at that time. The Wisconsin population of individuals age 65 years and older is about 1.9% of the US total. If Wisconsin had a comparable portion of U.S. Foreign Service retirees, it would have about 300 qualifying individuals. To the extent that Foreign Service officers are more likely to retire abroad or in the vicinity of Washington D.C. that figure may be too high.

Using tax return data, the Department of Revenue was able to identify approximately 100 individuals who reported U.S. State Department Foreign Service annuities to Wisconsin in 2019. Allowing those individuals to subtract the taxable portion of their annuities from income would result in a revenue loss of approximately \$230,000 annually. To the extent that Wisconsin was actually closer to having a proportional share of qualifying retirees than the department can confirm, the annual revenue loss would be as much as \$750,000 annually.

According to the American Rescue Plan Act (ARPA) Net Tax Reduction Calculation Update memo released by the Department of Administration on 8/28/2023, the remaining margin for tax reductions before triggering potential SLFRF recoupment at \$113 million for fiscal year 2023-24 and \$319 million for fiscal year 2024-25. This bill would reduce these margins by the amount of fiscal effect.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2023 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description exempting from taxation certain pension payments received by an individual for service in the U.S. Foreign Service			
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	\$		\$-230,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$		\$-230,000
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$		\$
NET CHANGE IN REVENUE		\$-230,000	\$
Agency/Prepared By		Authorized Signature	Date
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