



Legislative Fiscal Bureau

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December 30, 2022

TO: Representative David Steffen
Room 323 North, State Capitol

FROM: Dan Spika, Fiscal Analyst

SUBJECT: Proposal to Exempt Retirement Income from State Individual Income Tax

This memorandum responds to your request for the estimated fiscal effect of a proposal to exempt retirement income from the state individual income tax beginning in tax year 2024.

Under current law, the following retirement income categories are not subject to the state individual income tax: (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 adjusted gross income 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 more than \$820 million in tax year 2024 under current law (the exclusion for Social Security benefits accounts for an estimated \$770 million of this total).

The proposal would exempt the first \$100,000 of taxable retirement income received by each individual aged 67 or older. For married-joint filers where each spouse has attained age 67, the maximum exemption would equal \$200,000. The proposal would prohibit a taxpayer who claims this exemption from claiming any state income tax credits provided under current law (such as the property tax/rent credit and the itemized deduction credit) in the same tax year. Retirement income would be defined as payments or distributions received each year by an individual from a qualified retirement plan under the Internal Revenue Code [such as distributions from a pension, 401(k), or 403(b)] or from an individual retirement account established under specified provisions of federal law. The proposed exemption would not apply to any retirement income which is already exempt under any of the aforementioned provisions of current law. Nonresidents would be prohibited from claiming the exemption, and part-year residents could claim the exemption only for the portion of their retirement income which is otherwise taxable by Wisconsin.

The estimated distributional impact of this proposal is displayed in Attachment 1. It is estimated that 241,375 filers would receive total tax decreases of \$422.2 million in tax year 2024, for an average tax reduction of \$1,749. On a fiscal year basis, this proposal is estimated to reduce individual income tax collections by \$168.9 million in 2023-24, and by \$422.2 million in 2024-25 and annually thereafter.

Attachment 2 shows the estimated distribution of filers who will no longer have any net tax liability under the proposal. As shown, it is estimated that 161,269 fewer filers would have any net tax liability under the proposal relative to current law. This would represent a 6.2% decrease in the total number of individual income tax filers with a net tax liability.

It should also be noted that, based on current population estimates published by the Department of Administration, the proportion of the Wisconsin population that is of retirement age is projected to increase from 17.7% in 2020 to 23.7% in 2040. The total number of retirement-aged Wisconsin residents over this same time period is expected to increase by 45%, from 1.06 million residents to 1.54 million. To the extent this projected demographic trend occurs, the cost of the proposed retirement exemption would increase in the future.

I hope this memorandum is informative; please contact me with any questions on its content.

DS/ml
Attachments

ATTACHMENT 1

Estimated Distribution of Taxpayers with a Tax Decrease Under Proposal to Exempt the First \$100,000 of Retirement Income for Each Individual Aged 67 or Older, Tax Year 2024

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease					Count of all Returns	Percent of all Returns in AGI Class
	<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	359	0.1%	\$24,282	<0.1%	\$68	444,369	0.1%
5,000 to 10,000	250	0.1	51,881	<0.1	208	202,654	0.1
10,000 to 15,000	612	0.3	86,968	<0.1	142	168,431	0.4
15,000 to 20,000	2,787	1.2	376,591	0.1	135	147,747	1.9
20,000 to 25,000	11,187	4.6	1,530,771	0.4	137	142,959	7.8
25,000 to 30,000	13,974	5.8	3,854,426	0.9	276	150,149	9.3
30,000 to 40,000	37,798	15.7	15,299,438	3.6	405	302,192	12.5
40,000 to 50,000	35,536	14.7	27,316,245	6.5	769	276,880	12.8
50,000 to 60,000	28,177	11.7	34,092,413	8.1	1,210	230,731	12.2
60,000 to 70,000	21,840	9.0	36,234,600	8.6	1,659	179,191	12.2
70,000 to 80,000	17,302	7.2	36,284,156	8.6	2,097	145,473	11.9
80,000 to 90,000	12,522	5.2	31,368,531	7.4	2,505	113,011	11.1
90,000 to 100,000	9,989	4.1	28,703,377	6.8	2,873	95,896	10.4
100,000 to 125,000	16,920	7.0	57,904,469	13.7	3,422	194,395	8.7
125,000 to 150,000	9,866	4.1	40,233,645	9.5	4,078	140,459	7.0
150,000 to 200,000	9,905	4.1	45,075,821	10.7	4,551	156,997	6.3
200,000 to 250,000	4,533	1.9	22,125,221	5.3	4,881	69,916	6.5
250,000 to 300,000	2,398	1.0	11,803,578	2.8	4,922	34,238	7.0
300,000 to 500,000	3,699	1.5	18,981,004	4.5	5,131	49,025	7.5
500,000 to 1,000,000	1,376	0.6	8,797,864	2.1	6,394	20,466	6.7
1,000,000 and over	<u>345</u>	<u>0.1</u>	<u>2,048,665</u>	<u>0.5</u>	5,938	<u>8,616</u>	4.0
Total	241,375	100.0%	\$422,193,946	100.0%	\$1,749	3,273,795	7.4%

--In tax year 2024, it is estimated that 241,375 filers will receive tax decreases totaling \$422.2 million, for an average decrease of \$1,749 per filer. Filers with a tax decrease represent 7.4% of all filers in tax year 2024.

--Filers with Wisconsin AGI under \$100,000 represent 79.7% of filers with a tax decrease, and receive 50.9% of the total estimated decrease. Their average tax decrease is estimated at \$1,119 in tax year 2024.

--Filers with Wisconsin AGI of \$100,000 or more represent 20.3% of filers with a tax decrease, and receive 49.1% of the total estimated decrease. Their average tax decrease is estimated at \$4,220 in tax year 2024.

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

ATTACHMENT 2

Estimated Distribution of Taxpayers with a Tax Decrease under Proposal, and Taxpayers Newly with Zero Net Tax Liability under Proposal, Tax Year 2024

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease		Taxpayers with a Tax Decrease with Zero Net Tax Liability under Proposal		
	Count	Percent of Count	Count	Percent of Count	As Percent of all Filers with Tax Decrease in AGI Class
Under \$5,000	359	0.1%	343	0.2%	95.5%
5,000 to 10,000	250	0.1	219	0.1	87.6
10,000 to 15,000	612	0.3	581	0.4	94.9
15,000 to 20,000	2,787	1.2	2,606	1.6	93.5
20,000 to 25,000	11,187	4.6	10,501	6.5	93.9
25,000 to 30,000	13,974	5.8	12,445	7.7	89.1
30,000 to 40,000	37,798	15.7	33,166	20.6	87.7
40,000 to 50,000	35,536	14.7	29,185	18.1	82.1
50,000 to 60,000	28,177	11.7	21,377	13.3	75.9
60,000 to 70,000	21,840	9.0	15,121	9.4	69.2
70,000 to 80,000	17,302	7.2	11,047	6.9	63.8
80,000 to 90,000	12,522	5.2	7,466	4.6	59.6
90,000 to 100,000	9,989	4.1	5,298	3.3	53.0
100,000 to 125,000	16,920	7.0	7,205	4.5	42.6
125,000 to 150,000	9,866	4.1	2,470	1.5	25.0
150,000 to 200,000	9,905	4.1	1,860	1.2	18.8
200,000 and over	<u>12,351</u>	<u>5.1</u>	<u>379</u>	<u>0.2</u>	3.1
Total	241,375	100.0%	161,269	100.0%	66.8%

--As in Attachment 1, the proposal displayed here would exempt the first \$100,000 of retirement income for each individual aged 67 or older.

--In tax year 2024, it is estimated that 241,375 filers will receive a tax decrease under the proposal. Of these, 161,269 (66.8%) will no longer have any net tax liability.

--Among filers with a tax decrease under the proposal, it is estimated that 93.8% of such filers with Wisconsin AGI of \$25,000 or less will no longer have any net tax liability.

--Among filers with a complete elimination of net tax liability under the proposal, it is estimated that 52.0% are those with Wisconsin AGI between \$30,000 and \$60,000.

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