



State of Wisconsin
2023 - 2024 LEGISLATURE

LRB-4303/1
JK:cdc&emw

2023 SENATE BILL 435

September 20, 2023 - Introduced by Senators CABRAL-GUEVARA, BRADLEY, KNODL, JAGLER and WANGGAARD, cosponsored by Representatives STEFFEN, KATSMA, O'CONNOR, ALLEN, ARMSTRONG, AUGUST, BROOKS, BORN, BEHNKE, BINSFELD, CALLAHAN, DALLMAN, DITTRICH, DONOVAN, DUCHOW, EDMING, GOEBEN, GREEN, GUNDRUM, GUSTAFSON, HURD, S. JOHNSON, KRUG, KITCHENS, KURTZ, MACCO, MAGNAFICI, MAXEY, MELOTIK, MICHALSKI, MOSES, MURSAU, NEDWESKI, NOVAK, PENTERMAN, PETERSEN, PETRYK, PLUMER, PRONSCHINSKE, RETTINGER, RODRIGUEZ, ROZAR, SAPIK, SCHMIDT, SCHRAA, SNYDER, SORTWELL, SWEARINGEN, SUMMERFIELD, TITTL, TUSLER, VANDERMEER, VOS, WITTKE, ZIMMERMAN, OLDENBURG and TRANEL. Referred to Committee on Universities and Revenue.

AN ACT *to amend* 71.05 (1) (am), 71.05 (1) (an), 71.05 (6) (b) 4. (intro.), 71.05 (6)

(b) 54. (intro.), 71.06 (1q) (c), 71.06 (2) (i) 3., 71.06 (2) (j) 3. and 71.83 (1) (a) 6.;

and *to create* 71.05 (6) (b) 54m. and 71.05 (6) (b) 54mn. of the statutes;

relating to: lowering the individual income tax rates in the third bracket and increasing and expanding the retirement income subtraction.

Analysis by the Legislative Reference Bureau

INDIVIDUAL INCOME TAX RATE

This bill decreases the individual income tax rate in the third tax bracket from 5.3 percent to 4.40 percent beginning with the 2023 tax year.

Under current law, there are four income tax brackets for single individuals, certain fiduciaries, heads of households, and married persons, and the brackets are indexed for inflation. The rate of taxation under current law for the lowest bracket for single individuals, certain fiduciaries, heads of households, and married persons is 3.50 percent of taxable income. The rate for the second bracket is 4.40 percent. The rate for the third bracket is 5.3 percent. And the rate for the highest bracket is 7.65 percent. Before bracket indexing, the four brackets for individuals, certain fiduciaries, and heads of households, to which the above rates apply, are as follows: 1) taxable income from \$0 to \$7,500; 2) taxable income exceeding \$7,500 but

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not exceeding \$15,000; 3) taxable income exceeding \$15,000 but not exceeding \$225,000; and 4) taxable income exceeding \$225,000.

RETIREMENT INCOME SUBTRACTION

This bill increases and expands the individual state income tax subtraction for payments or distributions received from qualified retirement plans under the Internal Revenue Code or from certain individual retirement accounts. Under the bill, beginning in tax year 2023, up to \$100,000 of payments or distributions received from qualified retirement plans or certain individual retirement accounts may be subtracted annually from an individual's taxable income, if the individual is at least 67 years of age. If the individual and individual's spouse are both at least 67 years of age, the sum of the amount that the couple may subtract annually from their combined taxable income may not exceed \$150,000.

Under current law, up to \$5,000 of payments or distributions received by certain individuals from qualified retirement plans or from certain individual retirement accounts may be subtracted. To be eligible, the individual must be at least 65 years old and have federal adjusted gross income under \$15,000, or under \$30,000 if married.

Because this bill relates to an exemption from state or local taxes, it may be referred to the Joint Survey Committee on Tax Exemptions for a report to be printed as an appendix to the bill.

For further information see the state fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. 71.05 (1) (am) of the statutes is amended to read:

71.05 (1) (am) *Military retirement systems.* All retirement payments received from the U.S. military employee retirement system, to the extent that such payments are not exempt under par. (a) ~~or sub. (6) (b) 54.~~

SECTION 2. 71.05 (1) (an) of the statutes is amended to read:

71.05 (1) (an) *Uniformed services retirement benefits.* All retirement payments received from the U.S. government that relate to service with the coast guard, the commissioned corps of the national oceanic and atmospheric

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administration, or the commissioned corps of the public health service, to the extent that such payments are not exempt under par. (a) or (am) ~~or sub. (6) (b) 54.~~

SECTION 3. 71.05 (6) (b) 4. (intro.) of the statutes is amended to read:

71.05 **(6)** (b) 4. (intro.) Disability payments other than disability payments that are paid from a retirement plan, the payments from which are exempt under ~~subd. 54. and~~ sub. (1) (am) and (an), if the individual either is single or is married and files a joint return and is under 65 years of age before the close of the taxable year to which the subtraction relates, retired on disability, and, when the individual retired, was permanently and totally disabled. In this subdivision, “permanently and totally disabled” means an individual who is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. An individual shall not be considered permanently and totally disabled for purposes of this subdivision unless proof is furnished in such form and manner, and at such times, as prescribed by the department. The exclusion under this subdivision shall be determined as follows:

SECTION 4. 71.05 (6) (b) 54. (intro.) of the statutes is amended to read:

71.05 **(6)** (b) 54. (intro.) Except for a payment that is exempt under sub. (1) (a), (am), or (an), or that is exempt as a railroad retirement benefit, and except as provided under subds. 54m. and 54mn., for taxable years beginning after December 31, 2020, up to \$5,000 of payments or distributions received each year by an individual from a qualified retirement plan under the Internal Revenue Code or

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from an individual retirement account established under 26 USC 408, if all of the following conditions apply:

SECTION 5. 71.05 (6) (b) 54m. of the statutes is created to read:

71.05 (6) (b) 54m. a. Except for a payment that is exempt under sub. (1) (a), (am), or (an), or that is exempt as a railroad retirement benefit, and except as provided under subd. 54mn., for taxable years beginning after December 31, 2022, the amount, up to the limit specified in subd. 54m. b., c., or d., whichever is applicable, of the payments or distributions received each year from a qualified retirement plan under the Internal Revenue Code or from an individual retirement account established under 26 USC 408.

b. If the individual is at least 67 years of age before the close of the taxable year to which the subtraction relates, the amount claimed by the individual under this subdivision may not exceed \$100,000 for that taxable year.

c. If the individual is married and is a joint filer, and both spouses are at least 67 years of age before the close of the taxable year to which the subtraction relates, the total amount claimed by the spouses under this subdivision may not exceed \$150,000 for that taxable year.

d. If the individual is married and files a separate return and is at least 67 years of age before the close of the taxable year to which the subtraction relates, the amount claimed by each spouse as a subtraction under this subdivision may not exceed \$75,000 for that taxable year.

e. The individual has not claimed any credit listed under s. 71.10 (4) for the

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same taxable year for which the individual claimed the subtraction under this subdivision.

SECTION 6. 71.05 (6) (b) 54mn. of the statutes is created to read:

71.05 (6) (b) 54mn. For taxable years beginning after December 31, 2022, for an individual who is a part-year resident of this state, the amount that is calculated by multiplying the applicable amount under subd. 54m. b., c., or d. by a fraction the numerator of which is the individual's wages, salary, tips, unearned income, and net earnings from a trade or business that are taxable by this state and the denominator of which is the individual's total wages, salary, tips, unearned income, and net earnings from a trade or business. A nonresident of this state is not eligible to claim the subtraction under subd. 54m.

SECTION 7. 71.06 (1q) (c) of the statutes is amended to read:

71.06 (1q) (c) On all taxable income exceeding \$15,000 but not exceeding \$225,000, 6.27 percent, except that for taxable years beginning after December 31, 2020, and before January 1, 2023, 5.30 percent, and for taxable years beginning after December 31, 2022, 4.40 percent.

SECTION 8. 71.06 (2) (i) 3. of the statutes is amended to read:

71.06 (2) (i) 3. On all taxable income exceeding \$20,000 but not exceeding \$300,000, 6.27 percent, except that for taxable years beginning after December 31, 2020, and before January 1, 2023, 5.30 percent, and for taxable years beginning after December 31, 2022, 4.40 percent.

SECTION 9. 71.06 (2) (j) 3. of the statutes is amended to read:

71.06 (2) (j) 3. On all taxable income exceeding \$10,000 but not exceeding

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\$150,000, 6.27 percent, except that for taxable years beginning after December 31, 2020, and before January 1, 2023, 5.30 percent, and for taxable years beginning after December 31, 2022, 4.40 percent.

SECTION 10. 71.83 (1) (a) 6. of the statutes is amended to read:

71.83 (1) (a) 6. ‘Retirement plans.’ Any natural person who is liable for a penalty for federal income tax purposes under section 72 (m) (5), (q), (t), and (v), 4973, 4974, 4975, or 4980A of the Internal Revenue Code is liable for 33 percent of the federal penalty unless the income received is exempt from taxation under s. 71.05 (1) (a) or (6) (b) 54., 54m., or 54mn. The penalties provided under this subdivision shall be assessed, levied, and collected in the same manner as income or franchise taxes.

(END)