

Military Personnel — Subtractions, Credits, and Extensions

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Income Tax Fact Sheet 5a

Fact Sheet

This fact sheet contains information on subtractions from income, credits, and extensions for military personnel.

For information on residency, filing requirements, and the Military Spouses Residency Relief Act, see Fact Sheet 5, *Military Personnel - Residency*.

Can I subtract military pay?

Minnesota Residents

If you are a Minnesota resident in the United States/United Nations Armed Forces (Army, Navy, Air Force, Marines, or Coast Guard), you may qualify for a subtraction of your active duty military pay. You may qualify for a subtraction on your Minnesota income tax return even though your military pay may be taxed on your federal income tax return.

You can subtract the following military income:

- Income earned under U.S. Code Title 10
- Income earned under U.S. Code Title 32 while a Minnesota National Guard or Reservist, including state active duty pay and Active Guard Reserve program
- Costs of traveling to or from qualifying service or duty
- Income earned while on medical hold under active duty orders while recuperating from an injury
- Income earned for the full time administration of the Minnesota Department of Military Affairs under Minnesota Statute 190.08, subd. 3
 - If you are employed by the Minnesota Department of Military Affairs but are not paid under Minnesota Statute 190.08, subd. 3, you do not qualify for the subtraction.

Note: The subtraction is not allowed for compensation received for employment by the United States Public Health Service unless received for service after being called to Active Duty, in the Armed Forces, under Title 10.

Nonresidents of Minnesota

If you are a resident of another state required to file a Minnesota return, you are allowed a subtraction for your active duty military pay on Schedule M1M, *Income Additions and Subtractions*. When calculating Minnesota tax, your military pay is removed on Schedule M1NR, *Nonresidents and Part-Year Residents*.

To claim either subtraction, you must complete Schedule M1M, and include the schedule when you file your Minnesota income tax return.

Income Tax and Withholding Division
 Phone: 651-296-3781 or 1-800-652-9094
 Email: individual.incometax@state.mn.us

Do I qualify for any credits?

You may qualify for two Minnesota income tax credits specific to military personnel.

Credit for Military Service in a Combat Zone

If you served in a combat zone or qualified hazardous duty area anytime on or after January 1, 2014, you may be eligible for a refundable credit. The credit is \$120 for each month served in a combat zone or qualified hazardous-duty area. Partial months count, so even if you served only one day, you get credit for the full month.

You must meet all of the following requirements:

- You were a Minnesota resident during your months of service.
- You served in a combat zone or qualified hazardous-duty area.
- You received combat pay, which is exempt from federal income tax.

How do I claim the credit?

To claim the credit, you must complete Form M99, *Credit for Military Service in a Combat Zone*, for the appropriate year and mail it to the department with the following military records:

If you are	Include a copy of your
National Guard, Reservist, or Retired or Discharged Active-Duty Member	Form DD-214 for each period of qualifying service
Active-Duty Member	Leave and Earnings Statement for each month of qualifying service

Note: Form M99 is completed separate from your Minnesota income tax return. You are still eligible for the credit even if you are not required to file a state income tax return.

If the person is deceased, his or her personal representative, surviving spouse, or dependent may qualify for the credit. To claim the credit, Form M99 must be filed with Form M23, *Claim for a Refund for a Deceased Taxpayer*.

How long do I have to claim the credit?

You have 3½ years from the original due date of your tax return to claim the credit. The credit for months served in a combat zone from January 1, 2014 to December 31, 2014 will expire on October 15, 2018.

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This fact sheet is intended to help you become more familiar with Minnesota tax laws and your rights and responsibilities under the laws. Nothing in this fact sheet supersedes, alters, or otherwise changes any provisions of the tax law, administrative rules, court decisions, or revenue notices. Alternative formats available upon request.

Individual circumstances may exist that extend the time allowed to file for these credits. If you spent additional days in a combat zone after the filing due date of the return, you can add the number of additional days plus 180 days to the initial 3½-year statute of limitations to claim the credit on Form M99.

Example: If you served in a combat zone in 2013, you had to file your 2013 Form M99 by October 15, 2017 to meet the 3½-year statute of limitations. However, starting on June 1, 2014 you spent 60 days in a combat zone. You would have an additional 240 days to claim the credit (60 days plus 180 days). Therefore, you would have until June 10, 2018 (240 days after October 15, 2017) to file 2013 Form M99.

Credit for Past Military Service

If you are a veteran of the U.S. military, including the National Guard and Reserves, you may qualify for a tax credit of up to \$750 for your past service if your federal adjusted gross income is less than \$37,500.

To qualify, you must have separated from military service before the end of the year, and one of the following must be true:

- You served at least 20 years in the military
- You have a service-connected disability rating of 100% total and permanent (as rated by the U.S. Department of Veterans Affairs)
- You were honorably discharged and you receive a pension or other retirement pay for service in the military

See the instructions for Schedule M1C, *Other Nonrefundable Credits*, for income qualifications. If you are a part-year resident of Minnesota or a nonresident, you may still qualify for the credit. When completing the worksheet for Schedule M1C, use your percentage of Minnesota income from Schedule M1NR.

To claim this credit, you must complete Schedule M1C and include the schedule when you file your Minnesota income tax return. You may not claim this credit if you claim a subtraction for military retirement pay.

Is my military pension taxed by Minnesota?

Beginning with tax year 2016, Minnesota will allow taxpayers to subtract certain military retirement pay (including pensions) when calculating Minnesota taxable income and Minnesota alternative minimum taxable income.

To qualify for the subtraction, the pay must be both of the following:

- Taxable on the federal return
- Computed under Title 10, sections 1401 to 1414, 1447 to 1455, and 12733

To claim the subtraction, you must file Schedule M1M, *Income Additions and Subtractions*. You may not claim this subtraction if you claim the nonrefundable credit for past military service.

For tax years 2015 and earlier, military pensions and other military retirement pay received by Minnesota residents was taxable by Minnesota. If you move to Minnesota, your pension becomes taxable once you become a resident, even if you earned the pension before moving to Minnesota. If you move out of Minnesota and establish a new state of residence, the pension payments you receive after establishing your new residence are not taxable to Minnesota.

Estimated Tax

If you have Minnesota taxable income that is not subject to withholding and you expect to owe more than \$500 in tax, you may be required to pay quarterly estimated tax.

If you are a Minnesota resident who is stationed outside of Minnesota, you can ask your paymaster to withhold Minnesota income tax from your military pay to avoid having to pay estimated tax.

For more information, go to our website and type **estimated tax** in the Search box.

Do I qualify for a military extension?

If you are active duty military personnel in a combat zone or contingency operation, you may qualify to file and pay Minnesota income taxes up to either:

- 180 days after the last day you are in the combat zone
- The last day of any continuous hospitalization for injuries sustained while serving in the combat zone

When you file your Minnesota income tax return, enclose a separate sheet stating you were serving in a combat zone.

If you are stationed outside the U.S. but are not involved in combat zone operations, you have until October 15 to file your return. You must pay at least 90 percent of your total tax by April 15 to avoid a late payment penalty. Penalty and interest will be assessed on any tax not paid by the regular due date. Unlike the federal rules, Minnesota does not allow an extension to pay your tax.

Extensions for Military Reservists and National Guard Members

For those in a combat zone, Minnesota follows the federal rules in the previous section. For military reservists and National Guard members on federal active duty not in a combat zone:

- If you are called to active service in the U.S., you qualify for a six-month extension.
- If you are called to active service abroad, you qualify for an extension of the period you served abroad plus six months.

If you owe tax, the amount due is paid in full, and the return is filed by the extension date, no interest or penalties will be assessed.

If a married couple files “married filing joint,” your spouse gets the same extension.

When you file your Minnesota income tax return, enclose a separate sheet stating that you are filing under the military extension.

Statute of Limitations Suspended During Period of Disability

The 3½-year statute of limitations to claim a refund is suspended for the period a taxpayer has a “financial disability.” A taxpayer with a financial disability is someone who is unable to manage his or her financial affairs by reason of a medically determinable physical or mental impairment (see Internal Revenue Code Section 6511(h)).

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You must provide documentation of the disability when filing a return or when requested by the department. Documentation may include an explanation of the situation and a statement from a health care professional.

Death While Serving in Armed Forces

If a member of the military dies while in active service, they will not owe Minnesota income tax for that year. Any outstanding debts for prior year taxes and penalties will be forgiven or refunded. A claim for refund of tax paid may be filed within seven years from the date the return was filed for any years the decedent was in active service.

Example: A Minnesota resident joined the U.S. Marines in 2015 and was killed in active service in a combat zone during 2017. He filed Minnesota income tax returns and paid tax to Minnesota for tax years 2015 and 2016. He filed returns on April 15, 2016 and April 15, 2017, respectively.

Tax Year	Returns filed by	Must amend by	To	File
2015	4/15/16	4/15/23	Claim refund of tax paid	2015 Form M1X and Form M23
2016	4/15/17	4/15/24	Claim refund of tax paid	2016 Form M1X and Form M23
2017	Deceased	Not applicable	Not applicable	2017 Form M1 (for refund of withholding, estimated payments, or credits) and Form M23

Note: If the military member and his or her spouse filed a joint return for any year, follow these steps to calculate the amount of tax to be refunded (or tax debt to be abated):

1. Determine how much income tax each spouse would have paid if they filed separate returns. Use the “married filing separately” column in the tax tables.
2. Add these two tax amounts.
3. Divide the deceased person’s tax amount (step 1) by the total (step 2). The result is a percentage.
4. Multiply the actual tax paid by this percentage (step 3) to determine the refund amount.

Homestead Status

Minnesota Residents

Only Minnesota residents are eligible to claim homestead status. The department may ask you to provide information regarding your residency. If you are a resident for property tax purposes, you are a resident for income tax purposes.

Minnesota Residents Stationed Outside Minnesota

Active duty military members who are stationed outside Minnesota solely for active duty are eligible for homestead status on acquired property even if the property has not been occupied as a homestead by the person or a member of their family.

To qualify, the military member must do both of the following:

- Notify the county assessor in the county of purchase
- Indicate their absence is due to military service

Upon return from service, the military member must notify the county assessor. The difference between non-homestead and homestead taxes for the current year and preceding two years will be forgiven or refunded. The amount forgiven or refunded cannot exceed the time the person owned the property.

Homestead Credit Refund (for Homeowners) and Renter’s Property Tax Refund (Form M1PR)

If you are a Minnesota resident and you own or rent a home in Minnesota, you may qualify for a refund of property taxes paid. This is true regardless of where you are stationed in the military. If you are a nonresident, you do not qualify for a property tax refund unless your spouse is a full-year or part-year resident of Minnesota.

When applying for the refund, you must include any non-taxable income, such as combat or hazardous duty pay, as household income.

For more information, see the Minnesota Homestead Credit Refund (for Homeowners) and Renter’s Property Tax Refund instruction booklet.

Disabled Veterans’ Homestead Property Tax Exclusion

This program provides an annual property tax exclusion of up to \$300,000 for the homestead of:

- An honorably discharged veteran who has a service-connected disability rating of 70 percent or higher
- The surviving spouses of certain qualifying veterans and service members
- The primary family caregivers of qualifying veterans

To qualify for this exclusion, the veteran must be:

- Honorably discharged from the military
- Certified by the U.S. Department of Veterans Affairs as having a service connected disability

Applications are available in your County Assessor’s office. You must apply by July 1 to qualify for the exclusion on the current year’s market value for taxes payable next year.

Note: You may still qualify for the Homestead Credit Refund (for Homeowners) on the qualifying tax amount from line 1 of your property tax statement.

For more information, see Property Tax Fact Sheet 11, *Disabled Veterans’ Homestead Property Tax Exclusion*.

Information and Assistance

Additional forms and information, including fact sheets and frequently asked questions, are available on our website.

Website: www.revenue.state.mn.us

Email: individual.incometax@state.mn.us

Phone: 651-296-3781 or 1-800-652-9094 (toll-free)

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