

**Individual Income Tax  
Subtraction for Active Duty Military  
Compensation**

January 26, 2001

Department of Revenue  
Analysis of H.F. 68 (Buesgens) /S.F. 267 (Robling)  
**Revised for Administrative Impact**

	<b>Yes</b>	<b>No</b>
Separate Official Fiscal Note Requested	X	
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings	X	

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
General Fund	(\$4,400)	(\$4,400)	(\$4,400)	(\$4,400)

Effective beginning with tax year 2001.

**EXPLANATION OF THE BILL**

This bill would allow a subtraction from taxable income of all military compensation received by active duty members of the United States armed forces stationed outside the state of Minnesota.

**REVENUE ANALYSIS DETAIL**

- Data provided by the Military Affairs Department indicated an estimated 10,000 military personnel listed Minnesota as their state of residence according to a 1996 survey.
- It is estimated the numbers will have declined 12% between 1996 and 2001.
- Of these, 16% may be stationed overseas and would not be considered residents during any 12-month period.
- An average compensation amount of \$18,500 annually will be used. After deducting the personal exemption and standard deduction there would be \$11,050 taxable to be excluded.
- Using a marginal rate of 5.35% results in a revenue loss of \$4.4 million the first year.
- The revenue loss will remain at about the same level in subsequent years under the assumption that any increase in pay may be offset by some decrease in military forces.

**Number of Taxpayers Affected:** Approximately 7,400 returns are estimated to potentially use this provision.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

See fiscal note

Source: Minnesota Department of Revenue  
Tax Research Division  
<http://www.taxes.state.mn.us/polic.html#analyses>