

**Individual Income Tax  
Military Pension Income**

January 26, 2001

Department of Revenue  
Analysis of H.F. 91 (Mulder)/ S.F. 316(Lesewski)

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

**Revised for Administrative Impact**

	<b>Revenue Gain or (Loss)</b>			
	<b><u>F.Y. 2002</u></b>	<b><u>F.Y. 2003</u></b>	<b><u>F.Y. 2004</u></b>	<b><u>FY2005</u></b>
	(000's)			
General Fund	(\$13,200)	(\$13,900)	(\$14,600)	(\$15,300)

Effective beginning tax year 2001.

**EXPLANATION OF THE BILL**

**Current Law:** Low-income taxpayers age 65 and over may subtract a portion of their income subject to a phaseout. Railroad retirement benefits are exempt from tax based on a 1989 Tax Court decision which upheld the federal law prohibiting state taxation. Veterans' pensions and military disability pensions are excluded from income in conformity with federal law.

**Proposed Law:** The proposal would exclude from Minnesota taxable income military pensions and retirement benefit payments, which are currently not exempt federally.

**REVENUE ANALYSIS DETAIL**

- According to the latest information available from the DOD Statistical Report on the Military Retirement System for federal fiscal year 1999, the number of military personnel receiving retirement pay in Minnesota that year was 13,400 for a total amount of \$194.8 million.
- Additionally, there were 2,170 surviving families receiving payments in the amount of \$13.1 million.
- Increasing these amounts for inflation and assuming all recipients file tax returns and have an average marginal rate of 6%, the revenue loss would be \$13.6 million. This impact was then adjusted by subtracting the cost of the disability pensions in the total, which are already excluded under current law to arrive at a net cost for FY 2002 of \$13.2 million.
- It was assumed there was little overlap with the low income elderly subtraction.
- Growth was set at 5% annually.

**Number of Taxpayers Affected:** 16,000.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

See fiscal note

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