**Individual Income Tax**
**Subtraction for Active Duty Military, National Guard and Reserves Compensation**

January 26, 2001

| | Yes | No |
|---|---|---|
| Separate Official Fiscal Note Requested | | X |
| **Fiscal Impact** | | |
| DOR Administrative Costs/Savings | X | |

Department of Revenue
Analysis of H.F. 294 (Walz)/ S.F. 347 (Samuelson)

| | Revenue Gain or (Loss) | | | |
|---|---|---|---|---|
| | F.Y. 2002 | F.Y. 2003 | F.Y. 2004 | FY2005 |
| | (000's) | | | |
| General Fund | ($9,900) | ($9,900) | ($9,900) | ($9,900) |

Effective beginning with tax year 2001.

## EXPLANATION OF THE BILL

This bill would create a subtraction for the first $5,000 in pay for service in the Minnesota National Guard, Armed Forces Reserves or active military duty service and an additional $3,000 for pay for service outside of Minnesota. It restores, at higher levels, the subtraction that was repealed in 1987.

## 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. It is assumed the remaining 7,400 could use the full $8,000 exclusion, for a revenue cost of $3.2 million at a marginal rate of 5.35 percent.
- The number in the Minnesota National Guard and the Reserves is estimated to be 28,000. It will be assumed that these taxpayers will take an average subtraction amount of $4,000, a small portion of which may be for service out of state. At a six-percent marginal rate the cost is estimated to be $6.7 million.
- Growth is assumed to be level.

**Number of Taxpayers Affected:** 35,000 returns.

## ADMINISTRATIVE/OPERATIONAL IMPACT

Because the department is currently formalizing a reengineered process for the income tax, the operational impact of this provision cannot be precisely estimated. However, this bill would require additional funds for compliance during processing.

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

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