

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

February 13, 2001

Department of Revenue
Analysis of S.F. 72 (Betzold)/H.F. 230 (Bernardy)
Revised for Administrative Impact

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
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	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)

Effective beginning with tax year 2001.

EXPLANATION OF THE BILL

This bill would provide a subtraction from taxable income for the first \$5,000 of 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.
- Using a marginal rate of 5.35% results in a revenue loss of \$2.0 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

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

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