

# MINNESOTA · REVENUE

## INDIVIDUAL INCOME TAX Subtraction for Military Pension Income

February 27, 2002

Department of Revenue  
Analysis of S.F. 2512 (Scheevel)

	Yes	No
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>
General Fund	(\$)	(\$5,200)	(\$5,400)	(\$5,700)

Effective beginning with tax year 2002.

### EXPLANATION OF THE BILL

**Current Law:** Low income taxpayers over 65 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. Military disability pensions are excluded from income in conformity with federal law.

**Proposed Law:** The proposal would exclude from Minnesota taxable income the first \$10,000 of compensation from military pensions and retirement pay which are currently not exempt federally. This applies only to veterans over 65 or disabled, although the latter is already exempt federally so will not be included.

### REVENUE ANALYSIS DETAIL

- According to the latest information available from the DOD Statistical Report on the Military Retirement System for federal fiscal year 2000, the number of military personnel receiving non-disability retirement pay in Minnesota during that period was 13,547 for a total amount of \$192.7 million.
- The overall breakout by age shows 42.3% of total pay goes to recipients over age 65. This brings the total eligible amount to \$81.5 million.
- Increasing these amounts for inflation from 2000 to 2002 and assuming all recipients file tax returns and have an average marginal rate of 6%, the revenue loss would be \$5.2 million. It was assumed there was little overlap with the low income elderly subtraction.
- Growth was set at 5% annually.

**NUMBER OF TAXPAYERS AFFECTED:** Estimated to be about 5,500.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

There will be administrative or operational costs to DOR in administration of this bill. There will be costs incurred for modification of forms and instructions along with additional printing, mailing, programming and processing costs.

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