MINNESOTA · REVENUE

INDIVIDUAL INCOME TAX
Subtraction for Military Pension Income

March 4, 2002

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

Department of Revenue
Analysis of S.F. 2512 (Scheevel) **as Revised**

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	FY2005
	(000's)			
General Fund	($)	($2,900)	($3,000)	($3,000)

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. For most Minnesota taxpayers, pension income is taxable.

Proposed Law: The proposal would exclude from Minnesota taxable income the first $10,000 of compensation from pensions and retirement pay which is directly related to military service and not already exempt federally. The exclusion applies only to veterans over 65 or disabled, although disability pensions are a tax expenditure under current law.

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 12,600.
- The overall breakout by age shows 42.6% of retirement pay goes to recipients over age 65. This brings the total number eligible to 5,368.
- Since the average annual amount for enlisted personnel was $12,576 in 2000, it will be assumed that 90% of the total available exclusion will be used for a total amount of $48.3 million.
- Using an average marginal rate of 6%, the revenue loss is estimated at $2.9 million. It was assumed there was little overlap with the low income elderly subtraction.
- Growth was set at 2% annually.

NUMBER OF TAXPAYERS AFFECTED: Estimated to be about 5,400.

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

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