

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX Income Subtraction for Active Duty Military Service

May 8, 2003

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

Department of Revenue  
Analysis of H.F. 1540 (Mullery) As Proposed to be Amended

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>FY2007</u>
		(000's)		
General Fund	(\$1,200)	(\$600)	(\$600)	(\$600)

Effective beginning with tax year 2003.

### EXPLANATION OF THE BILL

**Current Law:** Beginning with tax year 2001, federal active duty military personnel, including members of the National Guard and Reservists who receive federal orders for active duty, are considered nonresidents of Minnesota for income tax purposes for the period of time stationed outside of Minnesota.

**Proposed Law:** This amendment would repeal the current law provision above and provide for a subtraction of all income received by an individual in active service while that individual is in active service as defined in section 190.05, subdivision 5. This includes National Guard as well as U.S. military and Reserves and includes service both within and outside the state. It excludes training and boot camp.

### REVENUE ANALYSIS DETAIL

- The number of active duty U.S. Military in Minnesota for F.Y. 2001 was 706 according to the Department of Defense website. It will be assumed that ten percent of these are Minnesota residents and the remainder are stationed here but residents elsewhere and not subject to Minnesota income tax. With an estimated average taxable income of \$26,000, the revenue loss from the subtraction for 70 taxpayers at an average marginal rate of 6.5% would be \$118,000.
- For the National Guard forces on active duty at some time during the year, it will be assumed that an average annual number of 360 men and women deploy within the state for ten days each for a total payroll of \$400,000 and additional non military income totaling \$20,000. Subtraction of this annual amount at an average marginal rate of 6.5% would bring a revenue loss of \$27,300.

- For 2003 there will be approximately 3,300 National Guard and Reservists who have been or will be mobilized into active service outside the state. It is estimated that in future years the average annual number will be 1,200. These filers qualify under current law for nonresident status which will be replaced by the new subtraction. The subtraction entails a greater revenue loss because the taxpayer retains full value of deductions and exemptions, which nonresidents must apportion, and may subtract Minnesota source income such as rental income, which nonresidents cannot. It will be estimated that this additional taxpayer benefit will be an average \$250 for a total of \$825,000 in 2003 and, assuming shorter periods of active duty, an average benefit of \$200 in 2004 through 2006 for a total of \$240,000 those years.
- In addition there are an estimated 7,400 U.S. military personnel who list Minnesota as their state of residence and also qualify under current law for nonresident status while outside Minnesota. It will be assumed that 80% have no Minnesota source income and are out of the state the full year so are not affected by this proposed change. Ten percent are assumed to be outside Minnesota but have some Minnesota source income or file jointly with a Minnesota resident and another ten percent are assumed to be outside of Minnesota for only part of the year. This twenty percent will be estimated to have an average additional benefit from the subtraction of \$130 for a total of \$192,000.
- Growth is set at one percent.

**Number of Taxpayers:** 11,000.

Source: Minnesota Department of Revenue  
Tax Research Division

<http://www.taxes.state.mn.us/polic.html#analyses>