**INDIVIDUAL INCOME TAX**
National Guard Deemed Nonresidents

March 22, 2004

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

Department of Revenue
Analysis of H.F. 1825 (Wardlow)/ S.F. 2230 (Metzen)

| | Revenue Gain or (Loss) | | | |
|---|---|---|---|---|
| | **F.Y. 2004** | **F.Y. 2005** | **F.Y. 2006** | **F.Y. 2007** |
| | (000's) | | | |
| General Fund | $0 | ($40) | ($40) | ($40) |

Effective beginning with tax year 2004.

**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:** The proposal would remove the requirement that active service take place outside of Minnesota, and extend nonresident status to members of the Minnesota National Guard while in active service.

**REVENUE ANALYSIS DETAIL**

- Data provided by the State Department of Military Affairs for 1991 through 2003 shows that the amount of wages paid for such service varies greatly from year to year. The average wage per Guard member paid for the last five years was about $825, for a total of about $700,000.
- If that amount were subtracted from income, and assuming an average marginal tax rate of 6%, revenue loss would be about $42,000 for an average year.
- Calculations show that treating Guard members as nonresidents on average would decrease the revenue loss by about 2% - 3% compared to a subtraction.
- Because wages paid for such service fluctuate greatly depending on the number of Guard personnel in active service and the duration of that service, and because no trends over time are apparent, the average was used for all years, with no growth assumed.

**Number of Taxpayers:** about 850 returns on average.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy