

INDIVIDUAL INCOME TAX
Subtraction for Military Pension Income

April 11, 2003

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

Department of Revenue
Analysis of S.F. 458 (Rosen)/ H.F. 638 (Cornish)

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	FY2007
	(000's)			
General Fund	(\$3,000)	(\$3,100)	(\$3,100)	(\$3,200)

Effective beginning with tax year 2003.

EXPLANATION OF THE BILL

Current Law: For most Minnesota taxpayers, pension income is taxable. Low-income taxpayers age 65 and over or disabled 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 pensions and retirement pay which is directly related to military service and not already exempt federally. The exclusion applies only to veterans age 65 and over or disabled, although military disability pensions are exempt under current law.

REVENUE ANALYSIS DETAIL

- According to the latest information available from the Department of Defense Statistical Report on the Military Retirement System for federal fiscal year 2001, the number of veterans age 65 or over receiving non-disability retirement pay in Minnesota during that period was 6,279.
- The average annual amount they received was \$15,056.
- It will be assumed that 80% of the maximum subtraction amount, or \$50.2 million, will be in Minnesota taxable income to be subtracted.
- Using an average marginal rate of 6%, the revenue loss is estimated at \$3.0 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 6,500.

Source: Minnesota Department of Revenue
Tax Research Division