

# MINNESOTA • REVENUE

## Individual Income Tax Military Pension Income

March 22, 2004

Department of Revenue  
Analysis of H.F. 198 (Marquart)/ S.F. 2627(Marko)

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

	<b>Revenue Gain or (Loss)</b>			
	<b><u>F.Y. 2004</u></b>	<b><u>F.Y. 2005</u></b>	<b><u>F.Y. 2006</u></b>	<b><u>F.Y. 2007</u></b>
		(000's)		
General Fund	\$0	(\$14,800)	(\$15,500)	(\$16,300)

Assumed effective beginning with tax year 2004.

### EXPLANATION OF THE BILL

**Current Law:** Low-income taxpayers age 65 and over 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. Veterans' pensions and military disability pensions are excluded from income in conformity with federal law.

**Proposed Law:** The proposal would exclude from Minnesota taxable income military pensions and retirement benefit payments which are currently not exempt federally.

### 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 2002, the number of military personnel receiving retirement pay in Minnesota that year was 13,900 for a total amount of \$215.9 million.
- Additionally, there were 2,390 surviving families receiving payments in the amount of \$15.2 million.
- The total amount of \$231.1 million was then adjusted by subtracting the cost of disability pensions of \$8.1 million, which are already excluded under current law, to arrive at net taxable military retirement pay for FY 2002 of \$223.1 million.
- Assuming all recipients file tax returns and have an average marginal rate of 6%, and after allowing for growth of 5% annually, the revenue loss in FY 2005 would be \$15.5 million.
- It was assumed there was little overlap with the low income elderly subtraction.

**Number of Taxpayers Affected:** 16,000.

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