

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Military Family Tax Relief Act

March 7, 2005

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

Department of Revenue
Analysis of H.F. 943 (Lanning)/ S.F. 1008 (Wergin)

	<u>Fund Impact</u>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
General Fund	(\$680)	(\$330)	(\$340)	(\$350)

The provisions would be effective at the same time that they were effective for federal tax purposes.

EXPLANATION OF THE BILL

The bill would adopt the provisions of the federal Military Family Tax Relief Act of 2003 for purposes of the Minnesota individual income tax.

The Military Family Tax Relief Act of 2003, Public Law 108-121, contains several changes to the individual income tax. The rules relating to the income exclusion for the gain from the sale of a principal residence are modified to take into account absence due to military service, retroactive to sales made after May 6, 1997. An exclusion is allowed for amounts received under the Department of Defense Homeowners Assistance Program, effective November 12, 2003. The exclusion for death gratuity payments made to families of members of the armed forces is increased from \$3,000 to \$12,000, effective retroactive to September 11, 2001. Members of the National Guard and Military Reserve are allowed an above-the-line deduction for unreimbursed travel expenses incurred to attend a Guard or Reserve meeting at least 100 miles from home, beginning with tax year 2003. The bill contains several other provisions with small or no revenue impact.

REVENUE ANALYSIS DETAIL

- The estimates are based on the estimates for the federal bill prepared by the Joint Committee on Taxation and released on November 7, 2003.
- For the provision relating to the travel expenses for Members of the National Guard and Military Reserve, the estimates were apportioned to Minnesota based on the number of National Guard and Reserve members in Minnesota compared to the nation, which is about 1.3%.

- The federal estimates for the other provisions were aggregated and treated together. The estimates were apportioned to Minnesota based on Minnesota's portion of active duty military personnel, which is about 0.7%. Because military persons on active duty stationed outside Minnesota are considered nonresidents for Minnesota tax purposes, the estimates were further reduced by 50%.
- Appropriate federal and state marginal rates were applied. The estimates were converted from federal to state fiscal years. Fiscal year 2006 includes the impact due to the retroactive effective dates.

Number of Taxpayers: An estimated 1,000 to 2,000 members of the National Guard and Military Reserve would benefit from the deduction for travel expenses. A small number of taxpayers would be affected by the other provisions.

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