

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Military Pension Income Subtraction

April 5, 2006

Department of Revenue

Analysis of S.F. 2689 (Vickerman) As Amended (SCS2689A-1)

	Yes	No
DOR Administrative Costs/Savings		X

Fund Impact

	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund	\$0	(\$4,100)	(\$8,600)	(\$13,600)

Effective beginning with tax year 2006.

EXPLANATION OF THE BILL

As amended, the bill would allow a subtraction from Minnesota taxable income and from Minnesota alternative minimum taxable income for military pensions and retirement payments which are currently not exempt. The subtraction would be phased in over 4 years, with an allowable subtraction amount of 25% of the pension up to \$7,500 in the first year; 50% of the pension up to \$15,000 in the second year; 75% of the pension up to \$22,500 in the third year; and 100% of the pension with no ceiling in the fourth and succeeding years.

REVENUE ANALYSIS DETAIL

- According to information from the Department of Defense Statistical Report on the Military Retirement System for federal fiscal year 2004, the number of people receiving military retirement pay in Minnesota was 17,093 for a total amount of \$248.4 million.
- Based on national data, it is assumed that 40% of retirees are officers with an average annual pension of \$22,778, and 60% are enlisted personnel with an average annual pension of \$11,429. The average pension for 2,523 survivors was \$6,459.
- It is assumed that the proposed law includes taxable military disability pensions.
- It is assumed there is little overlap with the low income elderly subtraction.
- The average marginal rate was assumed to be 6%.
- Annual growth was estimated at 5%.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: Approximately 17,000 to 18,000.

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

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