

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Military Pay and Pension Subtraction

February 20, 2007

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 160 (Vickerman) / H.F. 300 (Haws)

	Fund Impact			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
		(000's)		
Military Pensions	(\$4,400)	(\$9,100)	(\$14,400)	(\$20,200)
Military Pay	<u>(\$3,400)</u>	<u>(\$3,600)</u>	<u>(\$3,800)</u>	<u>(\$4,000)</u>
General Fund Total	(\$7,800)	(\$12,700)	(\$18,200)	(\$24,200)

Effective beginning with tax year 2007.

EXPLANATION OF THE BILL

The bill would allow a subtraction from federal taxable income for all military pay which is currently not exempt, except for members of the Active Guard Reserve and for members of the Guard serving as administrators in the Department of Military Affairs.

A subtraction would also be allowed to military retirees and their survivors for military pensions and retirement payments. This latter subtraction would be phased in over four years at 25% the first year, 50% the second year, 75% the third year, and 100% for the fourth and all succeeding years. The pension subtraction would also be subject to a phase-in cap: \$7,500 the first year, \$15,000 the second year, and \$22,500 the third year. There is no cap for the fourth or succeeding years.

REVENUE ANALYSIS DETAIL

Military pensions

- According to information from the Department of Defense Statistical Report on the Military Retirement System for federal fiscal year 2005, the number of people receiving military retirement pay in Minnesota was 17,579 for a total amount of \$263.45 million. Included in this total are 184 retired Coast Guard personnel and 22 Coast Guard survivors receiving a total amount of \$2.784 million.
- 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%.

REVENUE ANALYSIS DETAIL (Continued)

Military pay

- According to information from the Department of Military Affairs, about 15,700 members of the National Guard and Reserves who participate in weekend drills and summer camp would be eligible for the subtraction. The average annual pay is about \$3,560. The average marginal tax rate for this group was assumed to be 6%.
- There are about 100 Coast Guard personnel and about 60 recruiters and ROTC personnel. It is assumed that 25% of these are Minnesota residents who would qualify for the subtraction. The average taxable salary is about \$55,000. The average marginal tax rate for this group was assumed to be 4%.

Assumptions applicable to both

- Annual growth was estimated at 5%.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: About 33,300 taxpayers would be affected.

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