

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Military Pension Subtraction

February 4, 2011

Department of Revenue
Analysis of S.F. 41 (Daley) / H.F. 82 (Dettmer)

	Yes	No
DOR Administrative Costs/Savings	X	

	<u>Fund Impact</u>			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
General Fund	(\$4,000)	(\$7,200)	(\$11,800)	(\$12,400)

Effective beginning with tax year 2011.

EXPLANATION OF THE BILL

The bill would allow a subtraction from Minnesota taxable income and alternative minimum taxable income of a percentage of pension or other federal retirement pay received for service in the military. The percentage is 20% in tax year 2011, 35% in tax year 2012, and 55% thereafter; however the percentage increases to 65% and then to 75% if the number of taxpayers claiming the subtraction in any year beginning with tax year 2014 is at least 1,000 greater than the number claiming it in tax year 2011. If the number of claimants in any year after the first year the percentage is set at 75% is at least 2,000 greater than the corresponding number in tax year 2011, the percentage rises to 100% in the next and all subsequent years.

REVENUE ANALYSIS DETAIL

- Based on data from 1099 forms and individual income tax returns filed with the Minnesota Department of Revenue, about 16,700 taxpayers received military pension compensation in 2008. The amount of tax reduction for each taxpayer was calculated.
- The percentage of the subtraction would be 20% in tax year 2011, 35% in tax year 2012, and 55% in tax years 2013 and 2014.
- The annual growth rate depends on the increase in the number of retirees and on cost of living adjustments. Taking both of these factors into account, the increase is assumed to be 7% from 2008 to 2011, 3.5% for 2012, 4% for 2013, and 4.5% for 2014.
- Based on data from the Department of Defense, the number of military retirees receiving pensions in Minnesota increases by about 1,000 every three years. If this trend continues, the subtraction percentage would be 65% in tax year 2015, 75% in tax years 2016 and 2017, and 100% in tax year 2018 and all subsequent years.
- Tax year impacts were allocated to the following fiscal year.

Number of Taxpayers: About 17,000 taxpayers would be affected.

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