

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX Military Pension Subtraction

February 10, 2011

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 41 (Daley), As Amended in Senate Tax Committee (SCS0041A-1)

	<u>Fund Impact</u>			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
		(000's)		
General Fund	\$0	(\$2,100)	(\$4,300)	(\$6,800)

Effective beginning with tax year 2012.

### EXPLANATION OF THE BILL

As amended, 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 10% in tax year 2012, 20% in tax year 2013, and 30% thereafter; however the percentage increases by 10 percentage points per year until the percentage reaches 70%, if the number of taxpayers claiming the subtraction in any year beginning with tax year 2015 is at least 1,500 greater than the number claiming it in tax year 2012. If the number of claimants in any year after the first year the percentage is set at 70% is at least 3,000 greater than the corresponding number in tax year 2012, the percentage rises by 10 percentage points per year until the percentage reaches 100%.

### 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 10% in tax year 2012, 20% in tax year 2013, and 30% in tax year 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 about 11% from 2008 to 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 1,500 every four years. If this trend is sustained, the subtraction percentage would reach 100% in tax year 2024.
- 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](http://www.taxes.state.mn.us/taxes/legal_policy)