

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Credit for Past Military Service

March 5, 2012

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 1820 (Dettmer) / S.F. 1794 (Miller)

	<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	(\$13,000)	(\$13,400)	(\$13,800)

Effective beginning with tax year 2012.

EXPLANATION OF THE BILL

Current Law: Current law allows a nonrefundable credit against the individual income tax of \$750. To qualify, a taxpayer must have separated from military service by the end of the taxable year and must either have served at least twenty years in the military or have a service-connected disability rating of 100% for total and permanent disability. The credit is phased out by 10% of the amount by which adjusted gross income exceeds \$30,000, and thus is eliminated entirely for those with incomes over \$37,500.

Proposed Law: The bill would eliminate the income phaseout and allow a flat nonrefundable credit amount of \$750 for qualifying taxpayers.

REVENUE ANALYSIS DETAIL

- In 2009, the latest year for which data are available, there were 23,100 Minnesotans who received military pension income from the Department of Defense. It is assumed that all of these served for 20 years or more and therefore qualify for the credit. Of those, about 6,100 did not have positive Minnesota taxable income and so could not make use of the credit.
- Of the remaining approximately 17,000, about 3,000 had Minnesota taxable income that was low enough that they would not have been able to claim the full \$750 of credit. It is assumed that the credit claimed by them would average \$500.
- It is assumed that the remaining 14,000 would be able to claim the full \$750.
- By comparison, in 2009 there were about 1,500 Minnesotans who did claim the credit for past military service. The average credit claimed was \$645.66, and the total credit was about \$973,000. If all of those had received the full \$750 the total credit would have been an additional \$156,500. In 2010, the second year the credit was in effect, about 1,600 Minnesotans claimed the credit and the average amount was \$658.44.

REVENUE ANALYSIS DETAIL (Cont.)

- There are about 4,300 Minnesotans who qualify as totally and permanently disabled and would therefore be entitled to the credit. Their pensions probably would be paid by the Veterans Administration and are therefore nontaxable. It is not known how many of these have sufficient taxable income from other sources to enable them to make use of the credit. It is assumed that about 1,200 would be able to use the credit; 400 able to use a \$500 credit and 800 able to use a \$750 credit.
- It is assumed that, under current law, increases over time in the number eligible for the credit would be offset partially by countervailing increases in the number losing eligibility due to income growth beyond the phaseout level. Without the phaseout the number of qualifying taxpayers is assumed to grow at a rate of 3% per year; with phaseout at 2% per year.
- Tax year impact was allocated to the following fiscal year.

Number of Taxpayers: About 18,000 Minnesotans would be affected.

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