

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX Credit for Past Military Service

March 8, 2012

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue  
Analysis of H.F. 1820 (Dettmer) First Engrossment

	<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)	(\$2,200)	(\$2,300)

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: As proposed to be amended,** the bill would change the income phaseout to 5% of the amount by which adjusted gross income exceeds \$30,000, and thus the credit is eliminated entirely for those with incomes over \$45,000.

### 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.
- Of the remaining 14,000, about 11,700 have federal adjusted gross incomes (FAGI) greater than \$45,000 and would be unable to claim the credit. About 400 would be eligible for the full \$750 credit. The remaining 1,900 have FAGI between \$30,000 and \$45,000 and would be eligible for a partial credit. The credit for these was calculated based on FAGI.
- 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. 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 assumed that about 600 of these would be able to use part of the credit, either due to low incomes preventing the full amount of the credit from being of use in reducing tax or because they were subject to a partial phaseout. For these it is assumed that the average credit would be \$500. Another 400 with higher incomes are assumed to have an average credit of \$450 due to more of the credit being phased out for them. The remainder would be either fully phased out or could not use a nonrefundable credit because of low incomes.
- 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. The number of qualifying taxpayers is assumed to grow at a rate of 3% per year due to the lower phaseout rate; under current law the growth rate assumption is 2% per year.
- Tax year impact was allocated to the following fiscal year.

**Number of Taxpayers:** An estimated 6,300 Minnesotans 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)