

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Military Pension Subtraction

June 13, 2016

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 2749, Conference Committee Report, Article 13, Sec. 57

	Fund Impact			
	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>	<u>F.Y. 2018</u>	<u>F.Y. 2019</u>
		(000's)		
General Fund	\$0	(\$22,600)	(\$23,700)	(\$24,900)

Effective beginning with tax year 2016

EXPLANATION OF THE LAW

Current Law:* Military service pension income included in federal adjusted gross income is subject to individual income tax, but a credit is allowed based on past military service. The credit amount is \$750 and is phased out beginning at an adjusted gross income of \$30,000. The credit is reduced by 10% of income over that amount, but not below zero.

Proposed Law: The proposal would allow a subtraction from Minnesota taxable income of amounts received from a military service pension.

The subtraction must not include any amounts used to claim the credit. However, eligibility for the credit does not depend on pension amounts nor even on whether a pension is actually received. So the law would allow a taxpayer to benefit from both the subtraction and the credit. Nevertheless it is assumed that a taxpayer would claim either the subtraction or the credit, whichever was more advantageous, but not both. If this assumption were not made, the fiscal cost of the subtraction and the credit in tax year 2016 would be about \$24.1 million.

REVENUE ANALYSIS DETAIL

- Analysis is based on 2013 data for about 18,000 taxpayers who received military pension income. There is no way to identify individuals eligible for the credit who receive nontaxable 100% disability pensions from the Veterans Administration and also have taxable income.
- Nearly 16,400 taxpayers would use the subtraction. About 1,460 taxpayers would claim the credit, down from about 2,000 in the absence of the subtraction.
- An annual growth rate of 5% is assumed.
- Tax year impacts were allocated to the following fiscal year.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

*Prior to enactment of H.F. 2749 on June 1, 2016.

hf2749 (CCR Article 13 Sec 57)/gt