

February 18, 2022

	<b>Yes</b>	<b>No</b>
DOR Administrative Costs/Savings	X	

Department of Revenue  
Analysis of H.F. 3096 (Ecklund) / S.F. 2639 (Howe)

	<b>Fund Impact</b>			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
General Fund	\$0	(\$99,700)	(\$102,600)	(\$106,900)

Effective beginning tax year 2022.

**EXPLANATION OF THE BILL**

**Current Law:** A taxpayer may subtract a portion of Social Security income when calculating Minnesota taxable income. For 2022, the maximum subtraction is \$5,450 for married joint filers, \$2,725 for married separate filers, and \$4,260 for single and head of household filers.

The subtraction is reduced by 20% of provisional income over the following thresholds for 2022: \$82,770 for married joint filers, \$41,385 for married separate filers, and \$64,670 for single and head of household filers. Provisional income is income used to calculate the federally taxable portion of Social Security benefits. The thresholds and maximum subtractions are adjusted annually for inflation.

**Proposed Law:** Under the bill, a veteran or their surviving spouse may subtract the full amount of their federally taxable Social Security benefits, without being subject to the threshold or the maximum subtraction in current law. “Surviving spouse” is undefined. This analysis assumes the definition of surviving spouse used by the Department of Veterans Affairs for the purposes of qualifying for a VA Survivors Pension.

**REVENUE ANALYSIS DETAIL**

- The House Income Tax Simulation (HITS 7.1) model was used to estimate the effect of an unlimited Social Security subtraction for all taxpayers. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2021. The model uses a stratified sample of 2019 individual income tax returns compiled by the Minnesota Department of Revenue.
- The 2019 American Community Survey (ACS) 5-Year Sample was used to estimate the number of veterans age 65 and older as a share of the overall population age 65 and older for Minnesota.
- Because the share of the elderly who are veterans declines over time, this share was forecasted for future years by using the average growth rate in the number of veterans as a share of the elderly population over the period 2010-2019, based on the ACS 5-Year Samples of the same period.

**REVENUE ANALYSIS DETAIL (Cont.)**

- The Department of Veterans Affairs Annual Benefits Report for 2019, along with the 2019 ACS 5-Year Sample, was used to estimate the number of surviving spouses as a share of the population age 65 and older. The average growth rate of this share over the period 2015-2019 was used to forecast this share for future years.
- Because only national-level estimates of surviving spouses are available, the number of surviving spouses in Minnesota was estimated by multiplying the total number of surviving spouses by Minnesota's share of the national veteran population age 65 and older, based on 2019 ACS data.
- The forecasted shares of the elderly population who are either veterans or surviving spouses was then multiplied by the revenue impact of an unlimited Social Security subtraction for each year to generate the final estimate.
- Tax year impacts were allocated to the following fiscal year.

**Number of Taxpayers:** about 75,900 tax returns would be affected in tax year 2022. The average decrease in tax would be \$1,313.

Minnesota Department of Revenue  
Tax Research Division  
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