

March 21, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 1668 (Rarick)/ H.F. 2091 (Sundin)

	Fund Impact			
	<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	(\$1,300)	(\$700)	(\$700)

Effective retroactively beginning tax year 2021.

EXPLANATION OF THE BILL

Current Law: An income tax subtraction is allowed for pension payments or other retirement pay from the federal government for military service. The subtraction is limited to taxpayers who do not claim the credit for past military service.

Proposed Law: The bill would expand the subtraction to include pension payments from the federal employee retirement system or the civil service retirement system, multiplied by the taxpayer's military service ratio. The military service ratio is the taxpayer's creditable years of military service divided by the taxpayer's total years of service in the pension plan.

The federal employment retirement system and the civil service retirement system allow participants to receive credit for prior military service. Employees must generally pay a deposit based on their years of service and forgo any military pension.

REVENUE ANALYSIS DETAIL

- The estimate is based on information from a sample of 2019 individual income tax returns and pension payments reported on Form 1099-R in 2019.
- About 16,500 returns claimed military pension subtractions totaling \$403 million in 2019. The average subtraction was about \$24,500.
- About 30,300 taxpayers reported pension payments from the U.S. Office of Personnel Management in 2019. Those payments are assumed to be from the civil service retirement system or the federal employee retirement system.
- It is unknown how many of those retirees have creditable military service.
- About 7.1% of civilians have past military service, according to the 2020 American Community Survey 5-year estimates. It is assumed that 7.1% of federal retirees have eligible military service, and that half of those have creditable military service in their pension plans.
- The average military service ratio is assumed to be 35%.
- A marginal rate of 6.0% is assumed.
- A growth rate of 5% was applied to the estimate.
- Retroactive impacts were allocated to fiscal year 2023. All other tax year impacts are allocated to the following fiscal year.

REVENUE ANALYSIS DETAIL (Cont.)

Number of Taxpayers: About 1,200 returns would have an average reduction in tax of \$552 in tax year 2021.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
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sf1688(hf2091)_1 Military Pension Subtraction / tj