DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
Foreign Service Pension Subtraction

January 22, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 211 (Klein)

	Fund Impact			
	F.Y. 2026	F.Y. 2027	F.Y. 2028	F.Y. 2029
	(000's)			
General Fund	($10)	($10)	($10)	($10)

Effective beginning with tax year 2025.

EXPLANATION OF THE BILL

Current Law: A taxpayer may subtract from their taxable income a portion of benefits earned from state and federal pension systems whose members do not earn Social Security benefits. Other pension benefits are fully taxable under Minnesota law, to the extent they are taxed under federal law.

The Foreign Service Pension System (FSPS) is a federal pension system for retired Foreign Service Officers who worked for the Department of State and were hired after 1984. Its members qualify for Social Security and do not qualify for the Minnesota retirement benefit subtraction created in 2023.

Proposed Law: The bill would create an individual income tax subtraction for a portion of income earned from the Foreign Service Pension System established under US Code, Title 22, Section 4071. The subtraction would be allowed for the purposes of the alternative minimum tax.

The subtraction equals the amount of compensation received from the FSPS, multiplied by the number of years of foreign service divided by the total number of years of civil service for which the taxpayer receives pension income.

REVENUE ANALYSIS DETAIL

- This estimate uses data from a Congressional Research Service (CRS) report and the annual State Department Agency Financial Reports. These reports provide information on the number of annuitants nationwide and agency spending on pension benefits.
- To impute the number of FSPS annuitants in Minnesota, the number of FSPS annuitants nationwide was multiplied by Minnesota's share of national employment in NAICS industry 928, "National security and international affairs" in the Bureau of Labor Statistics Quarterly Census of Employment & Wages.
- To impute the average benefit amount, the State Department's spending on pension payments was multiplied by the FSPS's share of annuitants among all State Department pension plans and divided by the number of FSPS annuitants.

REVENUE ANALYSIS DETAIL (Cont.)

- Since data on this population's taxable income is unavailable, a simulated beneficiary population was constructed using the 2022 income tax sample by selecting a random group of filers reporting Social Security income and adding a hypothetical pension income from FSPS. The size of the sample and average pension amount were chosen to match the number of qualifying pension beneficiaries and total amount of pension income calculated from the CRS report and State Department Financial Reports.
- Data on the share of pension income of beneficiaries from the FSPS relative to other civil service pension programs is unavailable. The revenue impact was reduced by 10% to adjust for this provision.
- The growth rate is assumed to follow the growth in State Department pension spending from FY2016 to FY2022.
- Tax year impacts are allocated to the following fiscal year.

Number of Taxpayers: About 30 taxpayers would be affected in tax year 2025. The average decrease in tax would be $178.

Minnesota Department of Revenue
Tax Research Division
https://www.revenue.state.mn.us/revenue-analyses