

Military Pay under Minnesota's Individual Income Tax

Several factors affect Minnesota individual income taxation of active service military pay

Minnesota income tax treatment of active service military pay depends on several factors:

- Where the service was provided (in Minnesota or outside Minnesota)
- If the individual had nonmilitary income above the filing requirement for the tax year
- If the individual is a Minnesota resident
- If the individual is in the regular full-time military or in the National Guard or reserves

Service outside Minnesota by Minnesota residents, with nonmilitary income below the filing requirement

Minnesota residents who serve outside Minnesota and have nonmilitary income less than the filing requirement for the tax year (\$9,500 for tax year 2011) are not subject to state income tax withholding and do not have to file a Minnesota income tax return. This generally applies to members of the full-time military who are in active service outside Minnesota throughout the entire tax year, as members of either the full-time military or the National Guard or reserves.

Service outside Minnesota by Minnesota residents with nonmilitary income above the filing requirement

Minnesota residents who serve outside Minnesota and have nonmilitary income above the filing requirement for the tax year must file a Minnesota return, but may subtract all types of military pay earned outside Minnesota. Some common situations include the following:

- Members of the full-time military in active service whose spouses are employed and live in Minnesota
- Members of the National Guard and reserves in active service outside Minnesota for the entire tax year who have employed spouses living in Minnesota, or whose civilian employer provides a salary differential
- Members of the National Guard and reserves in active service outside of Minnesota for part or all of the year who have interest, dividend, or business income
- Members of the National Guard and reserves called to active service outside Minnesota for a portion of the tax year, who have civilian income in Minnesota during the remainder of the tax year

Service in Minnesota by a resident of another state

Individuals who serve in Minnesota and are residents of another state must file a Minnesota income tax return but may claim a subtraction for active service military pay earned in Minnesota. Federal law prohibits states from taxing active service military pay earned by nonresidents. This treatment typically applies to residents of other states who are stationed in Minnesota. Federal law also prohibits states from considering spouses of residents of other states to be Minnesota residents for tax purposes.

Service in Minnesota by a Minnesota resident who is a member of the full-time military

Individuals who serve in Minnesota and are Minnesota residents may claim a subtraction for regular active service military pay. This treatment typically applies to Minnesota residents who are full-time military and are stationed in Minnesota, such as members of the Coast Guard and recruitment officers. This subtraction does not apply to Active Guard/Reserve (AGR) personnel and to certain other limited categories of state service.

Service in Minnesota by a Minnesota resident who is a member of the National Guard or reserves

Minnesota residents who are members of the National Guard and reserves are allowed a subtraction for pay received for qualifying active service within Minnesota. “Qualifying active service” includes:

- certain *state active service*, such as assistance in natural disasters and searches for lost persons ([Minn. Stat. § 190.05](#), subd. 5a, cl. (1));
- *federally funded state active service*, under [U.S.C. Title 32](#) (National Guard), such as weekend drills and annual training (summer camp), special school attendance, airport security, or active duty for special work (ADSW) ([Minn. Stat. § 190.05](#), subd. 5b); and
- *federal active service*, under [U.S.C. Title 10](#) (Reserves), such as weekend drills, annual training (summer camp), special school attendance, pre- or postdeployment-related duty, and time on medical hold under [Title 10](#) active duty orders while recuperating from an injury ([Minn. Stat. § 190.05](#), subd. 5c).

“Qualifying active service” excludes service by AGR personnel and by former members of the National Guard ordered to active service by the adjutant general to perform administrative duties.

Minnesota follows federal tax treatment of other kinds of military income and benefits

Minnesota conforms to federal income tax treatment of various types of military income, whether received in-kind or as a reimbursement or allowance. Examples of excluded income include the following:

- Housing allowances
- Moving allowances
- Travel allowances and per diem
- Combat zone pay
- Death gratuity benefits

While Minnesota excludes combat pay from taxable income, it counts combat pay in determining an individual’s eligibility for the working family tax credit. This credit for low-income taxpayers is calculated as a percentage of earned income. Counting combat pay as earned income results in some service members remaining eligible for the credit and qualifying for refunds.

For more information: The Department of Revenue maintains information on taxation of military pay online at taxes.state.mn.us/individ/pages/residency_and_filing_status_military_sub_active_duty_military.aspx; or contact legislative analyst Nina Manzi at 651-296-5204 or Jim Cleary at 651-296-5053.

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