

Subject Property tax refund; subtraction for nontaxable Social Security income

Authors Sandstede

Analyst Sean Williams

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Summary

Minnesota’s property tax refund programs—the Homestead Credit Refund and Renter’s Credit—are calculated based on household income. Household income is an income measure based on federal adjusted gross income (FAGI), but which includes many kinds of income that are nontaxable federally, including nontaxable Social Security income.

H.F. 3509 excludes from household income any Social Security income that is nontaxable federally.

Background: Federal Social Security exclusion

Federal law allows taxpayers to exclude a portion of their Social Security benefits when calculating FAGI. The formula used to calculate the exclusion is complicated; the amount of a taxpayer’s exclusion depends on the taxpayer’s provisional income (provisional income is discussed in detail below). Social Security benefits included in FAGI are subject to federal tax in the same manner as ordinary income (e.g., wage, salary, and interest income).

The federal Social Security exclusion has three tiers. Depending on the taxpayer’s provisional income, the federal exclusion is either 100 percent, 50 percent, or 15 percent of benefits. The table below shows the income ranges for the different tiers.

Table 3: Federal Social Security exclusion tiers

Married Couple’s Provisional Income	Single Filer’s Provisional Income	Exclusion Percentage
\$32,000 or less	\$25,000 or less	100%
Tier 1: \$32,000 to \$44,000	Tier 1: \$25,000 to \$34,000	50%
Tier 2: \$44,000 or greater	Tier 2: \$34,000 or greater	15%

Taxpayers with provisional income **below the first tier threshold** are allowed to exclude 100 percent of their Social Security benefits. For taxpayers with provisional income **between the first and second tier thresholds**, the amount of benefits subject to federal tax equals the lesser of:

- 50 percent of provisional income over the first tier threshold; or

- 50 percent of Social Security benefits.

For taxpayers with provisional income **above the second tier threshold**, the amount of benefits subject to federal tax equals the lesser of:

- 85 percent of provisional income over the second tier threshold, plus 50 percent of the difference between the second and first tier thresholds; or
- 85 percent of benefits.

Provisional Income

Provisional income is a federal definition of income equal to FAGI, excluding taxable Social Security benefits, plus certain “above-the-line” deductions, plus nontaxable interest, plus 50 percent of Social Security benefits. The deductions that are added back in calculating provisional income are: adoption expenses, student loan interest, tuition expenses, certain foreign income, and income from Puerto Rico and certain other U.S. territories. The formula for provisional income is as follows:

Provisional Income

$$= \text{FAGI} - \text{Taxable Social Security Benefits} + 50\% \text{ of Social Security Benefits} \\ + \text{Nontaxable Interest} + \text{Certain "above the line" deductions}$$



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