

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 15
Version: As introduced

DATE: January 28, 2011

Authors: Koenen

Subject: Partial income tax subtraction for military retirement pay; \$6,000 limit

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Overview

Allows an income tax subtraction of up to \$6,000 of a person's military retirement pay, beginning in tax year 2011.

- 1** **Income tax subtraction; military retirement pay.** Allows an income tax subtraction for military retirement pay, including survivor's benefit plan payments. The subtraction would be for up to a maximum amount of \$6,000 of military retirement pay, starting in taxable year 2011.
- 2** **Alternative minimum taxable income.** Provides for military retirement pay allowed as a subtraction in section 1 to also be subtracted from alternative minimum taxable income. This is necessary to avoid shifting individuals who claim the subtraction in section 1 onto the alternative minimum tax.

Note A: Minnesota Statutes 3.192, enacted in 2010, requires all new tax expenditures enacted by the legislature to include "a statement of intent that clearly provides the purpose of the tax expenditure and a standard or goal against which its effectiveness may be measured." Since this bill creates a new tax expenditure, it would be subject to this new purpose statement requirement.

Note B: A member of the military becomes eligible to retire after serving honorably for a total of 20 or more years. If that service has been full-time, then the military retiree is immediately eligible for retirement pay. A person who has credit for 20 or more years of honorable service in the National Guard or other Reserve component becomes eligible for the retirement pay at age 60.

On occasion the Department of Defense has offered early retirement to members of the military with fewer than 20 years of service, and the terms of the early retirement program may include eligibility for retirement pay.