

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 82
Dettmer

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Authors: Dettmer

Subject: Income tax subtraction for military retirement pay; Phased-In

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Overview

Section

- 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 begin in taxable year 2012, and would be phased-in over a number of taxable years, on the following schedule:
 - 2012: 10 percent of military retirement pay;
 - 2013: 20 percent of military retirement pay;
 - 2014: 30 percent of military retirement pay;
 - If the number of individuals claiming this subtraction in taxable year 2015 or thereafter grows to 1,500 greater than the number claiming it in 2012, then the phase-in rate will be increased by ten percentage points per year for the following four years, resulting eventually in 70 percent of military retirement pay being subtracted from taxable income.
 - If the percentage of military retirement pay subject to subtraction from taxable income is increased to 70 percent as provided, and the number of income tax filers claiming this subtraction subsequently grows to a level 3,000 greater than the number claiming it in 2012, then the phase-in rate will be increased by 10 percentage points in each of the following three years until it eventually reaches 100 percent of military retirement pay being subtracted

- 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, thereby also benefitting the military retiree.

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 or required early retirement for some members of the military with fewer than 20 years of service, and the terms of the early retirement program may include eligibility for a portion of military retirement pay.