

# HOUSE RESEARCH

## Bill Summary

**FILE NUMBER:** H.F. 60  
**Version:** As introduced

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**Subject:** Military; 5-year phase-in of income tax subtraction for military retirement pay

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### Overview

This bill would amend Minnesota's income tax law by providing a subtraction from taxable income of military retirement pay, including survivor's benefit plan payments. Under current tax law, such pay is taxable.

Under the bill, a retired military member or surviving spouse would be able to subtract a portion, and eventually all, of his or her military retirement pay or survivor's benefit plan pay from the amount of the person's federal taxable income, which is the starting amount for calculating Minnesota income tax liability.

The benefit would begin for tax year 2013 with the beginning-year subtraction set at 20 percent of military retirement pay. It would then increase an additional 20 percent (i.e., 40%, 60%, and 80%) in the succeeding years, until reaching 100 percent of military retirement pay in tax year 2017 and thereafter, for a 5-year phase-in of the benefit.

The subtraction would also be applied to the calculation for alternative minimum tax (AMT), and thereby further benefit Minnesotans who are retired military members.

### Section

- 1 Subtraction from federal taxable income.** Creates a subtraction from the amount of federal taxable income (as used to calculate Minnesota income tax liability), of the amount of any military retirement pay, including survivor's benefit plan (SBP) payments. The subtraction would phase-in in five equal increments, starting at 20 percent for tax year 2013, and

**Section**

reaching 100 percent for tax year 2017 and thereafter.

- 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 (AMT). This subtraction from AMT also benefits the military retirees.

**Note A:** Under current Minnesota tax law, military retirement pay, as well as any survivor benefit plan (SBP) payments, are taxed as ordinary income for state tax purposes.

**Note B:** A member of the military becomes eligible to retire after serving honorably for a total of 20 or more years. If that active service has been full-time, then the military retiree is immediately eligible for military retirement pay. In contrast, a person who has credit for 20 or more years of honorable service in the National Guard or another Reserve unit becomes eligible for military retirement pay at age 60, irrespective of when the person actually served in or retired from the military.

Military retirement pay is also paid to a small number of military retirees who were honorably discharged after serving somewhat less than 20 years in the military due to military downsizing (large-scale personnel cutbacks occurring in the mid-1990s).

**Note C:** Survivor benefit plan payments (SBP) are provided to the surviving spouse and/or dependents of a qualified military member or retiree who predeceases the spouse. It is calculated as a portion of military retirement pay due the retired service member.