

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 309
Version: As introduced

DATE: February 23, 2015

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Subject: Phased-in income tax exemption for social security benefits

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Overview

Phases in over eight years an exemption of social security benefits from Minnesota's individual income tax, starting in tax year 2015

Section

1 Subtraction for social security benefits. Allows taxpayers to subtract from Minnesota taxable income a percentage of social security benefits that are included in federal taxable income. The percentage is increased over time so that 100 percent of benefits may be subtracted beginning in tax year 2022. The schedule for phasing in the full subtraction is:

- ▶ 32 percent in tax years 2015 and 2016
- ▶ 43 percent in tax year 2017
- ▶ 55 percent in tax year 2018
- ▶ 67 percent in tax year 2019
- ▶ 77 percent in tax year 2020
- ▶ 89 percent in tax year 2021
- ▶ 100 percent in tax year 2022 and following years

Background. Under current law, Minnesota conforms to the federal treatment of social security benefits. Benefits are exempt from both federal and state taxation for filers with provisional income under \$25,000 (\$32,000 for married couples filing jointly). Up to 50 percent of benefits are included in taxable income for filers with provisional income over

Section

\$25,000 (\$32,000 for married couples filing jointly) but under \$34,000 (\$44,000 for married couples filing jointly). Up to 85 percent of benefits are included in taxable income for filers with provisional income over \$34,000 (\$44,000 for married couples filing jointly). In determining the amount of benefits included in taxable income, the term “provisional income” means federal adjusted gross income before including any social security benefits, plus tax-exempt bond interest and one-half of social security benefits.

- 2** **Alternative minimum tax; subtraction for social security benefits.** Provides for social security benefits subtracted from taxable income under section 1 are also subtracted from alternative minimum taxable income. This would protect taxpayers benefitting from the subtraction under section 1 from shifting onto the alternative minimum tax.