

Subject Public pension income subtraction

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Overview

H.F. 866 allows a Minnesota income tax subtraction for the amount of a taxpayer's pension income from state pensions and federal pensions, provided that the pension benefits were based on service for which the taxpayer did not receive Social Security benefits.

The amount of the exemption is either 100%, 50%, or 15% of the annuity or benefit, depending on the taxpayer's income. The bill additionally exempts amounts subtracted from the Minnesota alternative minimum tax.

Summary

Section	Description
1	<p>Public pension income.</p> <p>Allows a subtraction for income from a pension annuity or benefit.</p> <p>Defines "annuity or benefit" as an amount received from one of the following kinds of pension plans:</p> <ol style="list-style-type: none">1. Minnesota pension benefits based on service for which the recipient or recipient's survivor did not receive Social Security benefits, from the following plans:<ul style="list-style-type: none">• The Legislator's Retirement Plan under Chapter 3A• The State Patrol Retirement Fund under Chapter 352B• The Public Employee Retirement Plan (PERA) under Chapter 353• The Teacher's Retirement Plan (TRA) under Chapter 354• The St. Paul Teacher's Plan under Chapter 354A2. Federal retirement benefits based on service for which the recipient or recipient's survivor did not earn Social Security benefits.

Section **Description**

3. Retirement benefits from another state’s pension plan, if the other state offers a reciprocal or similar deduction or exemption for benefits from a pension plan from Minnesota (or another state).

Defines “modified adjusted gross income” by reference to federal law. Federal law defines modified adjusted gross income as adjusted gross income, minus certain federal deductions, plus tax-exempt interest.

Establishes the subtraction amounts as equal to either 100%, 50%, or 15% of the annuity or benefit amount, depending on the taxpayer’s income. The measure of income used for the purposes of establishing the subtracting percentage is modified adjusted gross income, plus half of the annuity or pension benefit.

Married Couple’s income	Single Filer’s income	Percent of pension benefits eligible for subtraction
\$34,000 or less	\$25,000 or less	100%
\$34,000 to \$44,000	\$25,000 to \$32,000	50%
\$44,000 or greater	\$32,000 or greater	15%

2 **Definitions.**

Excludes amounts subtracted under section 1 from being taxed under the state’s alternative minimum tax.



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