

Subject Subtraction for military pensions that were converted to civilian pensions

Authors Sundin and others

Analyst Sean Williams

Date March 18, 2022

Summary

The 2016 legislature enacted a state income tax subtraction for individuals who receive military retirement pay (often referred to as military pensions). This subtraction effectively exempts military retirement pay from Minnesota individual income tax. The subtraction only covers benefits directly provided through a number of federal military retirement plans specified in state law.

H.F. 3934 would expand this subtraction to a portion of the pension income received through a federal civilian pension, if calculation of the pension includes a credit for military service. Civilian federal employees who served in the armed forces may elect to receive “service credit” to their civilian pensions for their military service. In order to receive a service credit, most individuals must waive their military retirement pay and pay a military service credit deposit based on a percentage of their military base pay. Recipients typically opt to do this to increase their federal civilian pensions.

The bill would allow individuals receiving a civilian pension through the Federal Employee Retirement System (FERS) or the Civil Service Retirement System (CSRS) to subtract the percentage share of their federal pension that was earned by converting a military pension into service credit for a civilian pension. The bill requires the taxpayer to calculate their “military service ratio,” which equals the years of service for the taxpayer’s federal pension that were credited for military service, divided by the taxpayer’s total years of service. The subtraction equals the “military service ratio,” multiplied by the amount of FERS or CSRS pension income received in the taxable year.