MN HOUSE RESEARCH

Bill Summary

H.F. 3930

As introduced

Subject	**Retirement benefits subtraction**
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Summary

The bill expands the Social Security subtraction allowed under current Minnesota law to include "qualified" retirement benefits, which the bill defines as state or federal pension benefits that were based on service for which the taxpayer did not earn Social Security benefits.

In addition, the bill expands the maximum subtraction to $7,000 (for married taxpayers filing joint returns and surviving spouses) or $5,460 (for single and head of household taxpayers). The table below shows the maximum subtractions allowed under current law and H.F. 3930.

Filing Status	Current Law	H.F. 3930
Married filing joint, surviving spouses	$5,450	$7,000
Single, head of household	$4,260	$5,460

Background: state taxation of Social Security benefits under current law

A taxpayer's Social Security benefits are fully or partially exempt from Minnesota's income tax. There are two tax policies that result in Social Security benefits being nontaxable—an exclusion in federal law that "flows through" to the taxpayer's Minnesota income tax, and an additional Minnesota-specific subtraction available for a portion of the income that is taxable federally.

Federal law allows taxpayers to exclude a portion of their Social Security benefits from gross income. The amount of the exclusion depends on the taxpayer's provisional income. Depending on the taxpayer's provisional income, the federal exclusion is either 100 percent, 50 percent, or 15 percent of benefits. The table below shows the income ranges for the different tiers.

Federal Social Security exclusion tiers

Married Couple's Provisional Income	Single Filer's Provisional Income	Exclusion Percentage
$32,000 or less	$25,000 or less	100%
Tier 1: $32,000 to $44,000	**Tier 1**: $25,000 to $34,000	50%
Tier 2: $44,000 or greater	**Tier 2**: $34,000 or greater	15%

State subtraction

Minnesota allows a subtraction for a portion of a taxpayer's Social Security benefits that are subject to federal tax. A taxpayer may claim the subtraction in addition to the federal exclusion. Taxpayers may subtract a portion of their benefits that are taxable federally, up to a maximum established in law. For married taxpayers filing joint returns or surviving spouses, the maximum subtraction is $5,450, and is phased out beginning at $82,770 of provisional income. For other taxpayers, the maximum subtraction is $4,260, with a phaseout starting at $82,770 of provisional income.

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