

Subject 100 percent Social Security subtraction allowed, public pension subtraction established

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Summary

H.F. 300 modifies Minnesota’s Social Security subtraction to allow a taxpayer to subtract the full amount of the taxpayer’s taxable Social Security benefits.

The bill additionally establishes a subtraction for a portion of public pension benefits. The subtraction would apply to pension benefits that were earned based on service for which the member or survivor did not earn Social Security benefits. The subtraction would apply to state or federal pension plans whose members do not qualify for Social Security benefits. The bill defines these benefits as “qualified benefits.”

The subtraction in the bill is modeled after the federal and state tax preferences for Social Security income. The amount of the subtraction equals the sum of the taxpayer’s “federal exclusion” and “state exclusion.” The federal exclusion equals 15 percent to 100 percent of qualified benefits, depending on the provisional income of the taxpayer.

The state exclusion is tied to the amount of the state Social Security subtraction in tax year 2022. For married taxpayers filing joint returns and surviving spouses, the state exclusion equals the first \$5,450 of qualified benefits not covered by the federal exclusion. The exclusion is phased down beginning at \$82,770 of provisional income. For single or head of household taxpayers, the exclusion equals the first \$4,260 of such benefits, and the phase down begins at \$64,670 of provisional income.

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. In tax year 2023, for married taxpayers filing joint returns or surviving spouses, the maximum subtraction is \$5,840, and is phased out beginning at \$88,630 of provisional income. For other taxpayers, the maximum subtraction is \$4,560, with a phaseout starting at \$69,250 of provisional income.

Background on "basic plans" in Minnesota

In Minnesota, pension plans whose recipients do not earn Social Security benefits are referred to as "basic plans," and individuals participating in those plans are referred to as "basic members."

The only basic plans in Minnesota that are currently accepting new basic members are the PERA Police and Fire Plan and the MSRS State Patrol Retirement Plan. However, there are basic members of other retirement plans who are active members, vested deferred members, retirees, survivors, and disabilitants. According to the Legislative Commission on Pensions and Retirement, the pension plans in Minnesota with basic members in one of those categories are:

- The State Patrol Plan
- Legislator's Retirement Plan (for members elected before June 30, 1997)
- PERA General
- PERA Minneapolis Educators Retirement Fund (MERF)
- PERA Police and Fire
- Teachers Retirement Association (TRA)
- Saint Paul Teachers Retirement Fund Association (SPTRFA)



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