

HOUSE RESEARCH

Bill Summary

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Article 1 National Guard Funding

1 1 Appropriation. This section appropriates from the general fund to the Adjutant General for the 2006-07 biennium:

\$3.85 million each year, for the National Guard's *tuition reimbursement program*; and

\$1.5 million each year, for the National Guard's *re-enlistment bonus program*.

Article 2 Bonding

1 Appropriation. Provides appropriations of:

- \$670,000 to the commissioner of Administration for construction of a WWII veterans memorial on the Capitol Mall; and

- \$6,306,000 to the Veterans Home Board, as follows:

- o **\$6,000,000 for asset maintenance and improvements at the homes; and**
- o **\$306,000 for the dementia unit common area at the Luverne Veterans Home.**

2 Bond sale. Authorizes the sale of state bonds in the amount of \$6,976,000.

3 Effective date. The day following final enactment.

Article 3 **Income Tax**

- 1 Federal update; administrative.** Updates the administrative chapter Internal Revenue Code reference to federal changes through November 15, 2003.
- 2 Net income.** Conforms to federal changes to the definition of net income enacted as part of the Military Family Tax Relief Act of 2003 (P.L. 108-121). Changes to the definition of net income include:
 - Increases the exclusion from taxable income of the death gratuity benefit paid to survivors of member of the military who is killed in the line of duty from \$3,000 to \$12,000 (also increased the benefit from \$6,000 to \$12,000). Effective for deaths after September 10, 2001.
 - Excludes from taxable income the cost of dependent care assistance provided by the military to a service member. Effective beginning in tax year 2003.
 - Excludes from taxable income payments from the Department of Defense Homeowner Assistance program to members of the military to offset the adverse effects of military base closings on housing values. Effective for payments made after November 11, 2003.
 - Suspends the running of the five-year period for purposes of meeting the two out of five year "use of house as principal residence" test used to qualify for the exclusion of the gain on sale of the residence for up to 10 years for members of the military on official extended duty. Effective for sales after May 6, 1997.
 - Provides a deduction for unreimbursed travel, meal, and lodging expenses of members of the national guard and reserves when they travel at least 100 miles and must stay overnight to attend a guard or reserve meeting. Effective beginning in tax year 2003.
 - Exempts astronauts who lose their life on a space mission from income tax. Effective for deaths after January 31, 2003.
- 3 Subtractions from taxable income.** Clause (12) allows a subtraction for military pay received for active service performed in Minnesota, excluding weekend drill pay, summer training, and pay received by individuals working as full-time employees of the Department of Military Affairs in a status known as "Active Guard & Reserve (AGR)," or in other full-time administrative positions in the Department.

Clause (13) allows a subtraction for military pay received by a service member who is a nonresident - i.e., who is stationed in Minnesota but domiciled in another state. This subtraction does not apply to "retirement income." Current law provides for these individuals to calculate their tax based on total taxable income and then apportion the result based on the ratio of Minnesota source income to taxable income. Public Law 108-189 revised the Soldiers' and Sailors' Civil Relief Act of 1940 to require states to allow a subtraction for nonresident active service members of the military rather than apportioning tax. The Department of Revenue is complying with this change to federal law.
- 4 Income tax definitions.** Updates the income tax chapter Internal Revenue Code reference to federal changes made through November 15, 2003. The effect of this would be to allow the exclusion of all the Military Family Tax Relief Act items from Minnesota's alternative minimum tax, and to allow the deduction of national guard and reserve travel expenses from

Section

household income used to determine eligibility for the dependent care credit, and K-12 education credit. The remaining Military Family Tax Relief Act items would be included in household income.

- 5 Nonresident ratio.** Adjusts the nonresident ratio used in apportioning tax to Minnesota for the subtraction for military pay received by members of the military stationed in Minnesota but domiciled in another state that is required under federal law.
- 6 Alternative minimum tax subtraction.** Allows the in-state active service pay subtraction in section 3, clause (12), as a subtraction from alternative minimum taxable income.
- 7 Federal update; property tax refund.** Updates the property tax refund chapter Internal Revenue Code reference to federal changes through November 15, 2003. This conforms the property tax refund to changes in the definition of net income. The effect is to exclude national guard and reserve travel expenses from household income used to determine eligibility for the property tax refund for homeowners and renters. The remaining Military Family Tax Relief Act items would be included in household income.
- 8 Federal update; estate tax.** Conforms Minnesota's estate tax to a federal change exempting the estate of astronauts who die on a space mission. Effective for deaths after January 31, 2003.