

HOUSE RESEARCH

Bill Summary

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Overview

This bill expands the income tax subtraction for military service performed in Minnesota to all military pay, effective for tax year 2007 and thereafter. This subtraction will be phased in over tax years 2007 to 2010.

The bill also creates a new income tax subtraction for military retirement pay, including survivor's benefit plan (SPB) pay; this subtraction also would be phased in over four years, beginning with taxable year 2007.

The bill also extends the income tax subtraction for training performed out of state that is allowed for members of the military reserves other than the National Guard to include the National Guard, effective retroactively to tax year 2005.

Section

- 1 Purpose statement.** States that the new tax benefit being created in section 2 is being provided in recognition of the benefits that veterans bring to Minnesota's economy, businesses, and communities, as well as in recognition of the personal and family financial sacrifices made by career military members. Establishes state policy welcoming veterans back to Minnesota via income tax incentives.
- 2 Subtraction from federal taxable income; military pay and military pension income.** Extends the current subtraction for active military service performed in Minnesota to apply

Section

to all categories of active military service, including training and service performed under the Active Guard Reserve (AGR) program. Limits the subtraction for in-state pay to the maximum basic pay allowed for an individual at rank E9 (a Sergeant Major in the army, for example) with ten years of service. (This limit was eliminated by the A3 amendment.)

Extends to National Guard members the individual income tax subtraction that is currently allowed for similar military service performed outside Minnesota by members of the other military Reserves. (This includes various types of military training duty, as well as certain "*federally funded state active service*," such as the border patrol service currently being provided by some Minnesota Guard personnel.) This provision would ensure that Guard and Reserve members are treated alike with regard to the subtraction for military pay earned for service outside Minnesota.

Provides a new subtraction for military retirement pay, including survivor benefit plan payments.

The subtraction for both in-state military pay and military retirement pay would be phased in over the four taxable years, 2007 to 2010. The subtraction for out-of-state training by the National Guard is effective retroactively to tax year 2005, the year the subtraction for active duty performed outside Minnesota was enacted.

- 3** **Alternative minimum tax.** Provides that military pay, military retirement pay, and survivor benefit plan payments are excluded from Minnesota's alternative minimum tax, as well. **Effective Date.** This bill is effective for tax year 2007 and thereafter.