HOUSE RESEARCH

Bill Summary

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Subject: Modifying phaseout of income tax credit for past military service

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Overview

Background. Since tax year 2009, Minnesota has provided an individual income tax credit to certain military retirees, for their past military service. The credit equals up to $750 for qualifying individuals. It is nonrefundable and is subject to an income limitation (i.e., an income-based phase out).
To qualify for the credit, a veteran must:

(1) have served in the military (including the National Guard and reserves) for at least 20 years; or
(2) have a service-connected disability rated by the U.S. Department of Veterans' Affairs as being 100 percent total and permanent (100% T&P).

Individuals currently serving in the military do not qualify for the credit.

The income-limitation is structured as a phase-out for the credit. Current law provides that the credit *phases-out at a rate of ten percent, beginning when adjusted gross income equals $30,000, with no credit allowed for incomes of $37,500 or higher.*

Proposed Change. *This bill would slow the rate of phase-out to five percent, and thereby expand eligibility to more military retirees.*

The phase-out of the tax credit would continue to commence at $37,000 of adjusted gross income, but at the reduced rate of five percent the credit would not zero-out until the person's adjusted gross income reaches $45,000. The result would be that more military retirees would receive the credit - thereby effectively expanding eligibility to military retirees with adjusted gross incomes greater than $37,500 but less than $45,000.

Effective: for Tax Year 2012