

HOUSE RESEARCH

Bill Summary

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Subject: Income tax subtraction for military retirement pay; Phased-in

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Overview

Section

- 1** **Income tax subtraction; military retirement pay.** Allows an income tax subtraction for military retirement pay, including survivor's benefit plan payments. The subtraction for military retirement pay would be phased in over a number of taxable years, on the following schedule:
 - 2011: 20% of military retirement pay;
 - 2012: 35% of military retirement pay;
 - 2013: 55% of military retirement pay;
 - If the number of individuals claiming this subtraction in taxable year 2014 or thereafter grows to 1,000 greater than the number claiming it in 2011, then the phase-in rate will be increased by ten percentage points per year for the following two years, resulting in 75% of military retirement pay being subtracted from taxable income.
 - If the percentage is increased to 75% as provided, and the number of income tax filers claiming this subtraction subsequently grows to a level 2,000 greater than the number claiming it in 2011, then the phase-in rate will be increased to 100% of military retirement pay being subtracted from taxable income, beginning in the next taxable year.
- 2** **Alternative minimum taxable income.** Provides for military retirement pay allowed as a subtraction in section 1 to also be subtracted from alternative minimum taxable income.

This is necessary to avoid shifting individuals who claim the subtraction in section 1 onto the alternative minimum tax, thereby also benefitting the military retiree.

Note A: Minnesota Statutes 3.192, enacted in 2010, requires all new tax expenditures enacted by the legislature to include “a statement of intent that clearly provides the purpose of the tax expenditure and a standard or goal against which its effectiveness may be measured.” Since this bill creates a new tax expenditure, it would be subject to this new purpose statement requirement.

Note B: A member of the military becomes eligible to retire after serving honorably for a total of 20 or more years. If that service has been full-time, then the military retiree is immediately eligible for retirement pay. A person who has credit for 20 or more years of honorable service in the National Guard or other Reserve component becomes eligible for the retirement pay at age 60.

On occasion the Department of Defense has offered early retirement to members of the military with fewer than 20 years of service, and the terms of the early retirement program may include eligibility for retirement pay.