

FILE NUMBER: H.F. 300
Version: As introduced

DATE: February 23, 2015

Authors: Lohmer and others

Subject: Phased-in income tax exemption for social security benefits

Analyst: Nina Manzi, 651-296-5204
Joel Michael, joel.michael@house.mn

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: www.house.mn/hrd/.

Overview

Phases in over ten years an exemption of social security benefits from Minnesota's individual income tax, starting in tax year 2015

Section

- 1** **Subtraction for social security benefits.** Allows taxpayers to subtract from Minnesota taxable income 10 percent of social security benefits that are included in federal taxable income in tax year 2015. Increases the percentage that may be subtracted by 10 percentage points per year, so that in tax year 2024, 100 percent of benefits would be subtracted.

Background. Under current law, Minnesota conforms to the federal treatment of social security benefits. Benefits are exempt from both federal and state taxation for filers with provisional income under \$25,000 (\$32,000 for married couples filing jointly). Up to 50 percent of benefits are included in taxable income for filers with provisional income over \$25,000 (\$32,000 for married couples filing jointly) but under \$34,000 (\$44,000 for married couples filing jointly). Up to 85 percent of benefits are included in taxable income for filers with provisional income over \$34,000 (\$44,000 for married couples filing jointly). In determining the amount of benefits included in taxable income, the term "provisional income" means federal adjusted gross income before including any social security benefits, plus tax-exempt bond interest and one-half of social security benefits.
- 2** **Alternative minimum tax; subtraction for social security benefits.** Provides for social security benefits subtracted from taxable income under section 1 are also subtracted from alternative minimum taxable income. This would protect taxpayers benefitting from the subtraction under section 1 from shifting onto the alternative minimum tax.