HOUSE RESEARCH

Bill Summary

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Subject: Modifying income tax credit for past military service

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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-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.

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.

Military disability payments are exempt from both federal and state income tax. Beginning in tax year 2016, Minnesota also allows an income tax subtraction for military retirement pay other than disability pay, which was already exempt. Most veterans with 20 years of service receive pensions and will claim the subtraction rather than the credit. Disabled veterans do not benefit from the new subtraction since disability pay was exempt prior to its enactment; they will instead claim the credit.

Proposed Change: This bill would increase the credit to $1,000 and increase the income level at which the credit begins to phase-out from $30,000 to $50,000, with no credit allowed for incomes of $60,000 or higher.

Effective date: tax year 2017