MN HOUSE RESEARCH

Bill Summary

H.F. 885

As amended (H0885DE1)

Subject Social Security subtraction

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Overview

H.F. 885 modifies Minnesota's Social Security subtraction to allow a taxpayer to subtract the full amount of the taxpayer's taxable Social Security benefits, subject to an income-based phaseout. The phaseout begins at $110,000 of adjusted gross income for married taxpayers filing joint returns, and $80,000 for single taxpayers.

Background: state taxation of Social Security benefits under current law

Under current law, a portion of Social Security benefits are exempt from federal tax, and are not included in federal taxable income (FTI). Depending on the taxpayer's provisional income, the federal exemption is either 100% of benefits, 50% of benefits, or 15% of benefits. Provisional income is a measure of income equal to adjusted gross income, plus tax exempt interest and one-half of Social Security benefits.

Married Couple's provisional income	Single Filer's provisional income	Percent of Social Security subject to federal tax
$32,000 or less	$25,000 or less	0%
$32,000 to $44,000	$25,000 to $34,000	50%
$44,000 or greater	$34,000 or greater	85%

The 2017 legislature enacted an additional Minnesota subtraction for a portion of a taxpayer's taxable Social Security benefits—this subtraction is only available for the portion of benefits that were included in FTI. The subtraction equals the amount of the taxpayer's taxable benefits, up to a maximum established in law. Under current law, in tax year 2019 the maximum subtraction is $4,700 for married taxpayers filing joint returns and $3,660 for single taxpayers.

Under current law, the subtraction is phased out based on a taxpayer's provisional income—in tax year 2019, the phaseout begins at $80,430 for married couples filing joint returns and $62,880 for single taxpayers.

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