

**Subject** Social Security income; 100 percent subtraction allowed for taxpayers with adjusted gross income below \$80,000 or \$62,500

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## Summary

H.F. 1040, as amended, modifies Minnesota’s Social Security subtraction to allow taxpayers with adjusted gross income below \$80,000 (for married joint returns) or \$62,500 (for single or head of household returns) to subtract the full amount of the taxpayer’s taxable Social Security benefits.

The subtraction would be phased down by 10 percent for each \$4,000 of adjusted gross income in excess of the amounts. The thresholds would be indexed for inflation.

The bill additionally allows taxpayers to continue to claim the state subtraction amounts allowed under current law, if those amounts are greater than the new “simplified” approach established in the bill.

### Background: state taxation of Social Security benefits under current law.

A taxpayer’s Social Security benefits are fully or partially exempt from Minnesota’s income tax. There are two tax policies that result in Social Security benefits being nontaxable—an exclusion in federal law that “flows through” to the taxpayer’s Minnesota income tax, and an additional Minnesota-specific subtraction available for a portion of the income that is taxable federally.

Federal law allows taxpayers to exclude a portion of their Social Security benefits from gross income. The amount of the exclusion depends on the taxpayer’s provisional income. Depending on the taxpayer’s provisional income, the federal exclusion is either 100 percent, 50 percent, or 15 percent of benefits. The table below shows the income ranges for the different tiers.

**Federal Social Security exclusion tiers**

Married Couple’s Provisional Income	Single Filer’s Provisional Income	Exclusion Percentage
\$32,000 or less	\$25,000 or less	100%
<b>Tier 1:</b> \$32,000 to \$44,000	<b>Tier 1:</b> \$25,000 to \$34,000	50%
<b>Tier 2:</b> \$44,000 or greater	<b>Tier 2:</b> \$34,000 or greater	15%

*State subtraction*

Minnesota allows a subtraction for a portion of a taxpayer's Social Security benefits that are subject to federal tax. A taxpayer may claim the subtraction in addition to the federal exclusion. Taxpayers may subtract a portion of their benefits that are taxable federally, up to a maximum established in law. In tax year 2023, for married taxpayers filing joint returns or surviving spouses, the maximum subtraction is \$5,840, and is phased out beginning at \$88,630 of provisional income. For other taxpayers, the maximum subtraction is \$4,560, with a phaseout starting at \$69,250 of provisional income.



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