

Military Pay under Minnesota's Individual Income Tax

Military pay, including retirement pay, is exempt from Minnesota income tax

Calculation of Minnesota's individual income tax starts with federal taxable income. As a result, military pay that is exempt from taxation at the federal level, such as combat pay and hazardous duty pay, is also exempt at the state level. Minnesota allows subtraction from federal taxable income of most other types of military pay that are taxed at the federal level.

Beginning in tax year 2016, Minnesota also allows an income tax subtraction for military retirement pay, including survivor benefit plan payments.

Federal law prohibits states from taxing some types of military income

Federal law prohibits states from taxing active service military pay earned by nonresidents. Thus, a nonresident member of the military often does not need to file a Minnesota tax return.

Military pay for regular full-time active service is not taxed by the state

Minnesota also allows for the subtraction of military pay earned by a Minnesota resident for full-time active military service. This subtraction typically applies to Minnesota residents who serve either within Minnesota as full-time military recruiters or Coast Guard personnel, for example, and to Minnesota residents who are in full-time military service outside Minnesota.

Military pay for Minnesota National Guard and reserve service is not taxed by the state

A member of the Minnesota National Guard or other military reserve unit is allowed to subtract pay received for active service. "Active service" includes:

- certain state active service, such as assistance in natural disasters and searches for lost persons ([Minn. Stat. § 190.05](#), subd. 5a, cl. (1));
- federally funded state active service, under [U.S. Code, title 32](#) (National Guard), such as, weekend drills and annual training (summer camp), special school attendance, airport security, or active duty for special work (ADSW) ([Minn. Stat. § 190.05](#), subd. 5b);
- federal active service, under [U.S. Code, title 10](#) (Reserves), such as weekend drills, annual training (summer camp), special school attendance, pre- or postdeployment-related duty, and time on medical hold under U.S. Code, title 10; active duty orders while recuperating from an injury; and Active Guard and Reserve (AGR) service under [U.S. Code, title 10](#) ([Minn. Stat. § 190.05](#), subd. 5c).

Beginning in tax year 2014, "active service" also includes service by Minnesota residents working in AGR status under [U.S. Code, title 32](#) (federally funded state active service), and service by current or former members of the National Guard or reserves ordered to active service by the adjutant general to perform full-time administration of the Department of Military Affairs.

Military pay for service outside Minnesota is generally not taxed by the state

Income received by Minnesota residents for military service under U.S. Code, title 10, including service in AGR status by members of the military reserves other than the National Guard, and service by Minnesota residents in other states' National Guards, is not taxed by the state of Minnesota, and thus is not subject to Minnesota income tax withholding. Income received by Minnesota residents for service under [U.S. Code, title 32](#), in other states' National Guards is taxed by the state of Minnesota.

It may not be necessary for the person to file a Minnesota income tax return for a given tax year, unless a service member who has served only outside Minnesota during the year is due some specific tax-related benefit from the state (e.g., a refundable tax credit), has had other income tax withheld, or has earned a sufficient amount (\$10,150 or more for tax year 2014) of other taxable military and/or nonmilitary income to require filing.

The following are some common types of income received by service members who are Minnesota residents that are normally subject to the Minnesota income tax:

- income earned by the service member's spouse living and employed within Minnesota (when filing jointly)
- nonmilitary income earned by the service member as a pay differential provided by the person's (public or private) Minnesota civilian employer
- nonmilitary income earned by the service member from civilian employment within Minnesota during part of the year (e.g., preceding or following military deployment or transfer)
- other nonmilitary income earned by the service member before, during, or following military deployment outside Minnesota (e.g., rental income from property in Minnesota)

For more information: The Department of Revenue maintains information on taxation of military pay online at http://www.revenue.state.mn.us/individuals/individ_income/Pages/Members_of_the_Military.aspx. Also see the House Research publication [Minnesota Income Tax Benefits for Veterans](#), October 2016, or contact legislative analyst Nina Manzi at 651-296-5204 or Jeffrey Diebel at jeffrey.diebel@house.mn.

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