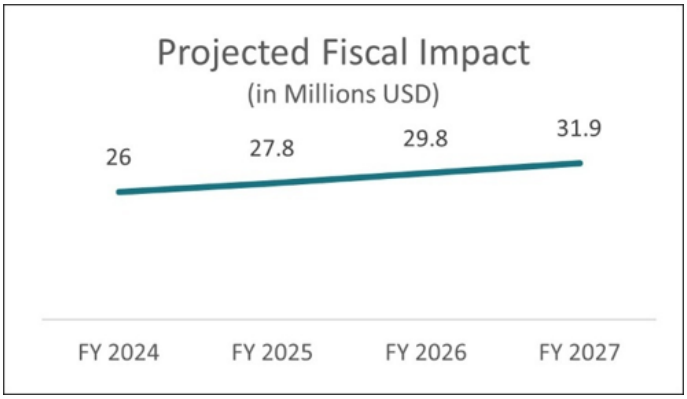
Military Pension and Retirement Pay

Tax Expenditure Initial Review - TEB 1.4.08

Tax Expenditure Facts

Year Enacted	2016
Statute	Minnesota Statutes 2025, section 290.0132, subdivision 21
Tax Type	Individual Income Tax
Provision Type	Subtraction
Latest Fiscal Impact Estimate	$31,900,000 – Fiscal Year 2027
Latest Claims Estimate	17,000 Claims – Tax Year 2023
Expiration Date	None



Tax Expenditure Description

A subtraction from federal adjusted gross income is allowed for pension payments or other retirement pay from the federal government for military service. The subtraction is limited to taxpayers who do not claim the Credit for Past Military Service (TEB 1.6.05).

Additional Background Information

Individuals who receive military retirement pay qualify for this subtraction, which includes pay received by retirees from active-duty military service, the National Guard, and the Reserves. Disability pensions are excluded from federal and state taxable income and are not eligible for the subtraction. Since the subtraction reduces taxable income, the benefit of this subtraction depends on the taxpayer's tax bracket and marginal tax rate.

Veterans may qualify for the subtraction if their pension or retirement pay was taxable on a federal return and was for any of the following:

- Service in the active component of the military (U.S. Code Title 10, section 1401 to 1414)
- Retirement pay for service in the reserve component (U.S. Code Title 10, section 12733)
- Survivor benefit plan payments, including payments to a former spouse as part of a court order (U.S. Code Title 10, sections 1447 to 1455)

Beneficiaries of the current tax subtraction include all Minnesota taxpayers who receive military retirement pay. Military retirees need to complete form M1M to claim the subtraction. This subtraction is administered by the Department of Revenue and was enacted in 2016. The impacted state fund is the state General Fund.

Proposed Tax Expenditure Objective for Consideration

The objective of the Military Pension and Retirement Pay Subtraction is to attract military retirees to Minnesota and retain those already present.

Sources

The objective statement was included in HF848-3E during the 2016 Regular Session, and again in HF991-2E during the 2021 Regular Session.[i] Language enacting the tax expenditure that passed in 2016, however, did not include the objective statement.

Potential Metrics and Performance Measures

The stated metric for this provision, also found in HF991-2E, was to identify the change over time in the number of military retirees in Minnesota. Depending on available data, a quantitative analysis of veterans filing the form M1M can be performed to identify year-over-year trends and evaluate whether more military retirees have moved to the state following passage of the subtraction.

Contact Information and Disclaimer

This tax expenditure review was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission pursuant to Minnesota Statutes 2025, section 3.8855, subdivision 4.

Notice: Proposed Tax Expenditure Objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov.

For more information, please visit the Tax Expenditure Review Commission website.

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[i] Minn. H.F. 848 3rd Engrossment, 89th Legislature (2016). https://www.revisor.mn.gov/bills/text.php?number=HF848&version=3&session=ls89&session_year=2015&session_number=0; Minn. H.F. 991 2nd Engrossment, 92nd Legislature (2021). https://www.revisor.mn.gov/bills/text.php?number=HF991&version=2&session=ls92&session_year=2021&session_number=0.