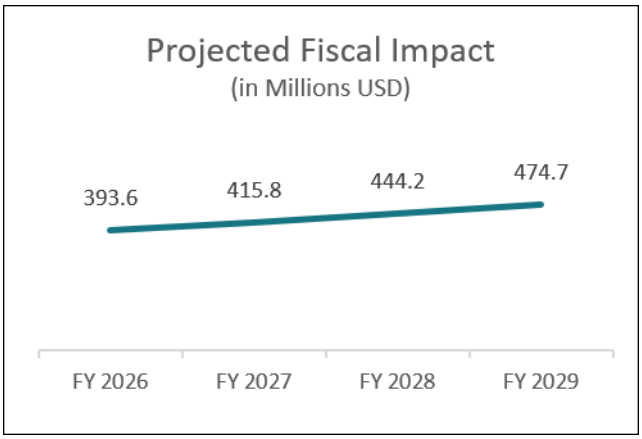
Social Security Income

Tax Expenditure Initial Review - TEB 1.4.04

Tax Expenditure Facts

Year Enacted	2017
Statute	Minnesota Statutes 2026, section 290.0132, subdivision 26
Tax Type	Individual Income Tax
Provision Type	Minnesota Subtraction
Latest Fiscal Impact Estimate	$415,800,000 – Fiscal Year 2027
Latest Claims Estimate	~395,600 returns – Tax Year 2025
Expiration Date	None



Tax Expenditure Description

A subtraction from federal adjusted gross income is allowed for a portion of social security income.[i] Beginning with tax year 2023, the subtraction is equal to the greater of:

1. A simplified subtraction equal to 100% of taxable social security income, reduced by 10% for each $4,000 ($2,000 for married separate filers) or fraction thereof of federal adjusted gross income over a phase-out threshold, or

2. An alternate subtraction that follows prior law, using 2023 maximum amounts and thresholds.

For the simplified subtraction, the phase-out thresholds for tax year 2026 are as follows: $110,780 for married joint filers, $55,390 for married separate filers, and $86,410 for single and head of household filers. The phase-out thresholds are adjusted annually for inflation.

The maximum alternate subtraction is $5,840 for married joint filers, $4,560 for single or head of household filers, and $2,920 for married separate filers. The subtraction is reduced by 20% of provisional income over the phase-out thresholds, which are $88,630 for married couples filing jointly; $69,250 for single or head-of household; and $44,315 for married couples filing separately. The maximum amounts and thresholds for the alternative subtraction are not adjusted for inflation.

The subtraction was enacted in 2017 and was last revised in 2023.

Additional Background Information

Prior to 1984, Social Security benefits were explicitly exempted from federal income taxation based on Treasury Department rulings. This exemption treated Social Security benefits differently from most private pensions, which are partially taxable. The rationale behind the exemption was that Social Security benefits could be considered as "gratuities" or gifts, and gifts are generally not taxable.[ii]

In 1983, federal legislation was enacted to tax a portion of Social Security benefits. Under the Social Security Amendments of 1983, beneficiaries with provisional income exceeding certain thresholds are required to pay income tax on up to 50% of their Social Security benefits. The law was intended to better align the treatment of Social Security benefits with private pensions, improve tax equity, and enhance program solvency without affecting lower income taxpayers.[iii] The Omnibus Budget Reconciliation Act of 1993 added a second, higher set of thresholds and stipulated that up to 85% of benefits were taxable for individuals whose provisional income exceeded these thresholds. These changes were designed to more closely conform the income tax treatment of Social Security benefits to private pensions for those with higher earnings.[iv] Minnesota conformed to both the 1983 and 1993 federal tax treatment of Social Security benefits. According to a 2013 review of selected tax expenditures conducted by the Minnesota House Research Department, conformity was done "both as a way to maintain the simplicity of the Minnesota tax system and to provide revenue and added progressivity."[v]

In 2017, the Minnesota legislature enacted a state income tax subtraction in addition to the federal exemption that began to phase out when a taxpayer's provisional income exceeded certain thresholds. Maximum subtraction amounts and thresholds were adjusted annually for inflation. The 2019 omnibus tax bill raised the maximum subtraction amount while reducing phase-out thresholds. The subtraction was modified and expanded in 2023, allowing taxpayers with AGI below certain thresholds to subtract the full amount of taxable Social Security benefits. The measure of income used to phase out the subtraction was changed from provisional income to AGI. Taxpayers could also opt to use the previous calculation method if it resulted in a greater subtraction amount.

Approximately 1,187,480, or 20.4%, of Minnesota residents receive Social Security benefits according to the Social Security Administration's most recently published data.[vi] The Minnesota House Research Department estimated that 863,100 households included a Social Security beneficiary in 2025, and about 21% of these households paid state income taxes on a portion of that Social Security income.[vii] The average monthly benefit in Minnesota was approximately $2,056 in December 2025.[viii]

The beneficiaries of this subtraction are Minnesota residents who receive Social Security benefits and fall within eligible income levels. The impacted state fund is the General Fund.

Proposed Tax Expenditure Objective for Consideration

The objective of the Social Security Income Subtraction is to reduce the tax burden of social security recipients with incomes that are sensitive to inflation and cost-of-living increases.

Sources

The proposed objective is informed by House and Senate hearings of bills with similar language and policy objectives that were laid over for inclusion in 2017 and 2023 omnibus tax bills, including SF1175 (2017), HF869 (2017), and HF1040 (2023).[ix] Member discussions focused on the declining value of the federal exemption over time, inflation and increasing costs for seniors on fixed incomes, and providing targeted tax relief for those who needed it.

Potential Metrics and Performance Measures

Comparing the income distribution of taxpayers who benefit from the subtraction with benefit amounts and cost-of-living indicators may help indicate whether the subtraction is meeting its objective. Is the subtraction providing a meaningful benefit over time to Social Security beneficiaries who may be price sensitive? A full evaluation could also compare the benefits provided by the current Social Security Subtraction to previous tax expenditures. A usage analysis comparing eligible taxpayers to claims may help assess program awareness and accessibility.

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 2026, 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] For a primer on the tax treatment of Social Security benefits in Minnesota, see Sean Williams, *Taxation of Social Security Benefits in Minnesota* (Minnesota House Research Department, January 2025), https://www.house.mn.gov/hrd/pubs/mnsstax.pdf. A Social Security taxation calculator that shows how tax liability would change if Minnesota did not have a subtraction for social security income or fully exempted social security income from state income tax can be found at https://www.house.mn.gov/hrd/socsectax.aspx.

[ii] Larry DeWitt, *Research Note #12: Taxation of Social Security Benefits* (Social Security Agency Historian's Office, February 2001), https://www.ssa.gov/history/taxationofbenefits.html.

[iii] Paul S. Davies, *Social Security: Taxation of Benefits* (Congressional Research Service, June 12, 2020), https://sgp.fas.org/crs/misc/RL32552.pdf.

[iv] Ibid.

[v] Pat Dalton, Joel Michael and Nina Manzi, A Review of Selected Tax Expenditures (Minnesota House Research Department, November 2013), https://www.house.mn.gov/hrd/pubs/taxexpend.pdf.

[vi] *OASDI Beneficiaries by State and County, 2025* (Social Security Administration, August 2026), https://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2025/oasdi_sc25.pdf.

[vii] Williams, *Taxation of Social Security Benefits in Minnesota*, 2-3.

[viii] *OASDI Beneficiaries by State and County*, 1-5.

[ix] Minn. House Hearing on H.F. 869 before the H. Comm. on Taxes, 90th Minn. Leg., Reg. Sess. (February 14, 2017), available online at: https://www.lrl.mn.gov/audio/house/2017/taxes021417.mp3; Minn. Seate Hearing on S.F. 1175 before the Sen. Comm. on Taxes, 90th Minn. Leg., Reg. Sess. (February 22, 2017), available online at: https://www.lrl.mn.gov/media/file?body=s&cid=1019&date=02/22/2017; Minn. House Hearing on H.F. 1040 before the H. Comm. on Taxes, 93rd Minn. Leg., Reg. Sess. (March 9, 2023), available at: https://www.lrl.mn.gov/audio/house/2023/taxes030923.mp3.