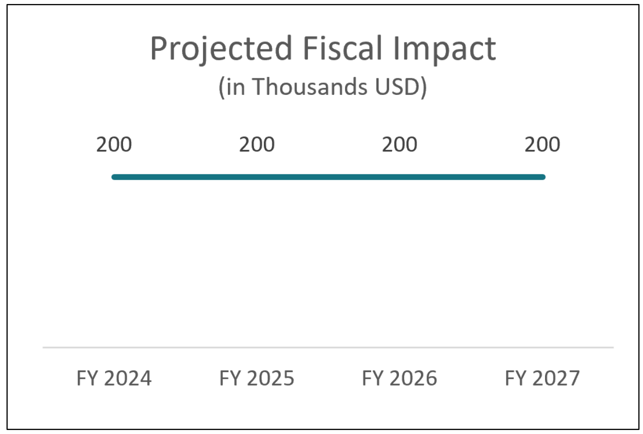
Credit for Past Military Service

Tax Expenditure Initial Review - TEB 1.6.05

Tax Expenditure Facts

Year Enacted	2008
Statute	Minnesota Statutes 2025, section 290.0677, subdivision 1a
Tax Type	Individual Income Tax
Provision Type	Credit
Latest Fiscal Impact Estimate	$200,000 – Fiscal Year 2027
Latest Claims Estimate	1,300 returns – Tax Year 2022
Expiration Date	None



Tax Expenditure Description

A nonrefundable credit is allowed against the individual income tax for an individual who is separated from military service and had served in the military for at least 20 years, has a service-related disability rated as 100% total and permanent disability, or is eligible for a military pension. The credit is equal to $750. The $750 is reduced by 10% of adjusted gross income over $30,000, so that no credit is available if adjusted gross income exceeds $37,500.[i]

This credit was enacted in 2008, effective beginning with 2009, and was modified in 2013.

Additional Background Information

This credit was enacted in the 2008 Omnibus HF3149-4E, effective beginning tax year 2009.[ii] Eligibility requirements were clarified in 2013.[iii] Qualified individuals use form M1C to claim the credit as part of their income tax return.

Beneficiaries of the Credit for Past Military Service include qualified individuals who do not claim the Military Pension Subtraction.[iv] Generally, the subtraction provides a greater benefit if federal adjusted gross income exceeds $37,500 or federal taxable income is less than qualifying military pension or retirement pay.

The credit is nonrefundable, meaning that a qualified individual with less than $750 of tax liability can only claim up to the amount of their tax liability. A part-year or nonresident may qualify for the credit based on the percentage of their income that is taxable to Minnesota.

Military service credits are administered by the Department of Revenue. This tax expenditure reduces the amount of individual income tax revenue that would otherwise be deposited in the state General Fund.

Proposed Tax Expenditure Objective for Consideration

The objective of the Credit for Past Military Service is to attract military retirees to Minnesota and to retain those already present.

Sources

An explicit tax expenditure objective was not identified in the legislative record. It is assumed that the rationale for this credit is similar to the Subtraction for Military Retirement Pay (TEB 1.4.08). The subtraction was enacted in 2016 after consideration during several prior legislative sessions. Three bills, SF40, HF299, and HF137 were heard in committee during the 2015 Regular Legislative Session and contained language similar to what was enacted. Bill authors stressed veteran job skills and desirability to employers as well as competition with other states that offer tax incentives for military retirees.

Potential Metrics and Performance Measures

Depending on available data, a quantitative analysis of veterans filing the M1C form can be performed to identify year-over-year trends and evaluate whether more military retirees have moved to the state following passage of the credit.

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] A longer description of this credit with examples produced by House Research can be found at https://www.house.mn.gov/hrd/pubs/ss/ssmilcred.pdf.

[ii] Laws of Minnesota 2008, chapter 366, article 4, section 9. https://www.revisor.mn.gov/laws/2008/0/Session+Law/Chapter/366/.

[iii] Laws of Minesota 2013, chapter 143, article 6, section 13. https://www.revisor.mn.gov/laws/2013/0/Session+Law/Chapter/143/.

[iv] Minnesota Statutes 2025, section 290.0132, subdivision 21. https://www.revisor.mn.gov/statutes/cite/290.0132; A short briefing on military retirement pay subtractions can be found at https://www.house.mn.gov/hrd/pubs/ss/ssmilpaytax.pdf.