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S.F. No. 3135 – Modification of subtraction for taxable Social Security benefits

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Under current law, Social Security benefits are excluded from federal adjusted gross income (FAGI), according to a taxpayer’s “provisional income.” Minnesota incorporates this exclusion in its tax code. Provisional income equals:

AGI (excluding Social Security benefits) + certain above the line deductions
 + nontaxable interest + 50% of Social Security benefits

Social Security benefits are excluded from federal and Minnesota tax according to three tiers of provisional income:

	Married Filers – Provisional Income	Single Filer – Provisional Income	% Excluded from Tax
	Up to \$32,000	Up to \$25,000	100%
1st Tier:	\$32,000 to \$44,000	\$25,000 to \$34,000	50%
2nd Tier:	\$44,000 or greater	\$34,000 or greater	15%

Minnesota currently provides a subtraction of a portion of taxable Social Security benefits, phased out by provisional income over specified amounts. The subtraction and the income thresholds are adjusted annually for inflation.

This bill increases the current law subtraction and phaseout schedule, effective beginning in tax year 2022:

Married joint filers: increased to \$11,000; phaseout schedule increased from 20% to 25% of provisional income over \$82,770. The subtraction fully phases out when provisional income equals \$126,770.

Single/head of household filers: increased to \$8,590; phaseout schedule increased from 20% to 25% of provisional income over \$64,470. The subtraction fully phases out when provisional income equals \$98,750.

Married separate filers: increased to \$5,500; phaseout schedule increased from 20% to 25% of provisional income over \$41,385. The subtraction fully phases out when provisional income equals \$63,185.

The modifications to the provisional income thresholds reflect updates for inflation. The bill also updates the statutory year for purposes of the inflation adjustment from 2019 to 2022.