MN HOUSE RESEARCH

Taxation of Social Security Benefits in Minnesota

August 2020

Executive Summary

Only a portion of Social Security benefits is subject to Minnesota income taxes. The exclusion from tax is the result of two separate policies—the federal exclusion from gross income for a portion of Social Security benefits, and the Minnesota Social Security Subtraction.

Overall, approximately 33 percent of Social Security benefits paid to Minnesota residents are subject to tax, but approximately 62 percent of resident returns with Social Security benefits paid tax on that income. After accounting for residents who do not file state tax returns, about 45 percent of Minnesota households receiving Social Security benefits pay tax on their benefits.

This publication describes how the federal exclusion and state subtraction are calculated, shows the income levels at which taxpayers are subject to taxes on Social Security benefits, and provides a survey of the tax treatment of Social Security in other states. It additionally includes brief historical context on the federal exclusion and state subtraction.

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Exemption from Minnesota Income Tax

A taxpayer's Social Security benefits are fully or partially exempt from Minnesota's income tax. There are two separate tax policies that result in Social Security benefits being nontaxable—an exclusion in federal law that "flows through" to the taxpayer's Minnesota income tax, and an additional Minnesota-specific subtraction available for a portion of the income that is taxable federally.

The extent to which Social Security benefits are subject to Minnesota income tax depends on the measure used. There are at least three ways to measure the extent of Social Security taxation in the state:

1) The percentage of tax returns with Social Security benefits that paid at least some tax on their benefits.
2) The percentage of resident beneficiaries that paid at least some tax on their benefits.
3) The percentage of resident Social Security benefits that are subject to tax in Minnesota.

Returns and Beneficiaries Paying Minnesota Tax on Social Security Benefits

Table 1: Minnesota resident returns, returns with Social Security benefits, returns that paid state income tax, and total beneficiaries, tax year 2017[1]

<table>
<tr><th>Total resident returns</th><th>Resident returns filed with Social Security income</th><th>Estimated total households that include a Social Security beneficiary[2]</th><th>Resident returns that paid state tax on Social Security income</th></tr>
<tr><td>2,658,000</td><td>565,000</td><td>784,000</td><td>352,000</td></tr>
<tr><td colspan="4">Share of returns paying any Minnesota income taxes on Social Security benefits:
▪ 13% of all Minnesota resident returns
▪ 45% of estimated Minnesota households receiving Social Security benefits
▪ Approximately 62% of Minnesota resident returns among households receiving Social Security benefits.</td></tr>
</table>

Among taxpayers filing returns, about 352,000 resident returns paid at least some Minnesota

[1] Return data estimated using the House Income Tax Simulation model (HITS) version 6.9.

[2] House Research estimate. Assumes 74 percent of households that received Social Security benefits filed a Minnesota return.

tax on their Social Security benefits in tax year 2017. That represents about 62 percent of all resident returns filed in Minnesota with Social Security benefits.

However, research by the Social Security Trustees suggests that just over half of Social Security recipients pay federal income tax on their Social Security benefits, and only about 72 percent of beneficiary families file income tax returns.[3] If the federal estimate of 72 percent of beneficiaries' families filing returns applies to state returns as well, then about 784,000 total households included a Social Security beneficiary,[4] and about 45 percent of Minnesota families that included a Social Security beneficiary paid state income tax on their benefit.[5]

Social Security Benefits Subject to Minnesota Income Tax

The most recent year for which data is available is tax year 2017 (returns filed in 2018). In tax year 2017, about 565,000 resident returns in Minnesota reported about $12.8 billion in Social Security benefits. Of that amount, 48.9 percent was taxable federally, and about 41.3 percent was taxable in Minnesota. These numbers do not account for the expansion of the Minnesota Social Security Subtraction, which was enacted in the 2019 omnibus tax bill.[6]

The Social Security Administration reported that about $15.968 billion in Old-Age, Survivors, and Disability Insurance (OASDI) benefits were paid to Minnesotans in 2017.[7] This implies that about $3.1 billion in benefits were paid to taxpayers who did not file a return, likely because they had no Minnesota income tax liability. Including residents who did not file a return, about 33 percent of all benefits paid to Minnesota residents were subject to Minnesota income tax.

The lowest-income taxpayers pay very little tax on their Social Security benefits, due largely to the federal exclusion. About 92 percent of the Social Security benefits subject to Minnesota income tax is earned by taxpayers with at least $50,000 of federal adjusted gross income (FAGI), and about 72 percent is from taxpayers with at least $75,000 of FAGI.

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[3] Patrick Purcell, "Income Taxes on Social Security Benefits," Social Security Administration *Issue Paper 2015-02*, December 2015; https://www.ssa.gov/policy/docs/issuepapers/ip2015-02.pdf.

[4] The Social Security Administration reported that 1,012,620 beneficiaries received Social Security benefits in Minnesota as of December 2017. Because many of those individuals filed joint income tax returns, the estimate of 784,000 returns is plausible. Social Security Administration *Annual Statistical Supplement*, 2018; https://www.ssa.gov/policy/docs/statcomps/supplement/2018/supplement18.pdf.

[5] This is similar to a projection from the Minnesota Department of Revenue Tax Research Division, which estimates that 43 percent of households that included a Social Security beneficiary will pay tax on their benefits in tax year 2021. The Tax Research Division projects that about 767,000 households in Minnesota will receive Social Security benefits in tax year 2021. Minnesota Department of Revenue Tax Research Division, *Taxability of Social Security Income: Tax Year 2021*, projections from the 2019 Minnesota Tax Incidence Summary, April 25, 2019.

[6] Laws 2019, 1st spec. sess. ch. 6, art. 2, sec. 12. A preliminary analysis showed that the 2019 expansion reduced this estimate of the share of benefits subject to tax by less than one percentage point.

[7] Social Security Administration *Annual Statistical Supplement*, 2018, Table 5.J1; https://www.ssa.gov/policy/docs/statcomps/supplement/2018/supplement18.pdf.

Table 2: Social Security benefits taxable federally and in Minnesota, Minnesota residents filing returns only, tax year 2017

Federal Adjusted Gross Income	Social Security benefits (millions)	Federal exclusion (millions)	Minnesota subtraction (millions)	% of benefits taxable federally	% of benefits taxable, Minnesota	Share of total taxable benefits
Less than $25,000	$3,604	$3,521	$69	0.5%	0.4%	0.3%
$25,000 to $50,000	2,408	1,638	362	32.0	16.9	7.7
$50,000 to $75,000	2,076	653	337	68.6	52.3	20.5
$75,000 to $100,000	1,679	283	178	83.2	72.6	23.0
$100,000 to $150,000	1,823	280	17	84.7	83.7	28.8
$150,000 and Greater	1,234	185	0	85.0	85.0	19.8
Total	**$12,824**	**$6,560**	**$963**	**48.9%**	**41.3%**	**100.0%**

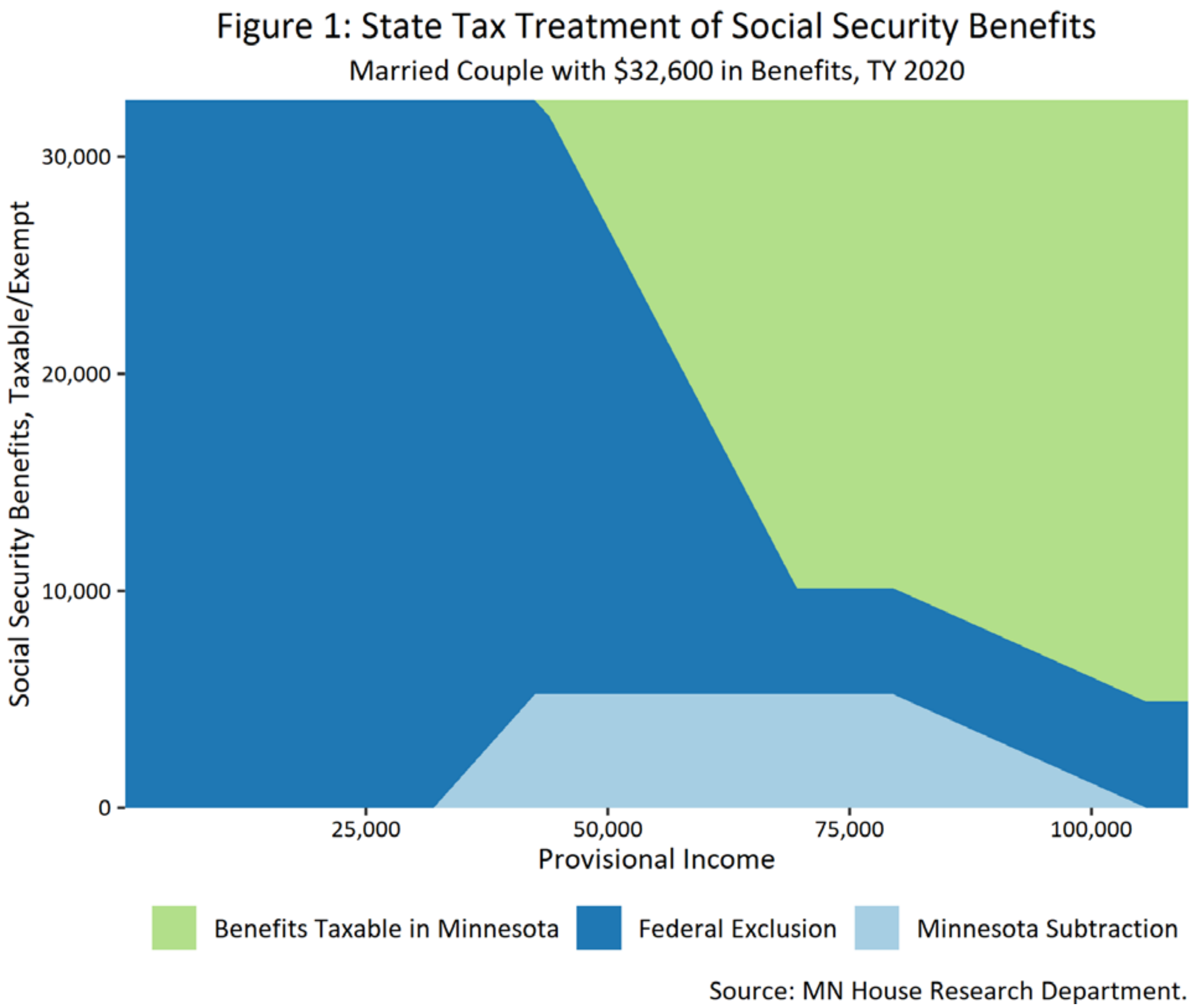
Tax Year 2017 Estimates using the House Income Tax Simulation model. Compiled by House Research.

Figure 1 below shows the state tax on Social Security income in tax year 2020 relative to provisional income.[8] The figure shows the federal exclusion and state subtraction for a married taxpayer filing a joint return with $32,600 in Social Security benefits, which is about twice the average annual benefit amount for a married couple receiving benefits in Minnesota.[9] Taxpayers with $32,600 in Social Security benefits would likely have at least $16,300 in provisional income, because provisional income includes 50 percent of Social Security benefits.[10] The federal exclusion is significantly larger than the state subtraction. Married taxpayers filing joint returns that receive $32,600 in Social Security benefits do not pay Minnesota tax on their income until provisional income reaches about $42,500, or when non-Social Security income plus all Social Security benefits equals $58,800.

[8] Provisional income is described in detail in a later section of this publication.

[9] The average Social Security beneficiary in Minnesota received a benefit of about $16,317 in 2018, the most recent year for which data was available. Social Security Administration *Annual Statistical Supplement*, 2019. https://www.ssa.gov/policy/docs/statcomps/supplement/2019/supplement19.pdf.

[10] Taxpayers with large business losses could theoretically have provisional income that is less than half of their benefits.



Figures 2 and 3 show the actual state tax paid on Social Security benefits, as a taxpayer's total income increases. The graphs show the state tax on three different benefit amounts, depending on the taxpayer's total income. The benefit amounts chosen equal 50 percent, 100 percent, and 150 percent of the average Social Security benefit among Minnesota beneficiaries. For single taxpayers, the average benefit is for one beneficiary, and for married taxpayers, the average benefit amount assumes each spouse is a beneficiary. The estimates are for tax year 2020, and assume taxpayers are 65 years or older and claim the standard deduction.[11] The graphs also assume the taxpayer had no above-the-line deductions or nontaxable income.

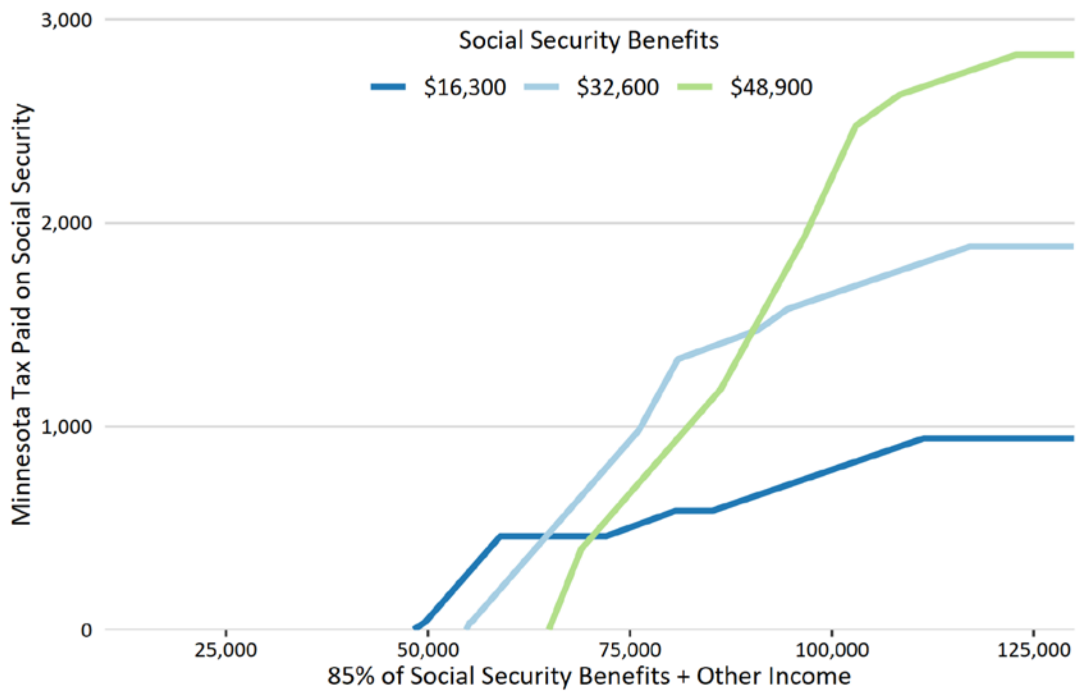
Figures 2 and 3 deliberately use a measure of income that is very broad (85 percent of benefits plus "other income"), which captures a taxpayer's ability to pay taxes better than FAGI or provisional income. Two taxpayers with the same "income" level may pay different amounts of tax on their Social Security benefits. Counterintuitively, in some cases a taxpayer with a larger benefit amount will pay less tax on their benefits than another taxpayer with the same income level and a smaller benefit amount. This is because the taxpayer with the larger benefit amount

[11] Taxpayers ages 65 and older receive a slightly larger standard deduction.

has a greater amount of their income excluded under the federal exclusion and state subtraction, resulting in less tax.

Figure 2: State Tax on Social Security Benefits by Income

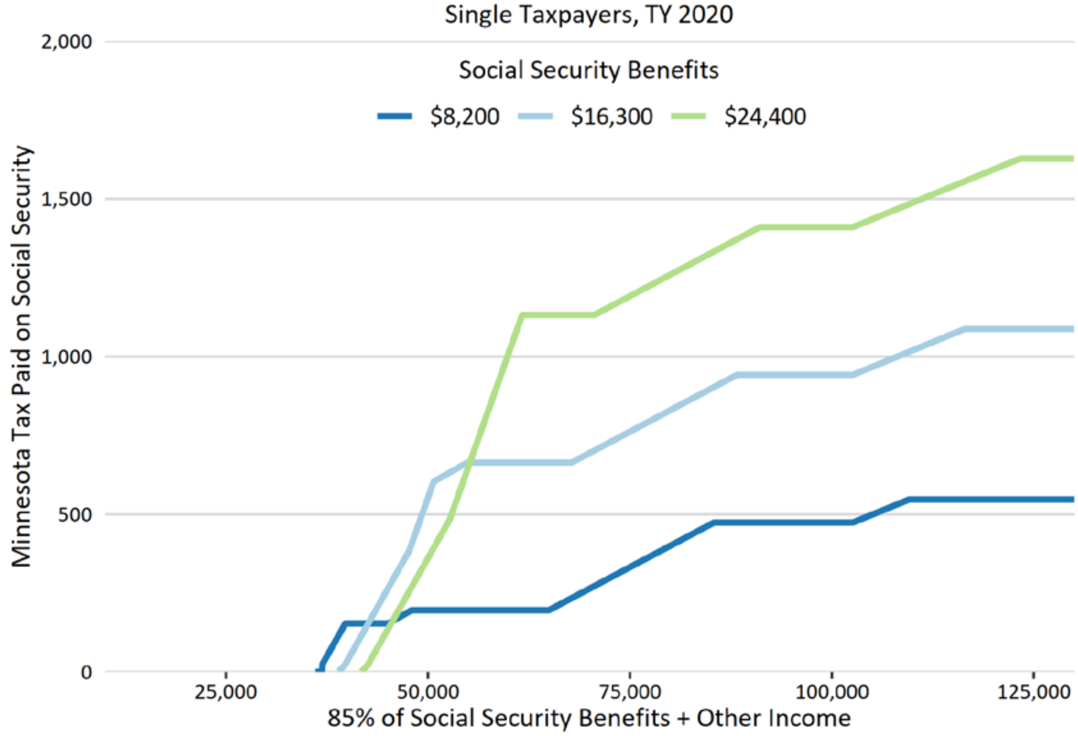
Married Taxpayers filing Joint Returns, TY 2020



Source: MN House Research Department.

Figure 3: State Tax on Social Security Benefits by Income

Single Taxpayers, TY 2020



Source: MN House Research Department.

The Reason for Taxing Social Security Benefits

Social Security benefits are partially taxed at the federal level, and the federal tax treatment flows through to Minnesota's income tax. Minnesota's income tax uses federal adjusted gross income (FAGI) as the starting point for its state tax calculations. For taxpayers whose benefits are taxable federally, FAGI includes the taxable portion of their benefits, meaning Social Security is included in the income definition that is the starting point for Minnesota's income tax.

A widely accepted principle of tax policy is horizontal equity—that taxpayers with the same incomes should pay the same amount of tax, regardless of the source of the income. As a matter of tax policy, the rationale for taxing Social Security benefits is that they are income and should be taxed like other sources of income. These horizontal equity concerns were part of Congress's rationale for subjecting benefits to tax in 1983. The Congressional Research Service (CRS) quotes the House Ways and Means Committee as arguing in 1983 that "social security benefits are in the nature of benefits received under other retirement systems, which are subject to taxation to the extent they exceed a worker's after-tax contributions."[12]

CRS also raises a second reason that benefits are taxed—to raise revenue. The Social Security Amendments of 1983 devoted the revenue raised by taxing Social Security to improving the Social Security program's solvency, and some states conformed to the federal treatment as a way to raise revenue.

Double Taxation of Benefits; Comparison with Other Forms of Retirement Savings

The tax treatment of private pension income and retirement savings accounts is designed to avoid double taxation. Retirement income is typically taxed either when the income is saved/contributed, or at the time the income is received, but not both. For example, traditional individual retirement accounts (IRAs) provide contributions are made pretax and retirement distributions are taxable, while contributions to Roth accounts are taxed in the year made and qualifying distributions are not taxed. Traditional defined benefit pensions are taxable but retirees are allowed to recover a portion of their after-tax contributions tax free, each year under actuarial estimates of the amount contributed.

Congress designed the federal tax treatment of Social Security benefits to mimic the treatment of defined benefit pensions—in other words, Congress intended for benefits to be taxed only to the extent that they exceed a percentage of benefits received, determined actuarially to allow recovery of employee taxes/contributions on average. Because the wages that pay Social Security taxes (FICA taxes) are subject to income tax, they are analogous to post-tax employee contributions to a defined benefit pension plan.

In 1993, when the maximum share of Social Security benefits subject to taxation was increased to 85 percent, the Social Security Actuary estimated that the average ratio of employee payroll

[12] Paul Davies, Congressional Research Service, *Social Security: Taxation of Benefits*, November 1, 2019.

tax contributions to benefits received was about 4 percent to 5 percent for current beneficiaries. For workers entering the workforce in 1993, the Actuary estimated that the ratio was about 7 percent. The group with the highest estimated ratio of taxes paid to benefits received—single, highly paid males—was about 15 percent. The federal exclusion for Social Security benefits was consequently set at 15 percent to ensure that the taxpayers with the highest ratio of taxes paid to benefits received were not subject to double taxation.[13] The Social Security Actuary has not published updated estimates of the ratio of taxes paid to benefits received, so it is unclear if taxpayers with a high ratio of taxes paid to benefits received are currently subject to a small amount of double taxation.

The Federal Social Security Exclusion

The starting point for calculating Minnesota's income tax is Federal Adjusted Gross Income (FAGI), which is a federally defined measure of income minus certain exclusions (also known as "above-the-line" deductions). Any income that is not included in FAGI is not subject to Minnesota's income tax.

Federal law allows taxpayers to exclude a portion of their Social Security benefits when calculating FAGI, and this exclusion consequently flows through to Minnesota's income tax. The formula used to calculate the exclusion is complicated; the amount of a taxpayer's exclusion depends on the taxpayer's provisional income (provisional income is discussed in detail below). Social Security benefits included in FAGI are subject to federal tax in the same manner as ordinary income (e.g., wage, salary, and interest income).

The federal Social Security exclusion has three tiers. Depending on the taxpayer's provisional income, the federal exclusion is either 100 percent, 50 percent, or 15 percent of benefits. The table below shows the income ranges for the different tiers.

Table 3: Federal Social Security exclusion tiers

Married Couple's Provisional Income	Single Filer's Provisional Income	Exclusion Percentage
$32,000 or less	$25,000 or less	100%
Tier 1: $32,000 to $44,000	**Tier 1**: $25,000 to $34,000	50%
Tier 2: $44,000 or greater	**Tier 2**: $34,000 or greater	15%

Taxpayers with provisional income **below the first tier threshold** are allowed to exclude 100 percent of their Social Security benefits. For taxpayers with provisional income **between the first and second tier thresholds**, the amount of benefits subject to federal tax equals the lesser of:

- 50 percent of provisional income over the first tier threshold; or

[13] Ibid, pages 15-16.

- 50 percent of Social Security benefits.

For taxpayers with provisional income **above the second tier threshold**, the amount of benefits subject to federal tax equals the lesser of:

- 85 percent of provisional income over the second tier threshold, plus 50 percent of the difference between the second and first tier thresholds; or
- 85 percent of benefits.

Provisional Income

Provisional income is a federal definition of income equal to FAGI, excluding taxable Social Security benefits, plus certain "above-the-line" deductions, plus nontaxable interest, plus 50 percent of Social Security benefits. The deductions that are added back in calculating provisional income are: adoption expenses, student loan interest, tuition expenses, certain foreign income, and income from Puerto Rico and certain other U.S. territories. The formula for provisional income is as follows:

$$\begin{aligned}\boldsymbol{Provisional\ Income}& \\ &= FAGI - Taxable\ Social\ Security\ Benefits + 50\%\ of\ Social\ Security\ Benefits \\ &+ Nontaxable\ Interest + Certain\ \text{"}above\ the\ line\text{"}\ deductions\end{aligned}$$

History of Federal Treatment

Social Security benefits were exempt from federal income taxes prior to 1983, when Congress subjected a portion of benefits to federal tax. The Social Security Amendments of 1983 subjected up to 50 percent of a taxpayer's Social Security benefits to federal taxes, beginning in 1984. The amendments subject only Title II Social Security benefits and Tier 1 Railroad Retirement benefits to this treatment. Title II benefits are Old-age, Survivor's and Disability benefits—they do not include Supplemental Security Income (SSI). The Omnibus Budget Reconciliation Act of 1993 added the second tier to the federal calculation, which subjected up to 85 percent of taxpayer's Social Security benefits to federal tax.

Minnesota's Social Security Subtraction

Minnesota allows a subtraction for a portion of a taxpayer's Social Security benefits that are subject to federal tax. A taxpayer may claim the subtraction in addition to the federal exclusion. Taxpayers may subtract a portion of their benefits that are taxable federally, up to a maximum established in law.

In tax year 2017, the most recent year for which data is available, about 290,000 Minnesota taxpayers benefited from the subtraction, resulting in a revenue decrease of about $58.3 million. The average tax savings from the subtraction was about $201.

In tax year 2020 the maximum subtraction is $5,240 for married taxpayers filing joint returns and $4,090 for single taxpayers. The subtraction is phased out based on a taxpayer's provisional income—in tax year 2020, the phaseout begins at $79,480 for married couples filing joint returns and $62,090 for single taxpayers. The maximums and thresholds are adjusted annually for inflation.

Legislative History of the Minnesota Subtraction

2017 Legislature: Subtraction Established

The legislature established the Minnesota Social Security Subtraction in the 2017 omnibus tax bill.[14] The original subtraction was for up to $4,500 in federally taxable benefits for married couples filing joint returns and $3,500 for single taxpayers and heads of household. The maximum subtraction was phased out beginning at $77,000 for married couples filing joint returns and $60,200 for single taxpayers and heads of household. The legislature indexed both the maximum subtraction and phaseout thresholds for inflation.

2019 Legislature: Expansion of Maximums

The 2019 omnibus tax bill increased the maximum subtraction amounts, while slightly reducing the phaseout thresholds.[15] The Department of Revenue estimated that the increase in the subtraction resulted in a revenue reduction of about $4.4 million in tax year 2019, and would grow to $5.3 million in FY 2023.

The bill increased the maximum subtraction by $450 for married taxpayers filing joint returns and $360 for single taxpayers and heads of household. The legislature additionally reduced the phaseout thresholds by $2,250 for married couples filing joint returns and $1,800 for single taxpayers and heads of households. The reduction in the phaseout thresholds did not reduce any taxpayer's subtraction—it denied the benefit of the increase in the maximum subtraction to taxpayers above the phaseout thresholds

[14] Laws of Minnesota 2017, ch. 1, art. 1, sec. 10.

[15] Laws of Minnesota 2019, First Special Session ch. 6, art. 2, sec. 12.

Taxpayer Examples

The following examples show the state tax paid on an average amount of Social Security benefits for married couples and single taxpayers.[16]

The estimates are for tax year 2020, assume taxpayers claim the standard deduction, and are 65 years or older. In 2020, married taxpayers receive an additional standard deduction amount of $1,300 for each spouse who is 65 or older. Unmarried taxpayers receive an additional standard deduction of $1,650.

The estimates additionally assume the taxpayer did not have nontaxable income or above-the-line deductions that reduced FAGI.

Example 1: Married Taxpayer, both spouses ages 65 or older, $32,000 in Social Security benefits,[17] tax year 2020

	$20,000 in income other than Social Security	$40,000 in income other than Social Security	$60,000 in income other than Social Security
Social Security Benefits	$32,000	$32,000	$32,000
Provisional Income	$36,000	$56,000	$76,000
Social Security Benefits Taxable Federally	$0	$16,200	$27,200
Federal Adjusted Gross Income (FAGI)	$20,000	$56,200	$87,200
Minnesota Standard Deduction	$27,400	$27,400	$27,400
Minnesota Social Security Subtraction	$0	$5,240	$5,240
Minnesota Taxable Income	$0	$23,560	$59,800
Minnesota Tax	$0	$1,260	$3,139
Tax Benefit from Subtraction	$0	$280	$356

[16] For an interactive tool on the varying levels of taxation by income and other factors, see the Social Security Taxation Example Calculator in the income taxes area of the House Research Department website, www.house.mn/hrd.

[17] The average OASDI Social Security beneficiary in Minnesota received about $16,316 in benefits in 2018, the most recent year for which data is available. (Social Security Statistical Supplement, 2019)

	$20,000 in income other than Social Security	$40,000 in income other than Social Security	$60,000 in income other than Social Security
Tax Paid on Social Security	$0	$586	$1,395

Example 2: Single Taxpayer, age 65 or older, $16,000 in Social Security benefits, tax year 2020[18]

	$20,000 in income other than Social Security	$40,000 in income other than Social Security	$60,000 in income other than Social Security
Social Security Benefits	$16,000	$16,000	$16,000
Provisional Income	$28,000	$48,000	$68,000
Social Security Benefits Taxable Federally	$1,500	$13,600	$13,600
Federal Adjusted Gross Income (FAGI)	$21,500	$53,600	$73,600
Minnesota Standard Deduction	$14,050	$14,050	$14,050
Minnesota Social Security Subtraction	$1,500	$4,090	$2,908
Minnesota Taxable Income	$5,950	$35,460	$56,642
Minnesota Tax	$318	$2,020	$3,461
Tax Benefit from Subtraction	$80	$278	$198
Tax Paid on Social Security	$0	$632	$727

[18] The average OASDI Social Security beneficiary in Minnesota received about $16,316 in benefits in 2018, the most recent year for which data is available. Social Security Administration *Annual Statistical Supplement*, 2019; https://www.ssa.gov/policy/docs/statcomps/supplement/2019/supplement19.pdf.

Tax Treatment of Social Security in Other States

Figures 4 and 5 below show the different tax treatments for Social Security benefits in the various states. **Nine states** do not have an income tax or have a tax limited to specific kinds of unearned income. The states: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

Twenty-eight states with an income tax, plus the District of Columbia, fully exempt Social Security benefits from the individual income tax. The states: Alabama, Arizona, Arkansas, California, Delaware, District of Columbia, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa,[19] Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Virginia, and Wisconsin.

Fourteen states subject at least a portion of Social Security to state taxes, one of which is scheduled to allow a full exemption in 2022. Most states in this group (Colorado, Connecticut, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Rhode Island, and Vermont) allow the federal exclusion, but offer additional deductions or exemptions for taxpayers of certain ages or below certain income levels. Table 5 describes these preferences in detail.

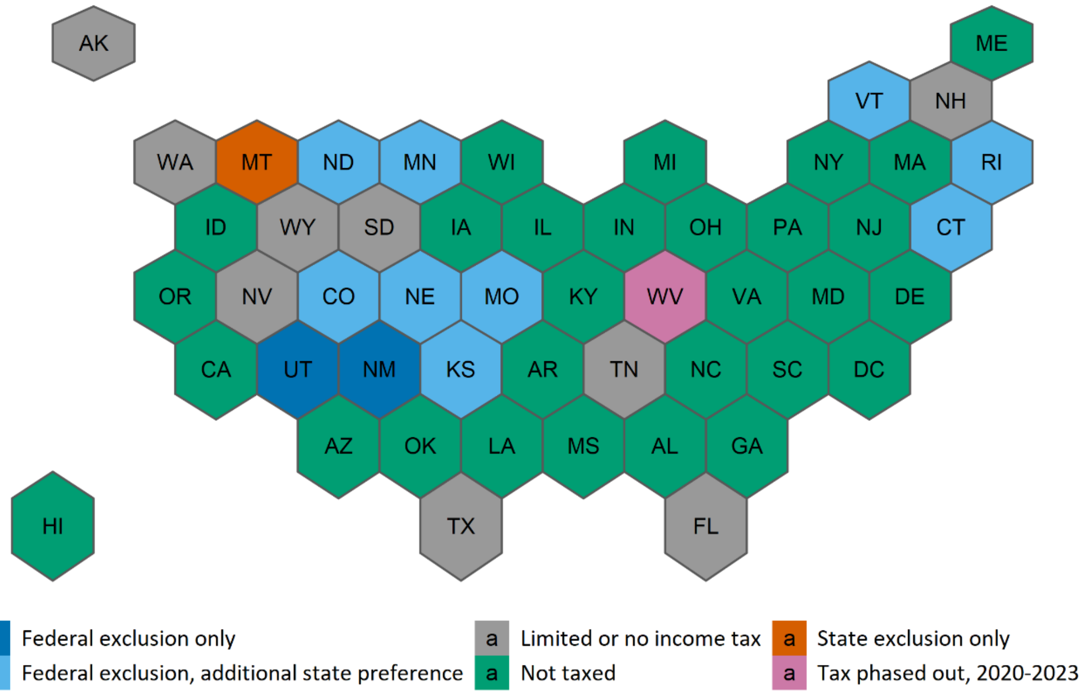
Table 5: State tax preferences for Social Security or retirees

State	Type of Benefit	Description
Colorado	Retirement income preference	Taxpayers ages 65 and older may subtract up to $24,000 of taxable pension and annuity income (including Social Security).
Connecticut	Income-tested exemption	Exempt for married taxpayers with less than $100,000 of AGI and singles with $75,000 of AGI. Subtraction is phased out above those thresholds.
Kansas	Income-tested exemption	Exempt for taxpayers with less than $75,000 or less of AGI.
Minnesota	Income-tested exemption	Subtraction for up to $5,240 of federally taxable benefits for married couples filing jointly ($4,090 for single taxpayers). Phased out at $79,480 of provisional income for married taxpayers and $62,090 for other taxpayers. (Tax year 2020; thresholds are adjusted for inflation).
Missouri	Income-tested exemption	Exempt for married taxpayers with less than $100,000 of AGI and singles with $85,000 of AGI. Subtraction is phased out above those thresholds.
Montana	State-specific exemption	Does not recognize the federal exemption, and instead calculates a state-specific exemption amount.
Nebraska	Income-tested exemption	Exempt for married taxpayers with less than $58,000 of AGI and singles with $43,000 of AGI.

[19] Iowa subjects Social Security benefits to its alternative minimum tax only.

State	Type of Benefit	Description
New Mexico	Exemption for senior taxpayers	Taxes the same amount of benefits that are taxable federally, but provides an additional exemption amount for all taxpayers 65 or older.
North Dakota	Income-tested exemption	Exempt for married taxpayers with less than $100,000 of AGI and singles with $50,000 of AGI.
Rhode Island	Income-tested exemption	Exempt for married taxpayers 65 or older with $106,400 of AGI and singles with $85,150 of AGI. (Tax year 2019; thresholds are adjusted for inflation.)
Utah	Retirement credit	Taxes the same amount of benefits as are taxable federally, but allows a retirement credit of up to $450 per taxpayer 65 years or older. Some taxpayers under 65 with retirement income are also eligible. Phased out at $35,000 for married joint filers and $25,000 for singles.
Vermont	Income-tested exemption	Exempt for married taxpayers with less than $60,000 of AGI and singles with $45,000 of AGI. Exemption is phased out above those thresholds.
West Virginia	Phasing out tax on benefits	35% exclusion for federally taxable benefits for tax year 2020. The exclusion will increase to 65% in tax year 2021, and 100% in tax year 2022.

Figure 4: State Tax Treatment of Social Security Income



Map by Minnesota House Research.

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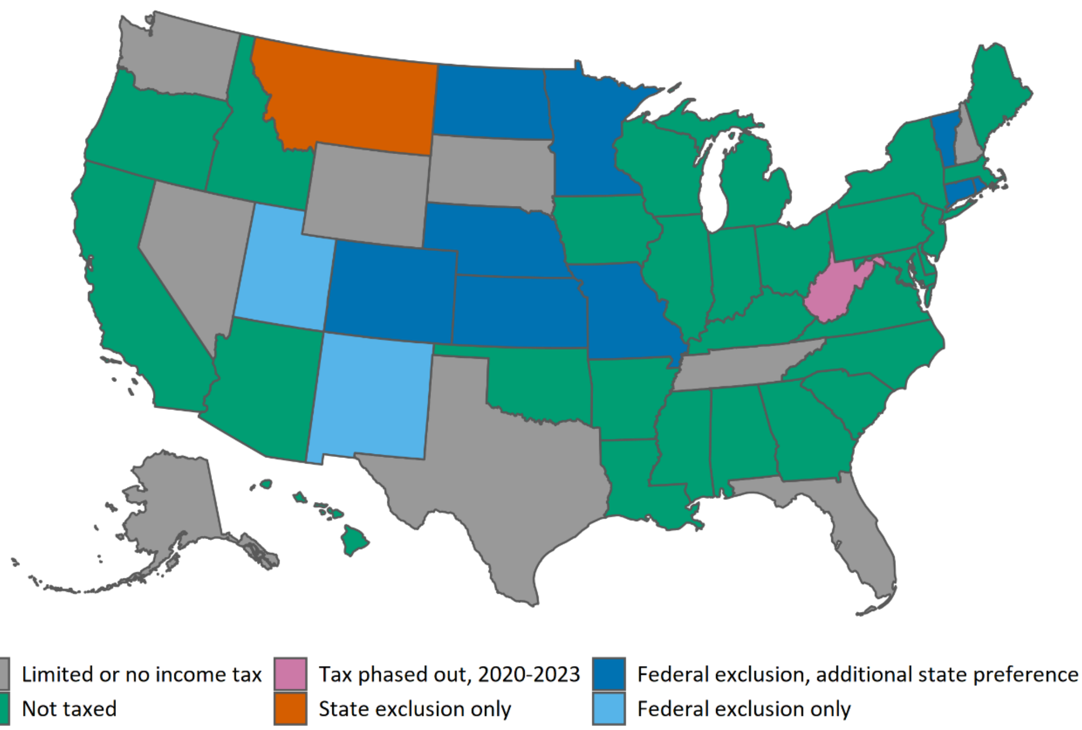

Map by Minnesota House Research.

History of Social Security Taxation in Minnesota

Minnesota historically conformed to the federal tax treatment of Social Security income. For tax years 1983 and prior, Social Security benefits were exempt from tax at the federal and state level. Beginning in tax year 1984, Congress subjected Social Security benefits to federal tax. Minnesota initially did not conform to the federal treatment, and for tax year 1984, the state allowed a subtraction for Social Security benefits that were taxable federally. In 1985, the state repealed the subtraction, and followed the federal treatment until tax year 2017. The 2017 legislature established a state subtraction for a portion of taxable benefits, effective in tax year 2017.

Tax Year	Federal Tax Treatment	Minnesota Tax Treatment
1983 and prior	Fully exempt	Fully exempt
1984	Up to 50% of benefits taxed	Fully exempt
1985-1993	Up to 50% of benefits taxed	Up to 50% of benefits taxed
1994-2016	Up to 85% of benefits taxed	Up to 85% of benefits taxed
2017 and later	Up to 85% of benefits taxed	Up to 85% of benefits taxed, less state subtraction for amounts taxable federally

Author's Note: *Brynna Bargfield provided research assistance for this publication.*