

# Minnesota's Taxation of Social Security Income

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## Part or all of a taxpayer's Social Security benefits are exempt from Minnesota's income tax

Only a portion of a taxpayer's Social Security income is subject to Minnesota's income tax. There are two separate tax policies that result in Social Security income 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. In tax year 2019, about 370,095 resident returns in Minnesota reported about \$14.6 billion in Social Security income. Of that amount, 50.3 percent was taxable federally, and about 42.2 percent was taxable in Minnesota.

### Social Security Benefits Taxable Federally and in Minnesota, Minnesota Residents Filing Returns Only, Tax Year 2019

Federal Adjusted Gross Income	Total Soc. Sec. Income (\$)	Federal Exclusion (\$)	Minnesota Subtract. (\$)	% Taxable Federally	% Taxable, Minnesota
Less than \$25,000	3,902,000,000	3,800,000,000	87,000,000	2.6%	0.4%
\$25,000 to \$50,000	2,593,000,000	1,785,000,000	421,000,000	31.1%	14.8%
\$50,000 to \$75,000	2,212,000,000	721,000,000	388,000,000	67.6%	49.9%
\$75,000 to \$100,000	1,976,000,000	365,000,000	242,000,000	81.6%	69.3%
\$100,000 to \$150,000	2,258,000,000	341,000,000	41,000,000	84.9%	83.1%
\$150,000 and Greater	1,678,000,000	252,000,000	0	85.0%	85.0%
<b>Total</b>	<b>14,619,000,000</b>	<b>7,264,000,000</b>	<b>1,179,000,000</b>	<b>50.3%</b>	<b>42.2%</b>

Tax Year 2019 Estimates using the 2019 House Income Tax sample. Compiled by House Research.

In December 2019, the Social Security Administration reported about \$1.534 billion in monthly Old-Age, Survivors, and Disability Insurance (OASDI) benefits were paid to Minnesota residents, which implies Minnesota residents earned about \$18.4 billion in total benefits that year. This implies that about \$3.8 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 33.5 percent of all benefits paid to Minnesota residents were subject to Minnesota income tax.**

### Minnesota Returns Paying Tax on Social Security Benefits, Tax Year 2019

Total Minnesota Resident Returns	Resident returns with Social Security income	Estimated Total Households w/SS	Resident Returns paying MN tax on Social Security
2,760,000	596,600	824,000	370,000

Among taxpayers filing returns, about 370,000 resident returns paid at least some Minnesota tax on their Social Security benefits in tax year 2019. That represents about 62 percent of all resident returns filed in Minnesota with Social Security benefits.

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. If the federal estimate applies to state returns, then about 784,000 total households in Minnesota included a Social Security beneficiary, and about 44.5 percent of Minnesota families that included a Social Security beneficiary paid state income tax on their benefit.

## The federal Social Security exclusion

Federal law allows taxpayers to exclude a portion of their Social Security income when calculating federal adjusted gross income (FAGI). This exclusion consequently applies to Minnesota's income tax. The amount of a taxpayer's exclusion depends on the taxpayer's provisional income. Social Security benefits included in FAGI are subject to federal tax in the manner as other ordinary income (e.g., wage, salary, and interest income). Depending on the taxpayer's provisional income, the federal exclusion is either 100 percent, 50 percent, or 15 percent of Social Security income. The table below shows the income ranges for the different tiers.

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

Taxpayers with provisional income **below the first tier threshold** are allowed to exclude 100 percent of their Social Security income. 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
- 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.

## Minnesota's Social Security subtraction

Minnesota allows a subtraction for a portion of a taxpayer's Social Security income that is subject to federal tax. A taxpayer may claim the subtraction in addition to the federal exclusion. Taxpayers may subtract a portion of their taxable benefits, up to a maximum established in law. In tax year 2023 the maximum subtraction is \$5,840 for married taxpayers filing joint returns and \$4,560 for single taxpayers. The subtraction is phased out based on a taxpayer's provisional income—in tax year 2023, the phaseout begins at \$88,630 for married couples filing joint returns and \$69,250 for single taxpayers. The maximums and thresholds are adjusted annually for inflation.

About 308,000 taxpayers benefited from the subtraction in tax year 2019, resulting in a revenue decrease of about \$68.2 million. The average tax savings from the subtraction was about \$221.



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