DEPARTMENT OF REVENUE

INDIVIDUAL INCOME TAX
Foreign Service Pension Subtraction

February 26, 2024

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 3337 (Klein) As Proposed to be Amended (SCS3337A-1)

	Fund Impact			
	F.Y. 2024	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
		(000's)		
General Fund	$0	($10)	($10)	($10)

Effective beginning tax year 2024.

EXPLANATION OF THE BILL

Current Law: A taxpayer may subtract from their taxable income a portion of benefits earned from state and federal pension systems whose members do not earn Social Security benefits. Other pension benefits are fully taxable under Minnesota law, to the extent they are taxed under federal law.

The Foreign Service Pension System (FSPS) is a federal pension system for retired Foreign Service Officers who worked for the Department of State and were hired after 1984. Its members qualify for Social Security and do not qualify for Minnesota retirement benefits subtraction created in 2023.

Proposed Law: The bill would create an individual income tax subtraction for any income earned from the Foreign Service Pension System established under US Code, Title 22, Section 4071. The subtraction would be allowed for the purposes of the alternative minimum tax.

REVENUE ANALYSIS DETAIL

- This estimate uses data from a Congressional Research Service (CRS) report and the annual State Department Agency Financial Reports. These reports provide information on the number of annuitants nationwide and agency spending on pension benefits.
- To impute the number of FSPS annuitants in Minnesota, the number of FSPS annuitants nationwide was multiplied by Minnesota's share of national employment in NAICS industry 928, "National security and international affairs" in the Bureau of Labor Statistics Quarterly Census of Employment & Wages.
- To impute the average benefit amount, the State Department's spending on pension payments was multiplied by the FSPS's share of annuitants among all State Department pension plans and divided by the number of FSPS annuitants.
- Since data on this population's taxable income is unavailable, a simulated beneficiary population was constructed using the 2020 income tax sample by selecting a random group of filers reporting Social Security income and adding a hypothetical pension income from FSPS. Tax year 2020 was used to be comparable to the annuitant data, which was for 2020. The size of the sample and average pension amount were chosen to match the number of qualifying pension beneficiaries and total amount of pension income calculated from the CRS report and State Department Financial Reports.

REVENUE ANALYSIS DETAIL (Cont.)

- The growth rate is assumed to follow the growth in State Department pension spending from FY2016 to FY2022.

Number of Taxpayers: About 30 taxpayers would be affected in tax year 2024. The average decrease in tax would be $219.

Minnesota Department of Revenue
Tax Research Division
https://www.revenue.state.mn.us/revenue-analyses

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