Minnesota Department of Revenue

Revenue Notice # 24-02: Individual Income Tax - Qualified Retirement Benefits Subtraction - Allocation

Introduction

This Revenue Notice states the Department of Revenue's position on how it will allocate the qualified retirement benefit subtraction for taxpayers who receive qualified public pension income attributable to a state or federal pension or retirement plan that changed from not allowing the taxpayer to earn Social Security benefits to allowing the taxpayer to earn Social Security Benefits during their employment.

Background

Enacted in 2023, the qualified retirement benefits subtraction allows certain state and federal employees a subtraction for qualified public pension income, as that term is defined, for employment that did not allow the employee to earn credit for Social Security benefits for their work. The subtraction equals up to $25,000 for those married taxpayers filing a joint return and up to $12,500 for all other filers and is annually adjusted for inflation. Minnesota Statutes section 290.0132, subdivision 34.

Department Position

Taxpayers that earn qualified public pension income attributable to a state or federal pension or retirement plan that changed during their employ from not allowing the taxpayer to earn Social Security benefits, to allowing the taxpayer to earn Social Security benefits are only entitled to an allocated qualified retirement benefits subtraction as provided in this Revenue Notice. The allocated subtraction allowed must be attributable to only the qualified public pension income received in the taxable year that is attributable to the periods of employment where their pension or retirement plan did not allow them to earn Social Security benefits.

The allocated subtraction is calculated by:

1. Dividing the number of months pension payments did not earn Social Security benefits by the total number of months pension payments were earned; and
2. Multiplying the qualified public pension income received during the taxable year by the quotient determined in Step 1.

This example shows how this calculation should be made.

Example: An employee worked for the federal government as a mechanic for 32 years (384 months), during which they contributed to a federal government retirement plan. In four of those years (48 months), they paid into only their pension. In the remaining 28 years (336 months), they paid into both their pension and Social Security. They received federally taxable pension income of $10,000 from their qualified retirement plan. They take 48 months of pension payments and divide it by the total 384 months to get 0.125. Then, they multiply this percentage by $10,000 to get $1,250, the maximum amount they can claim for the qualified retirement benefits subtraction. They will use this amount when determining their subtraction amount on Schedule M1M.

The chart below provides the dates when the respective pension plans changed, if at all, from "basic" (not earning Social Security benefits) to "coordinated" (earning Social Security benefits).

Pension Governed by Chapter:	Pension:	Date of Change:
353	PERA	1/1/1968
353E	Local Gov Correctional	04/1/2004
354	Teachers (TRA)	1/1/1960
354A	Teachers (St. Paul)	7/1/1978
352B	State Patrol	All members are basic members
353.63-353.666	PERA Police and Fire	All members are basic members
3A	Legislators	1/1/2000
Federal Government	Federal Government	1/1/1984

Publication Date: July 8, 2024

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