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## S.F. No. 558 – Full subtraction of taxable Social Security benefits; imposition of net investment income tax

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Under current law, a specified amount of Social Security benefits is excluded from federal adjusted gross income (AGI), calculated 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:

	<b>Married Filers – Provisional Income</b>	<b>Single Filer – Provisional Income</b>	<b>% Excluded from Tax</b>
	Up to \$32,000	Up to \$25,000	100%
<b>1<sup>st</sup> Tier:</b>	\$32,000 to \$44,000	\$25,000 to \$34,000	50%
<b>2<sup>nd</sup> Tier:</b>	\$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.

**Section 1. Social Security benefits.** Provides a subtraction of all taxable Social Security benefits. Effective beginning in tax year 2022.

**Section 2. Net investment income tax. Subd. 1.** Imposes a tax on net investment income over \$250,000 received by individuals, estates, and trusts. Defines “net investment income” as provided in sec. 1441(c) of the Internal Revenue Code. Generally, net investment income is

income derived from interest, dividends, capital gains, rent and royalties, trading of financial instruments or commodities, and passive business activity.

**Subd. 2** requires the commissioners of management and budget and revenue, by December 1, 2022, to estimate the reduction in tax revenue resulting from the subtraction of all taxable Social Security benefits in section 1. By January 15, 2023, the commissioner of revenue, in consultation with the commissioner of management and budget, must publish the tax rate on net investment income in excess of \$250,000 necessary to offset the revenue reduction from the subtraction of all taxable Social Security benefits.