



B O U L A Y

# Minnesota has a New Social Security Income Subtraction

December 2017

Prepared by: Mike Crabtree, J.D., CPA, Partner

As part of the Minnesota Omnibus Tax Bill that was signed into law in May 2017, Minnesota now has a subtraction from income for certain Social Security and Tier 1 Railroad Retirement benefits. The maximum subtraction is \$4,500 for married/joint filers and surviving spouses. The maximum subtraction is \$3,500 for single and head-of-household filers. The maximum subtraction is \$2,250 for married/separate filers.

The subtraction is phased out as “provisional income” exceeds certain thresholds.

Provisional income, for these purposes, is defined as “modified adjusted gross income” under Sec. 86(b)(2) of the Internal Revenue Code, plus one-half of Social Security benefits received. Modified adjusted gross income does not include taxable Social Security, so provisional income will always include half of a taxpayer’s Social Security, regardless of how much is taxable. Modified adjusted gross income also adds back certain other deductions, such as the student loan interest deduction, the higher education tuition deduction, and the domestic production activities deduction. Tax-exempt interest is also added back in determining modified adjusted gross income.

For married/joint filers and surviving spouses, the maximum subtraction is reduced by 20 percent of provisional income of more than \$77,000. For single and head-of-household filers, the threshold is \$60,200, and for married/separate filers, it is \$38,500. These phase-out thresholds and the maximum subtraction amounts are to be adjusted for inflation in future years.

The subtraction is reported on Schedule M1M, which is being revised for 2017 to accommodate some of the changes arising from the Minnesota Omnibus Tax Bill. The instructions for the 2017 Schedule M1M contain a worksheet where the amount of the subtraction is calculated. At the end of the worksheet, the computed amount is compared to the amount of Social Security received that is taxable for federal purposes (line 20b of the federal Form 1040). The lesser of these amounts is the new subtraction for Minnesota tax purposes.

Contact us at [learnmore@BoulayGroup.com](mailto:learnmore@BoulayGroup.com) or 952.893.9320 if you have any questions.

Boulay provides the information in this article for general guidance only, and does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult a professional adviser who has been provided with all pertinent facts relevant to your particular situation. Tax articles in this e-newsletter are not intended to be used, and cannot be used by any taxpayer, for the purpose of avoiding accuracy-related penalties that may be imposed on the taxpayer. The information is provided “as is,” with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties of performance, merchantability, and fitness for a particular purpose.