

Unlimited Social Security exemption fails Minnesota seniors, families, and communities

Minnesotans understand that our tax system should treat us all fairly. Folks also believe that our tax system should raise the resources we need to collectively care for one another and build a strong future for all Minnesotans.

Replacing our current targeted approach to Social Security tax exemption with one that exempts all Social Security benefits from state income taxes would unfairly give the largest benefits to the highest-income seniors. This approach also would drain away more than \$1 billion every budget cycle from public services that seniors, their children, grandchildren, and communities count on.



Who benefits? More than half of the tax cuts would go to high-income seniors

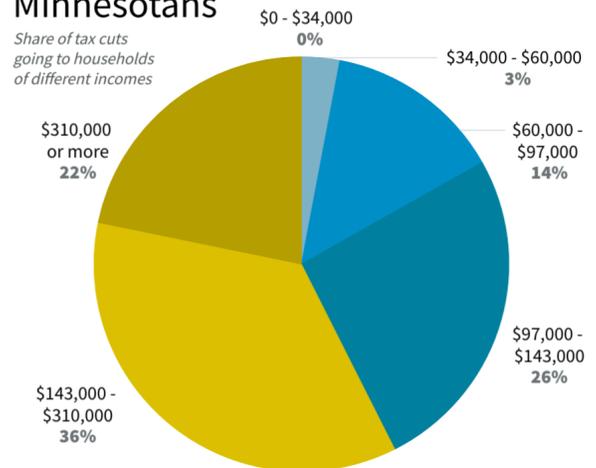
As the pie chart shows, if the idea is to help seniors struggling to get by on fixed incomes, unlimited Social Security exemption fails to meet that goal.

More than half of the tax cuts would go to households with incomes above \$143,000 – meaning folks who are among the 20 percent of Minnesotans with the highest incomes.

Modest-income Minnesotans are less likely to get any tax cut from exempting all Social Security benefits from the income tax, and any tax cut they receive would be smaller. For example, households with incomes over \$310,000 would get an average annual tax cut of \$3,264 – *more than nine times* the average tax cut for households with incomes \$34,000 to \$60,000, if they receive one at all.

It's simply not effective or necessary to provide large tax cuts to the wealthiest in order to address the financial challenges that some Minnesota seniors are facing.

More than half of Social Security tax cuts would go to the highest-income Minnesotans



Source: Institute on Taxation and Economic Policy
Minnesota Budget Project | mnbudgetproject.org

PLUS, ON THE BACK...

- All seniors have some of their Social Security income exempt from income taxes
- Exempting all Social Security benefits from income tax drains money away from services

All seniors have some of their Social Security income exempt from income taxes

Federal and state tax laws *already* provide income tax exemptions for Social Security benefits that prioritize lower- and middle-income seniors.

Under federal tax laws, the lowest-income folks don't pay any federal income taxes on their Social Security benefits, and everyone has some of their Social Security benefits exempt.

Minnesota follows this practice and adds *additional exemptions targeted by income*.

Note: These exemptions are based on a household's provisional income, a complex measure that is lower than their total income.

Current federal and state Social Security income tax **exemptions**

	Amount of Social Security benefits that are exempt	Provisional Income	
		Single Filers	Married Filers
Federal Exemptions	100%	\$25,000 or less	\$32,000 or less
	50%	\$25,000 to \$34,000	\$32,000 to \$44,000
	15%	\$34,000 or more	\$44,000 or more
PLUS:			
Minnesota Additional Exemptions*	\$5,450 (married) \$4,260 (single)	\$64,670 or less	\$82,770 or less
	Can exempt some	\$85,970 or less	\$110,020 or less

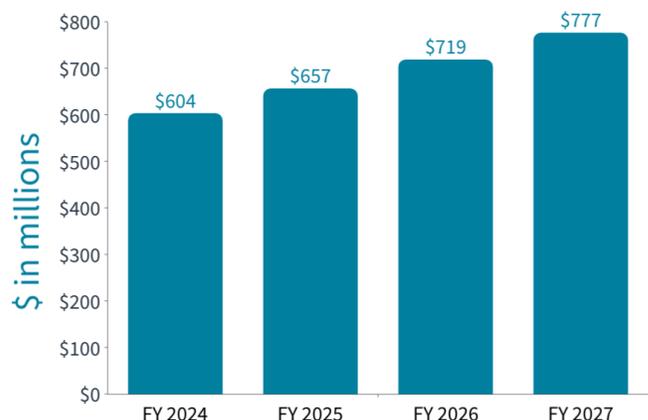
*TY 2022

Exempting all Social Security benefits from income tax drains money away from public services

The cost of changing to an unlimited Social Security exemption is high and would grow over time from \$604 million in FY 2024 to \$777 million in FY 2027. And the cost will continue to grow as the number of Minnesota seniors grows.

These expensive tax cuts would come at a high price. They would erode the revenues that fund services older folks count on, like supports helping them to stay in their homes or high-quality nursing home care, as well as schools, child care, and other services for their children, grandchildren, and communities.

Cost of full Social Security exemption **grows each year**



Source: Minnesota Department of Revenue

Want more details on this proposal and how it would impact Minnesotans?



View our issue brief: bit.ly/3NYxYIV
Contact: info@mnbudgetproject.org