

Minnesota Passes New Tax Bill



On May 30, 2017, Governor Mark Dayton signed an omnibus tax bill that enacts a large number of changes that affect both personal and business income taxes as well as estates, sales tax and property taxes. SH CPA is happy to report most of the new law is taxpayer friendly and many of the provisions are effective with the 2017 tax year unless noted otherwise.

To help you maximize your savings now, Swanson Hinsch & Co. CPA's has assembled this summary of the bill's highlights.

Individual Income Tax Provisions

Social Security Benefits: Individuals will be able to subtract up to \$4,500 for married filing joint (MFJ) returns, \$3,500 for single or head of household and \$2,250 for married file separate, all subject to phase-outs based on the taxpayer's other income.



Contributions to Section 529 Education Plans: Individuals can claim a maximum non-refundable credit of \$500 annually for contributions to any state's 529 plan, including a prepaid tuition plan. The credit is 50% of contributions subject to income phase-outs. For those not benefiting from the above credit, there is also a dollar for dollar subtraction up to \$1,500 single/\$3,000 MFJ for contributions to any state's

529 plan without income limitations. Nevertheless, be careful, if amounts are withdrawn and used for purposes other than qualified higher education expenses, you will have to repay the credit and/or equivalent tax for the subtraction.

Student Loan Credit: A new non-refundable income tax credit up to \$500 for eligible individuals for principal and interest payments on qualified higher education loans. Limits apply.

Discharge of Indebtedness on Education Loans: A subtraction is now available for student loan indebtedness discharged by the lender following the borrower's completion of an income-driven repayment plan that sets monthly payments based on the borrower's income and family size. Eligible programs include the income-based repayment plan, income-contingent repayment plan, PAYE or REPAYE programs and the share teacher shortage loan forgiveness program.

FIRST TIME BUYERS

First Time Home Buyer Accounts: Minnesota allows a subtraction from federal taxable income for income earned on a first-time homebuyer account. However, they also require taxpayers to add back distributions from the accounts that are not used for an eligible purpose or remaining in the account at the end of the 10th year since the account was opened. Minnesota also adds an additional 10% tax on the use of first-time homebuyer account earnings used for ineligible costs.

Accelerated Recognition of Gain on Certain Installment Sales: Nonresidents (or residents that move out of state) will have to accelerate gains on installment sales of an interest in a Minnesota pass-through entity (S-Corps, partnerships, LLC's) unless they elect out of this treatment by agreeing to file Minnesota returns in each year a gain is recognized for federal tax purposes.

Increased Child or Dependent Care Credit: The state credit is increased to equal the federal credit. The credit will remain refundable for Minnesota, will follow federal phase-outs and then be subject to state phase-outs, and the calculation for eligibility redefines household income as AGI.

New Reciprocity Agreement with Wisconsin: The bill modifies the credit for taxes paid to other states for individuals with personal or professional income taxed by Wisconsin so that it is essentially the same as the pre-2010 reciprocity agreement.

K-12 Teacher's Master Degree Credit: Non-refundable \$1 for \$1 income tax credit of up to \$2,500 upon completion of master's degree program in a core content area started after June 30, 2017. Limits apply.

Working Family Credit Expanded: After 2018, the working family credit is expanded to include a taxpayer age 21 to 64 with no qualifying children.

New Credits Related to Beginning Farmers: New non-refundable credits (individual and corporate) for sales of assets or renting agricultural assets to beginning non-related farmers after 2017 and before 2024. Before claiming, Rural Finance Authority must approve and certify credits. Also multi-year credits of up to \$1,500 to beginning farmers participating in an approved financial management program.

Homestead Credit Refund: Effective for 2015 and after, taxpayers using the Simplified Home Office Deduction must reduce their taxes for the pro-rated business portion before computing their Minnesota Property Tax Refund.

Determination of Minnesota Residency for Domicile Test: The location of the individual's CPA, attorney, financial advisor or bank can no longer be a factor in determining an individual's permanent home for domicile purposes.

Business Tax Provisions

Research Credit: The second tier rate under the research credit increased from 2.5% to 4%.

Partnership Return Due Date: Partnership return due date is changed to March 15 for calendar-year or 15th day of the third month following the partnership's year end to match the new federal due date.

Assessments for Pass-through Entities: Effective May 31, 2017, S Corporation shareholders and Partnership partners may request that Department tax assessments be issued to and paid by the entity after initiation of an audit. If granted by the commissioner, Partnership assessments under these provisions are joint and several liability of the partnership and general partner.

W-2 Form Due Date: Now due January 31 instead of February 28, same as federal. In addition, the annual withholding return threshold is now \$500 and also now due January 31.

Estate Tax Provisions

Exemption Increasing: The bill phases in increases to the exempt amount and filing requirements of estate assets from the \$1.8 million originally for 2017 up to \$3.0 million by 2020. The bill also makes corresponding adjustments for qualified farmland and small business property as well.



Taxable Gifts Included in Minnesota Taxable Estate: The bill clarifies that taxable gifts made within three years of death are includable in the estate, effective for gifts after June 30, 2013.

Domicile Test: The location of the individual's CPA, attorney, financial advisor or bank can no longer be a factor in determining the definition of domicile for estate tax purposes also.

Sales and Use Tax Provisions



New Sales Tax Exemptions: The bill adds several new sales tax exemptions generally effective June 30, 2017 including - vending machine food, fiber and conduit used for telecommunications equipment, tickets and admissions for specific Super Bowl and Super Bowl-related events, Minnesota State High School League tickets and admissions, music sold for use in a jukebox, memberships to YMCA, YWCA and similar non-profit memberships, fund-raising event's sales and purchases sponsored by nonprofits for events held on premises leased for up to 10 days, certain admissions for suites, skyboxes or private box seat licenses, certain precious metal bullion, and sales to certain non-profits for items used in the performance of their mission.

Internet Marketplace Providers: The bill extends the duty to collect and remit sales tax to "marketplace providers" with a place of business in Minnesota unless retailers selling through the marketplace site are already collecting the tax. Retailers with less than \$10,000 of taxable sales are exempt. A place of business in the state includes a storage facility in the state, a state resident who works from a home office in the state or who has an "affiliated entity" in the state. This provision is effective July 1, 2019 or earlier, if states become federally authorized to require sales tax collection from remote sellers without physical presence in the state.

Property Tax Provisions

Commercial-Industrial Property: Effective for taxes payable in 2018 and after, the first \$100,000 value of each parcel of commercial-industrial property is exempt from the state general levy. In addition, the bill freezes the state general property tax at the 2018 level for both commercial-industrial property and seasonal-recreational property.



Manufactured homes: Storage sheds, decks, or similar structures, with a value of less than \$10,000 (formerly \$1,000) on a leased manufactured home site are no longer includable in computing the value of the property for property taxes assessed in 2018 and after.

Proof of Timely Payment of Property Tax: The bill clarified that a postmark or registration mark qualify as proof of timely mailing of current or delinquent property tax payments and other evidence may be considered, except for electronic stamps purchased online.

Warning – Some Provisions May Be Retroactively Repealed Later This Year

While this tax bill is currently law, there is some speculation that if a special session of the legislature is required before year end, some of the more controversial provisions in the bill may result in retroactive changes. Among those that may be in jeopardy, Governor Dayton has indicated that he opposes the increase in the estate tax exclusion from \$2 million to \$3 million and the freeze on commercial-industrial property taxes.

Please contact Swanson Hinsch & Co. CPA's to help you take advantage of the new credits and subtractions or to understand the potential tax implications for you or our business. Your Swanson Hinsch & Co. tax advisor is happy to answer your questions.

This summary is general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.