Minnesota Tax Update

It's been nearly eighteen months since the Federal Tax Cuts and Jobs Act (TCJA) was enacted in December 2017. However, many states are just now getting around to adjusting their own laws in order to comply with the magnitude of changes that the legislation brought about. Taxation at the state level is determined by each respective state, as each state has the authority to adopt the various provisions of the Federal legislation, or choose to enact their own variation of the law.

The provisions of the TCJA significantly impacted both business and individual taxpayers. Several of the provisions took effect for the 2018 tax year, with some beginning in 2019. The limitation or elimination of certain deductions presented significant challenges in completing 2018 tax returns, but also created several planning opportunities for 2019 and going forward.

Minnesota's Omnibus Tax Bill (H.F. No. 5) enacted on May 30, 2019 reflects its conformity to certain provisions of the TCJA. Below is a summary of the more significant individual and business-related provisions enacted by Minnesota and their effective date.

<u>Individual Provisions – Effective with 2019 Returns and Forward</u>

- The starting point for individual income tax was changed from federal taxable income to federal adjusted gross income.
- Standard Deduction – The standard deduction for Minnesota purposes now matches the deduction allowed under the Federal legislation:
    - Single = $12,200
    - Married filing joint = $24,400
    - Head of household = $18,350
- Itemized Deductions – Many of the significant deductions now fall in line with the Federal limitations:
    - Property tax deduction is capped at $10,000
    - Charitable contribution deduction increased to 60% of AGI
    - Home mortgage interest deduction limited to interest on first $750,000 of home mortgage debt
    - Medical expense deduction equals amounts paid in excess of 10% of AGI

- Personal Exemptions – Minnesota has retained the dependency exemption of $4,250 per dependent, whereas no exemption is permitted at the Federal level.
- Alimony – Alimony is no longer deductible by the payer and is non-taxable to the recipient (under new agreements or orders). Existing agreements will follow the treatment provided under the old law.
- 529 Plans – Accumulated dollars can now be used for funding K-12 education (up to $10,000 per year).
- Tax Rate reduction – The 2nd tier individual income tax rate was reduced from 7.05% to 6.80% on Minnesota taxable income between $38,771 and $154,020.

Business-related Provisions - Effective with 2018 Returns and Forward

- Depreciation – Expanded Section 179, Bonus Depreciation and class life reductions now comply with the Federal provisions. However, Minnesota still retains its 80% addback for Section 179 and Bonus depreciation.
- The deductibility of business interest, excess business losses, and like-kind exchanges of tangible personal property are now limited on Minnesota returns in conformity with the Federal laws.
- Qualified Business Income Deduction – Minnesota does not conform to the deduction allowed under Internal Revenue Code Section 199A.

Under the Minnesota conformity legislation, a “special limited adjustment to tax” has been established for individual income tax filers in tax year 2018 only. The provision allows an adjustment to tax for tax year 2018 equal to the difference in tax between the pre-conformity and post-conformity tax calculations. This effectively means that that even though the bill generally conforms to the TCJA retroactively, as a general rule conformity will not affect the tax paid in tax year 2018. Thus, most taxpayers will not see an adjustment to their tax liability for 2018.

With these enacted deduction limitations, you can benefit from the timing of claiming certain deductions to take advantage of the enacted law changes. If you have any questions about potential opportunities or if you would like to discuss the Minnesota conformity changes further, please contact your SilverOak advisor at 952-896-5700.

Disclaimer:

Information and analysis provided in this white paper are for general and educational purposes only. Any opinions expressed in this summary are not intended to be accounting, legal, tax or investment advice.

Investment decisions should be made based on an investor’s specific circumstances taking into account items such as, risk tolerance, time horizon and goals and objectives. All investments have some level of risk associated with them and past performance is no guarantee of future success.