



The May 2023 Omnibus Tax Bill (H.F. 1938) resulted in several changes to Minnesota's tax code. Although this whitepaper doesn't address all provisions in the tax bill, we have summarized a handful of notable changes below.

Net Investment Tax

- The bill enacted a new tax on net investment income starting in tax year 2024. Investment income includes interest, dividends, capital gains, rental and royalty income, etc. Net investment income is the sum of all investment income less investment expenses, such as investment interest, brokerage fees, etc. This new tax is imposed on individuals, estates, and trusts with more than \$1 million of net investment income. The tax rate is 1% on all net investment income over \$1 million.

Social Security Income Subtraction

- The bill expanded Minnesota's Social Security subtraction to include a new "Simplified Method" subtraction, starting in tax year 2023. This method allows a subtraction equal to 100% of taxable Social Security Income (SSI), reduced by 10% for each \$4,000 (\$2,000 for MFS) of adjusted gross income (AGI) over the phase-out thresholds. Phase-out thresholds for 2023 are listed below and will be indexed for inflation in future years.
 - Married Filing Joint (MFJ) - \$100,000
 - Married Filing Separate (MFS) - \$50,000
 - Single or Head of Household - \$78,000

Standard and Itemized Deduction Limitation

- Taxpayers with adjusted gross income above \$220,650 (\$110,325 for MFS) will likely see fewer tax benefits. Starting in tax year 2023, the standard and itemized deductions will be reduced by the lesser of:
 - 80% of the amount of the deductions or
 - 3% of AGI between \$226,650 and \$304,970, plus 10% of AGI greater than \$304,970
- Taxpayers with adjusted gross income greater than \$1 million will have deductions reduced by 80%.

Withholding Rate for Pensions and Annuities

- The bill established a withholding rate of 6.25% (or a rate directed by the recipient) for payments and distributions from retirement accounts such as annuities or IRA distributions.

Pass-Through Entity Tax Credit

- The bill expanded the definition of “qualifying entity” to include an LLC taxed as a partnership or S corporation. Beginning in tax year 2023, income is not subject to allocation outside Minnesota for resident partners, thus 100% of partnership income can be used in the PTE tax calculation. This change only applies to resident owners of a qualified partnership or LLC taxed as a partnership. Resident owners of an S corporation are still subject to multistate allocation and will only receive PTE tax benefits on their apportioned share of income.

Given many of the provisions above will require additional guidance from the Minnesota Department of Revenue, we will continue to monitor the situation and provide future updates as necessary. Otherwise, you can find a complete summary of all the tax law changes made during the 2023 Minnesota legislative session at the following link:

<https://www.revenue.state.mn.us/tax-law-changes>

If you want to discuss any of these provisions further, please contact your SilverOak Advisor or call 952-896-5700.

Disclaimer:

The 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.

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