

Minnesota Department of Revenue

Revenue Notice # 18-01: Individual Income Tax – Standard Deduction or Election to Itemize – Tax Year 2018

Introduction

This revenue notice provides the department's position on whether taxpayers must make the same election to claim the standard deduction or to itemize deductions on their 2018 Minnesota state income tax return that they elected on their 2018 federal income tax return. For purposes of federal income taxes, taxpayers may claim the standard deduction or elect to itemize their deductions in calculating their federal taxable income.

Background

Net income is defined by *Minnesota Statutes* section 290.01, subdivision 19 as:

[F]ederal taxable income, as defined in section 63 of the Internal Revenue Code of 1986, as amended through the date named in this subdivision, incorporating the federal effective dates of the Internal Revenue Code and any elections made by the taxpayer in accordance with the Internal Revenue Code in determining federal taxable income for federal income tax purposes....

The computation of Minnesota individual income tax starts at federal taxable income and requires taxpayers to have a consistent election between their federal and state income tax returns.¹

Currently, Minnesota statutes have incorporated the Internal Revenue Code ("IRC") through December 16, 2016.

On December 22, 2017, Public Law 115-97 was signed into law. Commonly known as the Tax Cuts and Jobs Act ("TCJA"), it made a number of amendments to the IRC. The TCJA temporarily reduces personal exemptions to zero, and it temporarily increases standard deductions to \$12,000 for taxpayers who are single or married filing separately; \$24,000 for married taxpayers filing jointly; and \$18,000 for taxpayers filing as head of household.²

Precedent from the Minnesota Supreme Court in *Wallace v. Commissioner of Taxation* established that the Minnesota Constitution prohibits the state legislature from delegating its power to tax to any outside agency, including the United States Congress.³

¹ Minn. Stat. § 290.01, subd. 19 (2017).

² Public Law 115-97, section 11021.

³ *Wallace v. Commissioner of Taxation*, 289 Minn. 220 (Minn. 1971).

Position

For taxable year 2018, taxpayers may either claim the standard deduction or elect to itemize deductions on their 2018 Minnesota income tax return, regardless of the election made on their 2018 federal income tax return.⁴

The changes made to the standard and itemized deductions at the federal level in the TCJA cannot be addressed through various additions and subtractions as in years past, thereby creating a unique and unprecedented position for administration of Minnesota tax law.

This revenue notice harmonizes *Wallace v. Commissioner of Taxation* with the administration of *Minnesota Statutes* section 290.01, subdivision 19 under these circumstances.

All of the limitations and restrictions in IRC section 63, as of December 16, 2016, apply to taxpayers claiming the standard deduction. For example, for taxpayers that file married filing separately, if one spouse elects to itemize their deductions on their Minnesota return, the other spouse must also itemize their deductions on their Minnesota return. Taxpayers itemizing their deductions must calculate those deductions as they were allowed under the IRC as amended through December 16, 2016.

The standard deduction amounts available to taxpayers on their Minnesota 2018 return are:

- Married filing jointly or surviving spouse: \$13,000
- Head of household filing: \$9,550
- Single or married filing separately: \$6,500

The standard deduction amount for an individual who may be claimed as a dependent by another taxpayer cannot exceed the greater of:

- \$1,050 or
- The sum of \$350 and the individual's earned income.

The additional amounts added to the above listed standard deductions for taxpayers that are elderly or blind are:

- Single: \$1,600
- Married: \$1,300

This revenue notice only applies to the election to claim either the standard deduction or to itemize deductions on the 2018 Minnesota individual income tax return. It does not apply to any other election that a taxpayer makes on their federal individual income tax return. All other elections must be consistent on the taxpayer's 2018 federal income tax return and their 2018 Minnesota income tax return. Any difference between federal and Minnesota law must be addressed through modifications, including additions and subtractions.

⁴ See *Wallace v. Commissioner of Taxation*, 289 Minn. 220 (Minn. 1971).

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A handwritten signature in cursive script, appearing to read "Lee Ho", written over a horizontal line.

LEE HO, Deputy Commissioner