# Income Tax Webinar with Tax Professionals: August 15, 2018

***Disclaimer:*** *Information in this document is based on the laws in effect when it was written. It does not supersede or alter any provision of Minnesota laws, administrative rules, court cases, or revenue notices. It does not provide tax advice.*

## Introduction

Hello and thank you for joining us today. I'm Mark Krause, the Tax Professional Outreach Coordinator with the Income Tax and Withholding Division. There are several other Minnesota Department of Revenue employees who are joining us today to assist with your questions.

Since the end of the 2018 Minnesota Legislative Session, we have been working to update the state tax filing systems for taxpayer use in 2019. This process happens after the end of every legislative session. This year, we are updating the tax filing system to accommodate the differences between federal and Minnesota tax laws. There were significant revisions to the federal tax laws, but Minnesota's tax laws have not changed.

The federal tax law changes (signed into law at the end of 2017) affect Minnesota Individual Income Tax forms, worksheets, and instructions. We'll require new schedules to file some returns. As a tax professional, you'll interpret these changes for your clients as they look to you for guidance. We're committed to providing you and your clients with the information needed to complete the revised income tax forms accurately.

## Agenda

Today, we will:

- Provide updates on electronic filing for the upcoming filing season.
- Walk through some of the 2018 Minnesota Individual Income Tax forms line-by-line.
- Explain some of the form changes we made to accommodate the differences between federal and Minnesota income tax laws.

## 2019 Filing Season Resources

Before we start, I'd like to take a moment to highlight our Tax Law Changes page, which is accessible from the orange button on our home page.

We've put many items relating to the upcoming filing season on this webpage. You can find an archive of all our 2019 filing season email updates and the scripts from our June 20 webinars. You can also access our 2019 Filing Season for Tax Year 2018 FAQs pages. On the FAQ pages, we've placed a date near the heading so you know the last time this page was updated. These pages should help you stay on top of our updates as we approach the filing season and post more answers to your questions. If you have a question we have not yet answered on our FAQ pages, email us at TaxYear2018@state.mn.us.

Since we are on the home page, I'd also like to encourage you to sign up for our email updates. If you have not already done so, select the red envelope, enter your email address, and choose "Tax Law Changes" to sign up for email updates. There are other email lists under "Tax Professionals" and "Software Providers" that you can sign up for as well.

## Filing Updates

**We will continue to have the voter registration information given to your clients every year.** The link will say: "Are you registered to vote at your current address? You may be eligible to vote if you are 18 years old, a U.S. citizen, a Minnesota resident, and finished with any felony sentence. You can quickly and easily register to vote online at mnvotes.org."

**Minnesota does not require state driver's license or state ID card information.** Providing or not providing this information will not affect processing times for your clients' returns.

### Electronic Returns and Payments

If you have questions about Error Rejection Codes (ERCs), you can find more information from our home page. Select the "Error Rejection Codes" link under Tax Professionals.

We encourage you and your clients to use electronic returns and electronic payments. They are easy to use and more secure for Individual Income Tax, Insurance Premium Tax, and Business Income Taxes.

- You and your clients can set up their return payment for the day they file their return or the payment due date.
- You can request when your clients' estimated taxes are withdrawn from their accounts so they do not need to worry about mailing a check later.
- Your clients can also apply a portion of their refund to next year's estimated tax and receive the remaining amount as a refund.

It is the easiest and safest way to make payments. Thank you for your support in changing over to electronic payments!

### Vouchers

The same voucher options are available this year as last year.

- Tax software should only allow the year end date of 2018 on return vouchers for 2018 taxes. 2019 is correct for estimated payments.
- Returns that include a Preparer Tax Identification Number (PTIN) must have the PTIN on the payment voucher.
- Do not generate vouchers outside of your approved professional software products.

New this year:

- The variable data, such as the PTIN or scan line, will use the "Courier" or "Courier New" font.

## Payment Reminders

As a reminder, the most efficient way to make payments is electronically.

If your clients need to change a payment date, payment amount, or bank account information for an estimated payment set up through an electronic return, call us at 651-296-3781 or 800-652-9094. We are open Monday through Friday, 8:00 a.m. to 4:30 p.m. CST.

- Payments set up in the tax software do not have confirmation numbers. If our phone agent asks for a confirmation number, they are referring to a payment made in e-Services.
- Do not contact your tax software provider to change a payment.
- Your clients can create new payments in e-Services.

## Protect Your Clients and Yourself

**Always be aware of identity theft.** Identity theft is one of the fastest-growing crimes in the nation and causes significant, lasting damage to its victims. We recommend you review the IRS's information on protecting your clients and protecting yourself. You can find this information at www.irs.gov. Type "Protect Your Clients; Protect Yourself" in the search bar.

**We also encourage you to be on the lookout for fraud.** Remember to continue making and updating strong passwords on your computer, validating requests for your clients' information, and being cautious about selecting links in your email.

**You should check your EFIN on the IRS's "e-Services Online Tool" to ensure accuracy and security during the filing season**. The tool checks your EFIN status to ensure that your EFIN is not being used by others improperly. Your e-file application will help verify the volume received by the IRS which you can match to your records. The statistics are updated weekly. If you see a higher volume than you transmitted, please contact the IRS e-help Desk at 1-866-255-0654. You can also contact us at 651-296-3781 or 1-800-652-9094 (toll-free) for more information.

**The IRS also has a tool to help monitor your PTIN**. You can help protect your clients and your businesses from identity theft by checking your PTIN accounts to ensure the number of returns filed using your identification number matches IRS records. It's important to monitor this information even if you do not prepare returns or only prepare a small number of returns. If the number of returns processed is significantly more than the number of tax returns you've prepared, and you suspect possible misuse of your PTIN, complete and submit federal Form 14157 to the IRS.

## Other Notes and Tips

- If your clients want to file paper forms, make sure your print settings say "Print Actual Size." Doing this will speed the processing of their returns.
- If you use electronic payments, your clients can set future payment dates. They can also apply portions of their refunds to next year's estimated tax.
- Businesses can use e-Services to file electronically for many tax types. You can see a full list from our home page. Select "e-Services Information" under For Businesses, and then select "Accounts available to file, pay, and view."

- We encourage everyone to file and pay electronically. It is safe, fast, and easy.

Thank you for all the work you are doing in preparing for next season. Contact information for questions you have is available on our webpage. On the “News for Tax Preparers” page, you can see our email addresses, phone number, and also emails specific to some tax types.

## Walkthrough of 2018 Minnesota Income Tax Forms

We want to discuss, at a very high level, how our 2018 Minnesota Individual Income Tax forms will flow. At this time, there may be questions we’re unable to answer. We will provide a response at the end of this call or on our FAQ webpage as appropriate.

The calculation of Minnesota taxable income, alternative minimum taxable income, and tax uses definitions in the federal tax code as of December 16, 2016. Since then, there have been many federal law changes, including the Bipartisan Budget Act of 2018. The law changes impact the vast majority of income tax filers.

Due to differences between federal and Minnesota tax codes, we’ll use certain terms during this call that we want you to be aware of. The terms are:

- **Minnesota Adjusted Gross Income (Minnesota AGI)**: This is your clients’ adjusted gross income based on the federal tax code as of December 16, 2016. You’ll calculate Minnesota AGI on Schedule M1NC, *Federal Adjustments*, which we’ll discuss during this webinar.
- **Minnesota itemized deductions**: These are your clients’ itemized deductions based on the federal tax code as of December 16, 2016. You’ll calculate Minnesota itemized deductions on Schedule M1SA, *Minnesota Itemized Deductions*, which we’ll discuss during this webinar.

As a reminder, we published our near final forms on our website in early August. You can find these near final draft forms by going to our home page and selecting “Software Providers” under For Tax Professionals. Then, select the “Forms, ERCs, and Specifications” tab. Here, you can see near final drafts of all 2018 Minnesota income tax and property tax refund forms. Do not use the draft forms to prepare or file tax returns.

## 2018 Form M1, *Individual Income Tax*

The first change we want to point out on Form M1 is in the “From your Federal Return” section. In prior years, we asked for wages, retirement income, unemployment, and Federal Adjusted Gross Income (FAGI). For tax year 2018, we’ll be requesting federal taxable income instead of FAGI on line D.

**Line 1:** We changed the starting point of Form M1 from federal taxable income back to FAGI. This change will allow your clients to calculate their Minnesota taxable income correctly per the statute and as simply as possible.

**Line 2:** We’ve moved the addition for state and local income or sales taxes. Your clients previously reported this addition on line 2 of the 2017 Form M1. On the 2018 form, line 2 now reports the aggregate additions from Schedule M1M, *Income Additions and Subtractions*.

**Line 4:** This line will allow your clients to subtract their Minnesota itemized deductions or their Minnesota standard deduction. The Minnesota standard deduction amounts will follow the amounts announced in Revenue Procedure 2017-58. These are:

| Filing Status | Standard Deduction |
|---|---|
| Married filing jointly and Qualifying widow(er) | $13,000 |
| Head of household | $9,550 |
| Single and Married filing separately | $6,500 |

If you have clients who are blind or were born before January 2, 1954, they are allowed to increase their standard deduction by $1,300, or $1,600 if they are not married and are not a qualifying widow(er).

If your clients do not claim the standard deduction on line 4 of Form M1, they may itemize their deductions for Minnesota purposes. To do this, they will use Schedule M1SA, Minnesota Itemized Deductions.

Let's take a look at Schedule M1SA.

## 2018 Schedule M1SA, *Minnesota Itemized Deductions*

We last used this schedule for a brief period during the filing season for tax year 2013. However, that version was different from this year's version.

If your clients filed federal Schedule A, they'll use many of their amounts from that schedule on their Schedule M1SA. However, some amounts will change due to differences between state and federal law. Schedule M1SA can only result in a subtraction for your clients.

**Lines 1-4:** Federally, your clients may deduct their medical and dental expenses exceeding 7.5 percent of their federal AGI. For Minnesota purposes, your clients may deduct qualifying expenses exceeding 10 percent of their Minnesota AGI. There is no difference between the federal and Minnesota definition of "qualifying expenses." The only difference is the extent to which your clients may deduct qualifying expenses.

**Lines 5-8:** The deduction for state and local taxes is generally limited to $10,000. There were no federal changes to what types of taxes can be deducted, but there was a limit placed on the deduction. This $10,000 limit does not apply for Minnesota tax purposes. However, the addback for state and local income or sales taxes will still apply. We will discuss this interaction more when we cover the Minnesota Adjustments portion of Schedule M1SA.

**Lines 9-13:** Generally, the federal deduction for mortgage interest is limited to interest paid on the first $750,000 for loans originated after December 15, 2017. For Minnesota purposes, however, your clients may deduct mortgage interest on the first $1,000,000 in acquisition indebtedness and $100,000 in home equity indebtedness. In other words, most of your clients who filed federal Schedule A will enter their amounts from Schedule A on Schedule M1SA.

**Lines 14-17:** The federal deduction for charitable contributions is generally limited to 60 percent of your clients' federal AGI. For Minnesota purposes, this deduction is generally limited to 50 percent of their Minnesota AGI.

There is also a difference in the deductibility of certain contributions to a college or university. Federally, a deduction for these contributions is generally not allowed. For Minnesota purposes, however, your clients can generally deduct 80 percent of their contribution.

In short, contributions that qualify to be deducted are generally the same. However, the federal deduction limitation is higher than the Minnesota limitation.

If your clients claimed a federal deduction for charitable contributions, we anticipate that most of them will enter the amounts from Schedule A on Schedule M1SA.

**Line 18:** Federally, the deduction for personal casualties was temporarily suspended except for those casualties associated with a presidentially-declared disaster. For Minnesota tax purposes, your clients may deduct personal casualty losses, even those not associated with a presidentially-declared disaster. We've created a new schedule to calculate this deduction: Schedule M1CAT, *Casualty and Theft*.

### 2018 Schedule M1CAT, *Casualty and Theft*

Like under prior federal law, your clients claim this deduction by first reducing the loss by $100 per casualty and then reducing the remaining loss by 10 percent of Minnesota AGI. This schedule allows your clients to report multiple assets stolen or damaged due to a single casualty event.

If your clients had more assets stolen or damaged during a single casualty event than what fits on the form, they must complete another Schedule M1CAT through line 9. If your clients experience multiple casualty or theft events, they must complete a separate Schedule M1CAT for each event.

**Lines 19 -24:** Federal tax reform temporarily suspends the deduction for certain miscellaneous deductions. These deductions include tax preparation expenses and unreimbursed employee expenses. For Minnesota purposes, these miscellaneous deductions are allowable to the extent they exceed 2 percent of your clients' Minnesota AGI. We've created a new Minnesota schedule to calculate the deduction for unreimbursed employee business expenses: Schedule M1UE, *Unreimbursed Employee Business Expenses*.

### 2018 Schedule M1UE, *Unreimbursed Employee Business Expenses*

Schedule M1UE is a two-part schedule your clients will use to calculate their deductible employee business expenses. Your clients will use Part 1 to calculate their allowable deduction and Part 2 to calculate their vehicle expenses.

If your clients need to report expenses for multiple vehicles, they must complete a separate part 2 for each vehicle.

**Lines 27-29:** Schedule M1SA also contains Minnesota-specific adjustments that your clients reported on different lines of the Minnesota forms. These adjustments are the state income or sales tax addition and Minnesota's overall limitation on itemized deductions.

Your clients will report the state tax addition – previously reported on line 2 of Form M1 – on line 27 of Schedule M1SA. Your clients' previously reported Minnesota's overall limitation on itemized deductions on line 1 of Schedule M1M. The 2018 income threshold for this phase-out will begin with a Minnesota AGI of $190,050. If your client is married and filing a separate return, the threshold is $95,025.

Your clients will calculate the total amount of the Minnesota adjustments on line 29. Then, we net this total against your clients' total itemized deductions. Finally, your clients report the result on line 4 of Form M1.

## 2018 Form M1, *Individual Income Tax* (continued)

**Line 5:** This line will allow your clients to claim a subtraction for personal and dependent exemptions. This amount, based on Revenue Procedure 2017-58, will be $4,150 per exemption. This subtraction will take into account the Minnesota exemption phase-out previously reported on line 2 of Schedule M1M. The 2018 income thresholds for this phase-out will be a Minnesota AGI of:

- $190,050 for Single
- $285,050 for Married filing jointly
- $237,550 for Head of household
- $142,525 for Married filing separately

There will be a worksheet to calculate this subtraction in the Form M1 instructions.

**Lines 6-13:** These lines should be familiar. These were lines 5 through 12 on the 2017 Form M1.

**Line 14:** Your clients will use this line to report other Minnesota taxes. These taxes are:

- The first-time homebuyer recapture tax, computed on Schedule M1HOME, *First-Time Homebuyer Savings Account*.
- The education savings account recapture tax, computed on Schedule M1529, *Education Savings Account Contribution Credit or Subtraction*.
- The lump-sum distribution tax, reported on Schedule M1LS, *Tax on Lump-Sum Distribution*.

We want to point out an interaction between Minnesota tax code and a provision within the federal tax reform provision impacting this line. Federally, your clients may withdraw up to $10,000 per year from a qualified 529 plan for K-12 expenses. Federal tax reform also permitted rollovers from a 529 plan to an ABLE account. For Minnesota purposes, these are considered nonqualified distributions. If your clients claimed a 529 credit or subtraction on their 2017 Minnesota return, they may need to repay the benefit received if they used 529 account distributions for these purposes.

**Lines 16 through 20:** These are the nonrefundable credits. For the 2018 Form M1, we added the long-term care insurance credit to line 17 of this form. This change should reduce the number of Schedules M1C, *Nonrefundable Credits*, you'll need to file for tax year 2018.

We'd like to highlight the changes we made to Schedule M1C.

## 2018 Form M1C, *Nonrefundable Credits*

We have changed the ordering of credits on Schedule M1C. We did this because there are now more nonrefundable credits for which unused credit amounts may be carried to for future tax years. With the exception of the SEED Capital Investment Credit, the credits on lines 1 through 6 of Schedule M1C do not allow a carryforward of unused credit amounts. Based on our data, we do not anticipate carryforwards of the SEED credit to tax year 2018.

**Lines 7 and 8:** These lines are new for tax year 2018. These lines are for two credits enacted in 2017 and first available for tax year 2018: the Beginning Farmer Management Credit and the Tax Credit for Owners of Agricultural Assets.

In order to qualify for these credits, your clients must have a credit certificate issued by the Rural Finance Authority. Your client's credit certificate will have a certificate number starting with either "BF" or "AO" and include the credit amount your client has been certified for. Your client should report the certificate number and amount on the corresponding line.

Your clients may carry forward unused portions of the Beginning Farmer Management Credit for three tax years. They may carry forward the Tax Credit for Owners of Agricultural Assets for 15 tax years.

**Lines 9 and 10:** Line 9 is the Credit for Increasing Research Activities, also known as the R&D Credit. This credit will be reported to your clients on Schedule KS, KPI, or KF. Your clients may carry forward unused portions of this credit for 15 years. For tax year 2018, we'll begin asking your clients to report how much of their R&D Credit remains from a prior year, and what tax year those credits were reported to them. This information will be on line 10.

On the instructions for line 9, we've added worksheets to help your clients track their credit carryforwards. Some of the nonrefundable credits can be used to offset alternative minimum tax (AMT) and some cannot. Because of this, we have a worksheet for your clients who are subject to AMT and a worksheet for those who are not. The worksheet for those who are subject to AMT does direct your clients to the other worksheet if their credits that can offset AMT exceed the amount of AMT they must pay.

**Line 11:** This line is the Alternative Minimum Tax Credit computed on Schedule M1MTC. Your clients may carry forward this credit indefinitely.

**Line 12:** This line totals the nonrefundable credits. Your clients then report this amount on line 19 of Form M1.

## 2018 Form M1, *Individual Income Tax* (continued)

**Lines 21-26:** These line should be familiar. These were lines 20 through 25 on the 2017 Form M1.

One last change we want to note is that we removed Schedule M1B, *Business and Investment Credits*. The 2017 Schedule M1B had 4 credits:

- Angel Investment Tax Credit
- Credit for Historic Structure Rehabilitation
- Greater Minnesota Internship Credit

- Enterprise Zone Credit

The Angel Investment Tax Credit was only available for tax years 2010 through 2017. The Greater Minnesota Internship Credit was repealed through legislative action during 2017. We moved both the Credit for Historic Structure Rehabilitation and Enterprise Zone Credit to Schedule M1REF, *Refundable Tax Credits*.

## Tax Year 2018 Federal Adjustments

In the past, you and your clients used Schedule M1NC to calculate differences between federal and state law that impact AGI. This year's version is very different from prior versions.

The biggest difference you'll notice is that we use two columns instead of one. We included two columns because the provisions on Schedule M1NC can result in either a positive or negative adjustment for Minnesota purposes.

For those items that can only result in a subtraction for Minnesota purposes, we placed a gray box in the additions column. For those provisions that can only result in an addition for Minnesota purposes, we placed a gray box in the subtractions column. The Schedule M1NC lines where either a Minnesota subtraction or addition can occur do not have a gray box. Do not enter amounts in any gray boxes.

Today, we'll only be discussing the nonbusiness provisions on Schedule M1NC. We'll provide more information on the business provisions at a later date.

Schedule M1NC can result in an addition or subtraction on the Minnesota income tax return. Differences between federal and Minnesota AGI include the following:

**Bicycle commuting expenses:** Federal tax reform temporarily suspended the exclusion from income for up to $20 per month in employer-provided reimbursements for bicycle commuting expenses. Minnesota law, however, allows for this exclusion. Your clients may exclude these reimbursements by claiming a subtraction on line 1 of Schedule M1NC.

**Moving expenses:** For federal tax purposes, the deduction for certain moving expenses was suspended and does not apply for tax year 2018 except for members of the armed forces who move as a result of a permanent change of station. For Minnesota tax purposes, your clients may deduct their moving expenses if certain conditions are met. We've created a new schedule for your clients to calculate their Minnesota moving expense deduction: Schedule M1MOVE, *Moving Expenses*.

### 2018 Schedule M1MOVE, *Moving Expenses*

Schedule M1MOVE takes into account a corresponding federal law change relating to employer reimbursements for moving expenses.

Federally, this exclusion generally does not apply for tax year 2018. Prior federal tax law allowed clients who receive reimbursements of qualifying moving expenses from their employer to exclude those reimbursements from their income. This exclusion was limited to your clients' actual moving-related expenses. Because the prior exclusion was allowable only to the extent your clients had actual moving expenses, deducting moving expenses on Schedule M1MOVE achieves the same result as allowing a Minnesota-only exclusion.

If your clients are eligible for the moving expense deduction, they must complete Schedule M1MOVE and report the adjustment as a subtraction on line 2 of Schedule M1NC.

**Unreimbursed Employee Expenses:** Line 3 of Schedule M1NC is an addition calculated on Schedule M1UE. Your clients may need to include an amount on this line if both of the following are true:

- They received reimbursements from their employer that exceeded their actual expenses.
- Those excess reimbursements are not included in their federal income.

**Student loan discharged:** Generally, discharge of indebtedness is taxable. Federal tax reform enacted an exclusion for student loan debt discharged as a result of a student's death or permanent and total disability. Minnesota does not recognize this exclusion. On line 4 of Schedule M1NC, your clients must add back to Minnesota taxable income the amount of debt discharged and excluded federally for this reason.

**529 plan distributions:** Federally, distributions from a 529 education savings account may be used for up to $10,000 in K-12 expenses, and transferred into an ABLE account. For Minnesota purposes, these are considered nonqualified distributions and your clients must add back the earnings portion to their taxable income. They must include this adjustment on line 5 of Schedule M1NC. These distributions may also be subject to Minnesota's education savings account recapture tax for your clients who claimed a 2017 Minnesota education savings account contribution credit or subtraction.

**Casualty and Theft loss:** Line 6 of Schedule M1NC flows from Schedule M1CAT. If your clients have a casualty gain from Schedule M1CAT that is not included in their federal AGI, they may need to report the gain on Schedule M1NC.

**Distributions from an ABLE account:** For Minnesota purposes, contributions made to an individual's ABLE account are limited to $15,000 per year. For federal tax purposes, additional contributions may be made. If your clients receive distributions of these excess contributions, they must include the earnings portion of those distributions on line 7.

**Income from qualified equity grants:** If your clients elect to defer the income from a qualified equity grant from their employer, they must include that income on line 9. This amount may be reported in Box 12 of their federal Form W-2 with code HH.

**Bonus depreciation:** The federal tax reform legislation increased the amount that can be claimed as "bonus depreciation" to 100 percent of the depreciable base. For Minnesota purposes, your clients may claim bonus depreciation up to:

- 40 percent of the depreciable basis for tax year 2018
- 30 percent of the depreciable basis for tax year 2019.

If your clients claimed bonus depreciation in excess of the Minnesota limitations, they must make an adjustment on their Minnesota income tax return. The 2018 adjustment will be very similar to the 2017 adjustment. Schedule M1NC will require a 100 percent addition for the amount of federal bonus depreciation claimed on an asset in excess of 40 percent of depreciable basis. Your clients will report this addition on line 11a. Your clients must then compute the allowable depreciation on that portion of asset's basis and enter that depreciation on line 11b.

The Schedule M1M worksheet for calculating the Minnesota additions for bonus depreciation and section 179 expensing will account for these adjustments on Schedule M1NC.

**Differences caused by 2017 Schedule M1NC:** If your clients filed Schedule M1NC for tax year 2017, they may need to file a 2018 Schedule M1NC. This would occur for any of the following situations:

- **Your clients claimed enhanced cost recovery on lines 3 or 6 of the 2017 Schedule M1NC**. In this case, your clients must calculate their 2018 Minnesota allowable depreciation and enter the adjustment on line 14.

- **Your clients reported income from an IRA distribution excluded from federal income on line 7 of their 2017 Schedule M1NC** because their principal residence was in a disaster area. In this case, your clients will enter the portion of their distribution included in their 2017 Minnesota taxable income – and 2018 federal taxable income – as a subtraction on line 31.

- **Your client reported an adjustment to the deductibility of an IRA, or recognizable rental real estate loss on line 8 of their 2017 Schedule M1NC**. If your clients needed to add back a portion of their 2017 federal IRA deduction and also took a distribution from their retirement account in 2018, they may have a different basis in the retirement account for Minnesota purposes. If they have additional Minnesota basis, your clients will need to determine the portion of their distribution that is taxable for Minnesota purposes and report the difference between the federal and state taxability on line 31.

  If your clients were required to add back a portion of their rental real estate loss recognized on their 2017 federal return, they may be able to recognize additional losses on their 2018 Minnesota return if either of the following are true:

  - They disposed of the rental activity.
  - Their Minnesota modified AGI for purposes of the rental real estate losses was less than their federal modified AGI.

Schedule M1NC will calculate Minnesota AGI and include adjustments for deductions and loss recognition items calculated using Minnesota Modified Adjusted Gross Income (Minnesota MAGI). These deductions include the student loan interest deduction and IRA contribution deduction. The loss recognition impacted by Minnesota MAGI includes the recognition of rental real estate losses. These adjustments will be included in Minnesota AGI.

## Impact of Schedule M1NC on Other Schedules

Your clients will use Minnesota AGI to calculate many Minnesota income tax credits and subtractions.

### Minnesota AGI for Subtractions

The subtractions include:

- Social Security subtraction
- Subtraction for persons age 65 or older or permanently and totally disabled

- Deductions reported on Schedule M1SA, including:
    - Deductible medical and dental expenses
    - Casualty and theft losses
    - Miscellaneous deductions
    - The overall limitation on itemized deduction.

We're currently looking at the 2018 Schedule M1R, *Age 65 or Older/Disabled Subtraction*. I'd like to draw your attention to lines 9a and 9b. On line 9a, we ask for federal adjusted gross income from line 1 of Form M1. On line 9b, we ask for the adjustment from Schedule M1NC. If Schedule M1NC resulted in a subtraction, your clients should enter the amount as a negative value on line 9b of this schedule.

## Minnesota AGI and Earned Income for Credits

Your clients calculate many Minnesota credits using adjusted gross income, or earned income. We've incorporated the nonconformity adjustments on those schedules. The credits include:

- Credit for Past Military Service, reported on Schedule M1C
- Marriage Credit, reported on Schedule M1MA
- Education Savings Account Contribution Credit, reported on Schedule M1529
- Student Loan Credit, reported on Schedule M1SLC
- Child and Dependent Care Credit, reported on Schedule M1CD
- K-12 Education Credit, reported on Schedule M1ED
- Minnesota Working Family Credit, reported on Schedule M1WFC
- Homestead Credit Refund (for Homeowners) and Renter's Property Tax Refund, reported on Form M1PR

We're currently looking at Schedule M1SLC, *Student Loan Credit*. Your clients calculate this credit using both adjusted gross income and earned income. This credit is a good example of how we're adjusting both AGI and earned income using the information on Schedule M1NC.

We'll first look at how we account for the difference in AGI. Line 2 of Schedule M1SLC must be federal AGI from line 1 of Form M1. On line 3, your clients enter the net adjustment from line 36 of Schedule M1NC. If that net adjustment resulted in a subtraction on line 40 of Schedule M1M, your clients should enter the value as a negative amount on line 3. Married couples filing a joint return should enter the total amounts from the appropriate line in each column.

Next, we'll look at lines 8 and 9. On line 8, your clients enter their total federal earned income. On line 9, they enter their earned income from Schedule M1NC. To assist with this, we have included a worksheet in the instructions. On Schedule M1SLC, married couples who are filing a joint return should only enter each spouse's earned income in the appropriate column.

The other Minnesota tax credit calculated using earned income is the Minnesota Working Family Credit. We have updated Schedule M1WFC similar to Schedule M1SLC.

## Closing

Thank you for joining us today.

Our department’s vision is that everyone reports, pays, and receives the right amount: no more, no less. Our partnership with you is essential to provide the information and resources Minnesota taxpayers need to realize this vision. We appreciate your engagement, questions, and comments as we move closer to the 2019 filing season.

We’re committed to meeting our priorities for the upcoming filing season. If you have further comments or ideas, contact me on the Tax Professional Outreach Line at 651-556-6606 or email me at taxpro.outreach@state.mn.us. Remember to check our Tax Year 2018 FAQs as we regularly post new questions and answers. You can also email your questions about the 2019 filing season to TaxYear2018@state.mn.us.