August 29, 2017 Conference Call

Below are questions and answers from the August 29, 2017 conference call for tax professionals and software providers on recent tax law changes for individuals and annual updates.

529 Plan Credit and Subtraction

Do the 529 plan contributions have to be for your dependent?

The contributions do not need to be to a 529 plan for which the taxpayer's dependent is listed as the beneficiary.

Does the beneficiary have to be a dependent on the return or could it be a grandchild?

The contributions do not need to be to a 529 plan for which the taxpayer's dependent is listed as the beneficiary.

Who is eligible? For example, can a parent establish a 529 account and can the grandparents contribute to the plan and qualify for the credit or subtraction? Would the grandparents qualify for the credit or subtraction? I realize the parents would not, but the parents set up the account and are the account owner, not the grandparent.

The contributions do not need to be to a 529 plan for which the taxpayer's dependent is listed as the beneficiary. In your example, yes the grandparents may qualify.

Is the 529 subtraction and credit available to the contributor regardless of relationship to the student?

The contributions do not need to be to a 529 plan for which the taxpayer's dependent is listed as the beneficiary.

Are there income limitations for the 529 subtraction? When will Schedule M1529 be released?

There are no income limitations for the subtraction for contributions to a 529 plan. A draft of Schedule M1529 is available on our website.

Grandparents could get this credit for contributing for grandchildren who are not dependents?

Yes.

When your income phases out for the 529 credit, do the expenses also phaseout?

The taxpayer's 529 plan credit equals the lesser of 50% of their net contributions or the maximum credit based on their filing status and income. Only the maximum credit phases out.

Is the 529 plan subtraction limited to dependents? Can a grandparent, aunt, uncle, etc. contribute to a relative child's 529 plan and get the subtraction?

The contributions do not need to be to a 529 plan for which the taxpayer's dependent is listed as the beneficiary.

So, if a grandparent has a 529 plan for a grandchild, the grandparent can take the credit? Also, what if the grandparent is a Minnesota resident, but the grandchild is not Minnesota resident?

A Minnesota resident may calculate their credit based off net contributions to all qualified accounts. The beneficiary of the account is not considered for the taxpayer's eligibility.

Do 529 contributions need to be made by December 31, 2017 for the 2017 tax year or can they be made by the filing deadline?

Contributions are the net amount contributed to a qualified account during the taxable year.

If there are contributions made to several 529 plans, do all the contributions count or does each plan need to be determined separately?

Taxpayers will report contributions to each account individually on Schedule M1529, but you will calculate the credit or subtraction using total contributions and withdrawals.

Are there any modifications to AGI for the 529 credit (401(k) subtractions, etc.)?

No. The Education Savings Account Contribution Credit phases out based on the taxpayer's federal Adjusted Gross Income.

Is the 529 credit only allowed for the custodian of the account?

No. The credit is determined based off the net contributions to one or more qualified accounts, regardless of the account holder or beneficiary.

Student Loan Credit

Is the student loan credit available to parents paying on a child's student loan or is it only available to the person whose name is on the loan? What about co-signers on the loan if the co-signer makes the payment?

The credit is available only to the individual whose education was paid for by the loan. That individual may only use the payments he or she made in computing the credit.

If money is gifted to the student to pay their student loan rather than earned, do they still qualify?

Yes, but the credit is limited to earned income. If the student has no earned income, their maximum credit would be $0.

Does a PLUS loan taken out by a parent qualify?

This credit is only available to students making payments on their own qualified loans.

Line 14 for residents goes on line 9 of Schedule M1C, but the instructions for line 15 do not indicate where to put the prorated credit. Can you confirm that the amount on line 15 of Schedule M1SLC will go on line 9 of Schedule M1C also?

Part-year residents will put the result from line 15 of Schedule M1SLC onto line 9 of Schedule M1C.

Credit for Attaining Master’s Degree in Teacher’s Licensure Field

Do they have to be a resident of Minnesota to get this credit? What if they live on the South Dakota/Minnesota border and are a South Dakota resident?

The teacher must have a valid Minnesota teaching license when they begin their master’s degree program and when they complete their program. Part-year and nonresidents are eligible for the credit based on the percentage of their income allocable to Minnesota.

Can you define pedagogy?

Pedagogy is the method and practice of teaching. To qualify for the Credit for Attaining Master’s Degree in Teacher’s Licensure Field, the qualifying taxpayer’s master’s degree program must not include a pedagogy component.

Social Security Benefit Subtraction

Social Security Benefit Subtraction table on Department of Revenue webpage does not say "Married Filing Joint" anywhere that I could see.

We corrected this issue. Information for married taxpayers filing a joint return is at the top of the table.

Will provisional income be adjusted for inflation?

Yes. The Department of Revenue will adjust both the maximum subtraction and threshold amounts by inflation.

Why are Railroad Benefits involved in this subtraction?

Railroad Retirement Tier 1 Benefits are used to calculate a taxpayer’s provisional income to determine the maximum available Social Security benefit subtraction. This subtraction does not affect the subtraction for Railroad Retirement benefits.

First-time Homebuyer Savings Account

Can the first-time homebuyer savings account be established if the first home was purchased a year ago and there is an existing mortgage (a set-aside for future mortgage payments or repairs)?

Anyone may establish a first-time homebuyer savings account. However, the designated beneficiary of the account must be an individual, and if married, the individual’s spouse, that does not have a present ownership in a principal residence and has not had ownership in the previous three years. Eligible costs for which an account may be used include the down payment, allowable closing costs, and finance construction of a single-family home. Mortgage payments and repairs are not eligible costs.

Is there a time limit for a taxpayer to keep their home if they use the first-time homebuyer savings account to purchase it?

No.

Can you use investment/stock accounts for the first-time homebuyer savings account for the new subtraction?

A subtraction is available only for the amount of interest or dividends earned on a first-time homebuyer savings account.

Beginning Farmer Incentive and Management Credits

What are the criteria to be a beginning farmer for the Beginning Farmer Incentive Credit?

More information will be provided on the Beginning Farmer Incentive and Management Credits in 2018. Taxpayers must be approved and certified by the Rural Finance Authority to claim this credit. To qualify as a beginning farmer for the Beginning Farmer Incentive Credit, the individual must meet all of the following qualifications:

- Is a resident of Minnesota
- Is seeking entry, or has entered within the last ten years, into farming
- Intends to farm land within Minnesota
- Is not and whose spouse is not a family member of the owner of the agricultural assets from whom the beginning farmer is seeking to purchase or rent
- Is not and whose spouse is not a family member of a partner, member, shareholder, or trustee of the owner of agricultural assets from whom the beginning farmer is seeking to purchase or rent
- Has a net worth that does not exceed eligibility limits for beginning farmer loans through the Rural Finance Authority
- Provides the majority of the day-to-day physical labor and management of the farm
- Has adequate farming experience or demonstrates the appropriate knowledge by the judgement of the Rural Finance Authority
- Will receive a significant source of income from farming
- Participates in a financial management program approved by the Rural Finance Authority

Are purchase agreements limited to non-relatives to qualify for the Beginning Farmer Incentive Credit?

Yes. For the owner of the agricultural assets to qualify for the credit, the beginning farmer, and the beginning farmer’s spouse, to whom the agricultural assets are sold or rented cannot be a family member of the owner of the assets or a family member of a partner, member, shareholder, or trustee of the owner of the assets.

Property Tax Modification

What do these changes do to the M1PR?

The Property Tax Refund modification affects taxpayers who claim the business use of home deduction on their federal return. A taxpayer using their home for business purposes must reduce their property taxes payable regardless of IRS limitations on deductions.

Do the changes impact the Social Security subtraction?

No. This modification only requires taxpayers using their home for business purposes to reduce their property taxes payable.

When completing Form M1PR and the adjustment for office in home, does it still apply if the only impact is to federal tax?

Yes. If a taxpayer claims the business use of home deduction on their federal return, they must reduce their property taxes payable for the M1PR.

Does the property tax business deduction change apply to renters who live in apartments?

The Property Tax Refund modification affects all taxpayers claiming the business use of home deduction, whether they are renters or homeowners.

Will you be adjusting previously filed M1PRs that did not adjust the property tax amount if they used the $5/square foot for their office in the home?

Property tax refunds filed incorrectly after the effective date for this change (tax years beginning after December 31, 2016) may be adjusted by the department.

Why would a taxpayer take a deduction for the business use of their home if it does not affect their federal or state tax liability?

The minimum filing requirement for federal and state income tax is higher than the minimum requirement for self-employment taxes. In certain situations, a taxpayer without a federal or state tax liability will claim the deduction to offset their self-employment taxes.

Does does the new business use of home change apply to short-term rentals (such as a bed and breakfast or Airbnb)?

Yes. If the taxpayer claims the business use of home deduction on their federal return, they must reduce their property taxes payable on Form M1PR.

Accelerated Recognition of Certain Installment Sale Gains

When will Form M1AR be publicly available?

Visit our website in January 2018 for tax year 2017 forms and instructions. A draft of the schedule is currently available on our website.

Can a taxpayer amend a return to claim the exclusion?

Taxpayers may elect to defer recognition of accelerated gains on timely filed returns, including federal extensions. A taxpayer may amend their original return to make this election but only within the time allowed to file an original return plus federal extensions. Elections to defer after the federal extension date are not permitted.

What if an installment sale is not sourced in Minnesota?

Following any sale of an interest in a business operating in Minnesota, taxpayers must determine whether the sale triggered business income or nonbusiness income. If the income is business income, then it must be apportioned to Minnesota consistent with the business's sales factor for the year of sale—this includes future year installments if the taxpayer elects to defer under Minnesota Statute Section 290.0137, paragraph (b). In general, all income is business income unless it cannot be apportioned to Minnesota because of limitations on the State's authority to levy taxes under the US and Minnesota Constitutions—in such cases, gains (including future year installment gains deferred under Minnesota Statute Section 290.0137, paragraph (b)) must be assigned to Minnesota using the rules and ratios provided for under Minnesota Statute Section 290.17, subd. 2(c).

Will there be relief for taxpayers who have not elected to defer if they are required to report contingent gains in the future?

No. Taxpayers who are required to report contingent gains should follow the guidelines in IRS Publication 537. They must timely file an election to defer on Schedule M1AR to avoid the application of the acceleration required under Minnesota Statute Section 290.0137, paragraph (a).

If a taxpayer has already been on an installment sale, does this new election need to be made?

If the sale occurred on or before December 31, 2016, the taxpayer does not need to file Schedule M1AR.

Estate Tax Questions

When will the 2017 Minnesota Estate Tax Calculator for Decedents be available?

We estimate the 2017 M706 calculator will be available in September. Check our website for updated information. As a reminder, all estates received an automatic 6-month extension to file their estate return. Estate tax payments are due at the original due date (9 months after death).

When will the 2017 Form M706 be available?

We estimate the 2017 Form M706 will be available in September. Check our website for updated information. As a reminder, all estates received an automatic 6-month extension to file their estate return. Estate tax payments are due at the original due date (9 months after death).

Other Questions

Is there a way to get this recording sent to an email?

The script from this conference call is available on our website.

Are the changes discussed today law or will they be dependent on the outcome of the Supreme Court decision?

The changes discussed in the conference call on August 29, 2017 are based off the 2017 House Omnibus Bill signed into law on May 30, 2017.

CCH software required them to go out to CCH website to print vouchers. Will that change this year?

Starting again in tax year 2017, we will allow software providers to create vouchers for partnership, corporation, S corporation, and estate and trust tax returns. We will continue to allow tax software to create return, amended return, extension, and estimated payment vouchers for individual income tax.

We noticed the sequence number has been removed from the Minnesota individual income tax schedules. Is there still a specific order you want the schedules in when taxpayers file their returns?

The instructions booklets have a suggested order.

When should we expect ATS scenarios to be released?

ATS scenarios will be released for software providers October 25.

Contact

For individual income tax questions, contact us by:

Phone: 651-296-3781 or 1-800-652-9094 (toll-free)

Email: individual.incometax@state.mn.us

For electronic filing questions, contact us by:

Phone: 651-556-4818

Email: efile.prepsupport@state.mn.us