

Questions and Answers from Webinar with Tax Professionals: January 25, 2018

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Below are the questions and answers from the January 25, 2018 webinar for tax professionals on 2017 Minnesota Individual Income Tax law changes.

Property Taxes Paid in 2017

Are 2018 property taxes paid in 2017 allowed as a deduction on 2017 Form 1040, Schedule A?

Many of you asked about the deductibility of 2018 property taxes paid in 2017. This is the Internal Revenue Service's (IRS) decision. We believe the IRS will consider each state's laws to determine if 2018 property taxes paid in 2017 will be allowed as a deduction for tax year 2017. The IRS decision will carry over to the Minnesota return.

The IRS has not yet made a determination on this particular issue for Minnesota, but we will continue to reach out to them for clarity. We will also communicate any new information to you through our email updates. [Subscribe to our tax professional email updates](#) to receive the most up-to-date information.

Education Savings Account Contribution Credit or Subtraction

Qualified 529 distributions in a later year are not recaptured as income. Is this correct?

Correct. Your client only needs to report distributions during years they made contributions to a qualifying 529 account and claimed the Education Savings Account Contribution Credit or Subtraction.

Qualified Minnesota distributions are only for post-secondary expenses, not K-12 private school tuition. Is this correct?

Correct. Minnesota does not currently allow clients to use education savings account distributions for elementary and secondary expenses.

Does the Education Savings Account Contribution Subtraction only apply to contributions made during the 2017 calendar year?

Yes. For the 2017 subtraction, clients must make contributions by December 31, 2017.

Can the Education Savings Account Contribution Credit or Subtraction come in to play if I contribute to a Coverdell Educational Savings Account versus a section 529 account?

To qualify for the credit or subtraction, you must make contributions to a qualifying 529 account. Contributions to a Coverdell account would not qualify.

How is the distribution from a section 529 plan known to all contributors? Will contributors receive federal Form 1098-Q?

You will need to obtain information regarding contributions and distributions to 529 accounts from your client's records. Your client will need to contact the account beneficiary to get this information.

On Schedule M1529, is the "trustee" the beneficiary? Is it the student's name or the person who made the contribution?

The trustee is the name of the financial institution administering the 529 account.

On Schedule M1529, how is the distribution from a section 529 plan known to all contributors?

Contributors to a 529 account will need to contact the account beneficiary to know when distributions have been taken from the account.

The line 1 instructions for Schedule M1529 do not state that only contributions made during the calendar year count. Obviously, that is correct, but the instructions fall short in making that clear. Clear and unambiguous instructions would be helpful.

Thank you for bringing this to our attention. We will look into editing the instructions to make that point clearer.

Are contributions made prior to 2017 allowed on 2017 Schedule M1529?

No. For the 2017 schedule, clients must have made contributions on or after January 1, 2017 but before December 31, 2017.

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

It does not seem like anyone would qualify for the master's degree credit in 2017 if the program had to begin after June 30, 2017 and be completed before December 31, 2017. Is this correct?

The qualifying master's degree program had to begin after June 30, 2017, and clients may claim the credit in the year they complete the program. We are not anticipating many people to qualify for the 2017 credit. However, we anticipate seeing more people who will qualify for the 2018 credit.

Can you please list the site to look up the teachers information for Schedule M1CMD?

The Minnesota Department of Education's website is <http://education.state.mn.us>.

Is this credit only available to those who start a master's degree program in 2017?

Your client must begin a qualifying master's degree program after June 30, 2017. They can start the program after this date, but they only claim the credit in the year they complete the program.

First-Time Homebuyer Savings Account Subtraction

Can a client who bought and built their first house without a loan file Schedule M1HOME?

Clients may file Schedule M1HOME to claim the first-time homebuyer savings account subtraction for interest and dividends earned on money saved specifically for a home. They must designate the account as a first-time homebuyer savings account with the Minnesota Department of Revenue. Withdrawals from the account must be used for eligible expenses. Eligible expenses include the down payment, closing costs, cost of construction, or financing the construction of a single-family home.

Can a client open a brokerage account as their savings account, or must it be a savings account at a bank or credit union? Also, must the account have a specific title? For example, the Education Savings Account Contribution Subtraction must be for contributions to a section 529 account. To qualify for the subtraction, would the taxpayer need to open a bank account that has a title such as "homesaver's account"?

The qualifying account must be a savings account from a bank or credit union. There is no need to designate the account as a first-time homebuyer savings account with the financial institution. To claim the subtraction, use Schedule M1HOME to designate the savings account as a first-time homebuyers savings account with us.

Can the first-time homebuyer savings account be a mutual fund account, or does it only apply to bank accounts?

A subtraction is only available for the amount of interest or dividends earned on a first-time homebuyer savings account. The account must be a savings account from a bank or credit union.

Given that interest rates are still low, can the account be set up at a financial institution that acquires mutual funds, or is it strictly dedicated toward the traditional savings account? Can there be something like a savings account with investment in a fidelity and savings type account that would have mutual funds to grow a little faster than the traditional savings account?

For the subtraction, the qualifying account must be a savings account from a bank or credit union.

Does a client need to give the bank account a specific title when it is opened, or can it just be a savings account in the client's name?

When a client opens the account at the bank, they do not need to designate it with the financial institution in any way. The account is only designated with the filing of Schedule M1HOME.

Student Loan Credit

Are there guidelines on what to tell our clients to collect and bring in?

Clients will need to provide documentation of:

- Payments on loans used to pay for their post-secondary education.
- Total amount of student loans taken out to finance their post-secondary education. This includes loans paid off before 2017 or for which payments are not yet due.

To obtain this information, your clients should contact their lender or review the loan origination documents.

Beginning Farmer Incentive and Management Credits

Can you go over the new beginning farmer tax credits?

You can find Beginning Farmer Incentive and Management Credit information on our website at www.revenue.state.mn.us, under the orange Tax Law Changes button.

Tax Year 2017 Federal Adjustments

If a partnership takes 100 percent bonus depreciation, it appears they still list all the bonus depreciation taken on Schedule KPI. How does a client obtain the information to determine what the 100 percent depreciation was and what the lives of those assets are? Do they treat that bonus as all only 50 percent?

We posted updated business forms and instructions on February 8, 2018. The updated forms and instructions include Forms M2, M3, M4 and M8. These changes are also reflected on their related schedules. We also updated Schedule M1NC with additional instructions for individuals receiving Schedule KPI, KS or KF. For more information, see [our February 8 email update](#).

How will we recalculate depreciation from Schedule KPI or Schedule KS if we do not have that information on Schedule K-1?

We posted updated business forms and instructions on February 8, 2018. The updated forms and instructions include Forms M2, M3, M4 and M8. These changes are also reflected on their related schedules. We also updated Schedule M1NC with additional instructions for individuals receiving Schedule KPI, KS or KF. For more information, see [our February 8 email update](#).

How is a pass-through entity supposed to get the bonus depreciation information to the shareholder or partner?

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Will you provide an example for the 100 percent bonus deduction?

An example will be provided on our [Federal Bonus Depreciation Addition](#) page.

Will you change Schedule KPI to provide the information needed to calculate the lives and basis for Schedule M1NC?

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My question is related to the bonus depreciation calculation specifically for business property placed in service after September 27 where I took a bonus depreciation of 100 percent. Do I add all of that back when I'm trying to calculate my adjustment? Do I only add the 50 percent and include the other 50 percent in my 80 percent calculation? How exactly does that work?

In your example, you claimed 100 percent bonus depreciation on the asset. You will include the bonus depreciation claimed beyond 50 percent on Schedule M1NC, line 1. You will also include 100 percent of the bonus depreciation claimed on used property, qualified film theatrical productions, or television expenses. Use Schedule M1NC, line 3 in the calculation of your 80 percent addback on Schedule M1M, line 5.

So when I'm calculating Schedule M1NC, line 2 for the allowed bonus depreciation, I would just use my appropriate method for that remaining 50 percent in determining what I would be allowed under Minnesota?

Correct. Schedule M1NC, line 2 is the allowable depreciation using the appropriate method for the assets included on line 1.

Is there somewhere I can go to see a full example of the allowable deduction for assets purchased after September 27, 2017 where you take 100 percent bonus depreciation on the federal return?

That information is available on the IRS website.

What is the chance that Minnesota will conform before April 17, 2018 and therefore no longer need Schedule M1NC?

The 2018 Minnesota Legislative Session begins on February 20, 2018. We will monitor the legislative session to see if or how much Minnesota conforms to the federal legislation.

When are you going to conform with federal rules?

The 2018 Minnesota Legislative Session begins on February 20, 2018. We will monitor the legislative session to see if or how much Minnesota conforms to the federal legislation.

Will Minnesota adopt all or some of the 2018 federal changes passed in December?

The 2018 Minnesota Legislative Session begins on February 20, 2018. We will monitor the legislative session to see if or how much Minnesota conforms to the federal legislation.

Preparer Paper Filing Fee

What if someone wants to file their return on paper instead of e-filing it? I understand the fee is \$5 per return filed on paper, and as a preparer I have to pay this fee. Is this correct?

If you are a paid preparer who is required to file Minnesota tax returns electronically, you must pay a \$5 fee for each paper-filed original return that could have been e-filed. For more information on how to report and pay this fee, please see [Income Tax Fact Sheet 17 – Preparer's Paper-Filing Fee](#).

Other

Will Minnesota allow taxpayers to contribute to a state charity fund instead of paying state income taxes, like California and New York are trying to do?

The 2018 Minnesota Legislative Session begins on February 20, 2018. We will monitor the legislative session to see if or how much Minnesota conforms to the federal legislation.

Contact

Contact us for individual income tax questions:

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