DEPARTMENT OF REVENUE

Conference Call with Tax Professionals: August 29, 2017

Hello and thank you for joining us today. I'm Geoff Fournier with the Income Tax and Withholding Division.

Today we will discuss legislation signed by Governor Dayton on May 30th that affects Minnesota Income Tax returns for tax years 2017 and beyond, and how these law changes affect the 2017 Minnesota Individual Income Tax Return.

Website

As a reminder, we do have a centralized location for keeping you informed of the tax law changes. From our homepage

- You will see an orange box labeled "tax law changes"
- Click on that box and it will take you to the page dedicated to the tax law changes

Legislation

Legislation passed during the 2017 Minnesota legislative session contained several provisions that impact the Minnesota Individual Income tax. These provisions were included in the Omnibus Tax bill.

These provisions are effective for different tax years and:

- Impact Residency
- Establish 5 new, non-refundable credits and one new refundable credit
- Modify 2 existing credits
- Create 4 new subtractions from taxable income
- Add 2 new additional taxes
- Create a new election for nonresidents or part-year residents reporting certain sales
- Make a technical correction to the property tax refund
- Impact withholding filing due dates
- Impact the calculation of alternative minimum tax
- Enhance expectations for paid tax preparers

Residency

This page is our one-stop shop for residency information. Taxpayers are considered a Minnesota resident for income tax purposes if they are either domiciled in Minnesota or they meet the statutory residency test. The Omnibus bill modified factors that can be considered in the domicile test.

The bill excludes, from the domicile test, consideration of the location of an individual's attorney, certified public accountant, financial advisor, and the place of business of a financial institution the individual engages. This is consistent with Revenue Notice 16-01.

This law is effective beginning in tax year 2017.

Tax Credits

Next, we will talk about the tax credits that were established during the legislative session. These new credits are for:

- Certain income taxes paid to Wisconsin
- 529 college savings account contributions
- Student loan payments
- Teachers who complete a qualifying master's degree
- Beginning Farmer Incentive Credit, and
- Beginning Farmer Management Credit

Most of these credits are effective for tax year 2017; however, the 2 beginning farmer credits, are effective for tax year 2018. All of these credits are non-refundable except the credit for certain taxes paid to Wisconsin, which is refundable.

Credit for Certain Taxes Paid to Wisconsin

Income tax reciprocity between the State of Minnesota, and Wisconsin ended beginning with tax year 2010. This credit is very similar to the credit for taxes paid to another state, reported on Schedule M1CR; however, unlike the credit for taxes paid to another state, this credit is not limited to the Minnesota taxes on the income if the Wisconsin taxes are greater.

This credit is available to individuals who are domiciled in Minnesota and receive income from personal or professional services such as wages, salaries, tips, commissions, fees, or bonuses for work performed in Wisconsin. Other forms of income taxed by Wisconsin are not allowed in calculating this credit, but are eligible for the nonrefundable credit for taxes paid to another state.

Beginning in tax year 2017, individuals who are claiming credit for taxes paid to Wisconsin will file a new schedule called the M1RCR. Individuals who are claiming credits for taxes paid to other states will continue to file the M1CR.

This change is effective for tax year 2017.

Credit for 529 College Savings Account

Federal law allows taxpayers to establish an account from which gains are exempt from federal income tax as long as distributions are used for qualifying education expenses. These are commonly known as 529 accounts.

The new Minnesota credit is equal to the lesser of $500 or 50% of the net contributions made during the year. This credit phases out for taxpayers with an adjusted gross income over $75,000.

For individual filers, this maximum is reduced by 2% of AGI exceeding $75,000, and they are not eligible if their AGI exceeds $100,000.

For joint filers with AGI in excess of $75,000 but less than $100,000, the maximum credit is reduced by 1% of AGI exceeding $75,000. Joint filers with AGI between $100,000 and $135,000 are eligible for a maximum credit of

$250. For joint filers with AGI between $135,000 and $160,000, the $250 maximum credit is reduced by 1% of AGI exceeding $135,000. Joint filers with AGI exceeding $160,000 are not eligible for the credit.

Contributions to non-Minnesota plans as well as Minnesota plans are eligible for this credit.

Taxpayers will use the new Schedule M1529 to claim this credit or the new subtraction that we will discuss later in this call. Taxpayers are eligible to claim only the credit or the subtraction.

Credit for Student Loan Payments

The non-refundable credit for student loan payments is available to residents and part-year residents with earned income who made payments on qualifying education loans during the year. The credit is calculated based on an individual's AGI and amount of student loan payments. The maximum credit is $500 each year per individual. For married couples filing a joint return, the maximum credit is $1,000 if both spouses made payments to qualified loans.

For individuals claiming this credit, the maximum allowed is the least of

- $500
- The individual's earned income
- The sum of 10% of the original loan and the interest payments made during the current year, and
- The loan payments in the current year minus 10% of the taxpayer's AGI in excess of $10,000. In the case of married couples, each spouse is eligible for the credit.

For married couples filing a joint return, the credit is calculated separately for each spouse using the joint AGI. Taxpayers will use the new Schedule M1SLC to claim this credit beginning in tax year 2017.

Credit for Teachers who obtain a Master's Degree

To qualify for this credit, the teacher must have a Minnesota teaching license when they start and complete their master's degree program, the degree must be in a core content area directly related to the teacher's licensure field, and qualifying programs cannot include pedagogy or a pedagogy component. The credit is available in the year they complete their program, and it is only available to individuals that start their program after June 30, 2017.

This credit is up to $2,500 but is limited to the total amount paid in tuition and required fees, books, and instructional materials, reduced by any scholarships and employer reimbursements. Qualifying taxpayers will use the new Schedule M1CMD to claim this credit beginning in tax year 2017.

Beginning Farmer Incentive Credit

The Beginning Farmer Incentive Credit will be available to owners of agricultural assets who sell or rent their assets to beginning farmers in Minnesota. While the credit is nonrefundable, unused portions may be carried over for up to 15 years. Farmers who claim this credit will be required to receive approval and certification from the Rural Finance Agency.

Beginning Farmer Management Credit

The Beginning Farmer Management Credit will be available to beginning farmers in Minnesota to cover costs of participation in an approved financial management program. This credit is also nonrefundable and may be carried over for up to 3 years. These credits are not available until tax year 2018 and more information will be made available regarding these credits on the Department's website in the coming months.

Child Care and Dependent Care Credit Modification

The existing Child and Dependent Care Credit is limited to those with household incomes below $39,510 for tax year 2016. The tax bill changed the income measurement used to adjusted gross income, and expanded the credit beginning with tax year 2017. For taxpayers with AGI of $50,000 or less, the state credit will equal their credit at the Federal level.

Taxpayers with 1 qualifying dependent and AGI between $50,000 and $62,000 are eligible for a maximum credit of $600 that is reduced by 5% of AGI exceeding $50,000. Taxpayers with 1 qualifying dependent and AGI over $62,000 are not eligible for the credit.

Taxpayers with 2 or more qualifying dependents and AGI between $50,000 and $74,000 are eligible for a maximum credit of $1,200 that is reduced by 5% of AGI exceeding $50,000. Taxpayers with 2 or more qualifying dependents and AGI over $74,000 are not eligible for the credit.

Schedule M1CD has been updated to reflect these law changes, and you will continue to claim this credit on Schedule M1CD.

Working Family Credit Modification

The modifications to the Minnesota Working Family Credit that are effective this year affect American Indians living on reservations. American Indians working and living on an Indian reservation no longer need to apportion their income when calculating their working family credit. The existing Schedule M1WFC has been updated to reflect this law changes.

Repeal of the Greater Minnesota Internship Credit

The final change to individual income tax credits effective this year is the repeal of the Greater Minnesota Internship Credit. Credits from agreements that were entered into prior to June 30, 2017 can be claimed this year, but taxpayers can no longer enter into new agreements.

Subtractions

The bill establishes 4 subtractions from federal taxable income that are effective for tax year 2017. Those subtractions are for:

- 529 college savings account contributions
- Certain student loan debt forgiveness income
- Social Security benefits, and
- First-time homebuyer savings account

529 College Savings Account Subtraction

In addition to the new credit for contributions to a 529 account, the bill also established a subtraction for contributions. Taxpayers may claim either the credit or the subtraction, but not both. The subtraction is up to $3,000 for married couples filing a joint return, or $1,500 for all others. You will use the new Schedule M1529 to determine this subtraction.

Discharge of Indebtedness for Education Loans Subtraction

Individuals that receive a discharge of indebtedness of a qualified education loan after completing a federal income-based repayment plan are required to include the amount of debt discharged in their federal taxable income. Beginning in tax year 2017, these taxpayers will be able to subtract this amount to determine their Minnesota taxable income. A new line on the existing Schedule M1M will be used to report this subtraction.

Social Security Benefit Subtraction

The Social Security Benefit Subtraction is available beginning tax year 2017. This subtraction will be reported with a new line on the existing Schedule M1M. The amount of this subtraction varies depending on a taxpayer's filing status and their provisional income. Provisional income is AGI plus tax-exempt interest and one-half of a taxpayer's total Social Security and tier 1 Railroad Retirement benefits.

For married taxpayers filing a joint return or qualifying widowers with a provisional income less than $77,000, the maximum subtraction is $4,500. This subtraction is reduced by 20% of provisional income over $77,000. The subtraction is fully phased out when provisional income exceeds $99,500.

For single taxpayers or heads of household with a provisional income below $60,200, the maximum subtraction is $3,500. This is reduced by 20% of provisional income over $60,200, and the taxpayer is not eligible when their provisional income exceeds $77,000.

For married taxpayers who file separate returns with a provisional income below $38,500, the maximum subtraction is $2,250. This amount is reduced by 20% of their provisional income over $38,500, and they are not eligible when their provisional income exceeds $49,750.

A worksheet will be added to the instructions for Schedule M1M, and you will report this subtraction on a new line on that form.

First-Time Homebuyer Savings Account Subtraction

Beginning in tax year 2017, individuals contributing to a First-time Homebuyer Savings Account will be able to subtract from Minnesota income the amount of interest earned on their account. The First-time Homebuyer Savings Account is a new program this year. Through it, individuals may designate an eligible account and contribute up to $14,000 per year, or $28,000 per year for married couples filing jointly. The account may be used by a designated first-time homebuyer for eligible expenses including closing costs and the down payment for the purchase of a qualifying residence. Taxpayers open their savings account with a bank or other financial institution and then designate the account as a first-time homebuyer savings account by filing the required information on Schedule M1HOME when they file their income tax return. Accounts must be designated as a first-time homebuyer savings account by April 15th of the year following the year the account was opened.

Anyone may establish or contribute to a first-time homebuyer savings account, and all contributions are reported on the new Schedule M1HOME. In addition to being used to calculate the subtraction, Schedule M1HOME will be used to calculate an addition and an additional tax for the first-time homebuyer savings account program if the taxpayer takes a nonqualified distribution.

Taxpayers are required to report any amount previously reported as a subtraction from Minnesota income that is withdrawn from the account. Amounts that are used for anything other than eligible costs are required to be added back to Minnesota income tax in the year it is withdrawn. If any amount claimed as a subtraction remains in the account at the end of the tenth year the account is open, that amount also must be reported as an addition on Schedule M1HOME. The additional tax equals 10% of the required addition.

529 College Savings Account Recapture Tax

This tax is effective beginning in tax year 2017, but because it only applies to amounts that were previously used to claim a Minnesota subtraction or credit, no taxpayers will be subject to the recapture tax for 2017. You will see more information about this recapture tax on our website in the coming months and forms will be updated for tax year 2018.

Accelerated Recognition of Certain Installment Sale Gains

A change to the recognition of installment sale gains is effective beginning in tax year 2017. This change requires taxpayers to accelerate recognition of their gains from an installment sale of any interest in, or assets of, an S corporation or partnership if they are a nonresident at the time of sale or become a nonresident during the period they are receiving installments. However, individuals are able to elect to defer their gains and report their income using the installment method if they agree to timely file a Minnesota return with the necessary federal supporting information. Individuals choose to either accelerate their gains or make the election to defer by submitting the new Schedule M1AR with their Minnesota individual return. Full-year residents are not required to complete this schedule.

Business Use of Home

This provision impacts the Homeowners' homestead credit refund and renters' property tax refund.

Effective immediately, taxpayers who use their home for business purposes must reduce their property taxes payable regardless of IRS limitations on deductions or method used to calculate the deduction. This change is already reflected in updated forms and instructions available on our website.

Withholding Tax changes

The due date for all W-2s and all required 1099s is now January 31. This matches requirements set by the IRS. The due date for any promoter's filing Form ETA, *Nonresident Entertainer Tax Promoter's Annual Reconciliation*, is also moved forward to January 31.

In addition to these changes, the due date for annual filers has moved forward.

Employers who qualify to file and pay their withholding tax annually must now do so by January 31.

As I'm sure you all know, we have more tax changes this year than we have had for the last few years combined. We are still working to review the legislation and ensure that all necessary steps are taken to prepare for the tax filing season.

Now we are going to talk about an expansion of the electronic filing requirement for tax preparers that was passed in the tax bill.

Currently, tax preparers who file 10 or more individual income tax returns by paper must do so electronically and are subject to a $5 per return fee for each return above that limit that is filed by paper. The tax bill expanded that requirement to include corporate, S-corp, partnership, or fiduciary returns as well.

Partnership changes

We recently discovered an error on the Schedule KPI. This error may have resulted in a small number of partners who appeared to meet the minimum filing requirement when they did not. This error on the form, which was reported on line 19 of Schedule KPI, has been corrected.

Administration and Changes

Thank you for staying with us for the administration and changes portion of the conference call. I'm Jonathan Randolph, Software Provider Lead.

Logos and Branding

We've updated our forms to match the new Minnesota logos and branding. You'll notice the forms look different, with a new logo, new fonts, and many of our forms have barcodes on the top right corner. These updates allow us to better identify the new forms during processing.

Voter Registration

In the past, we've requested voter registration information from taxpayers every other year. Going forward, this information will be included 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."

Use Electronic Returns and Electronic Payments

We encourage all taxpayers and tax professionals to use electronic returns and electronic payments. They are easy to use and more secure for Individual Income Tax, Insurance Premium Tax, C corp, S corp, Partnership, and Fiduciary taxes.

- Customers can set up their return payment for the day they file their return or the payment due date.
- They can request when their estimated taxes are withdrawn from their accounts so they don't need to worry about mailing a check later.

- And they can 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. We thank you for your support in changing over to electronic payments!

Voucher Specifications for Business and Estate Vouchers

We have added back voucher specifications for business and estate vouchers. Vouchers can be created for withholding deposits. They can also be created for return, amended, extension, and estimated payment vouchers for Individual Income, C corp, S corp, Partnership, Fiduciary, and Unrelated Business Income (UBIT) taxes. Returns that include a PTIN must have the PTIN on the payment voucher. The PTIN will help us identify the source of voucher issues. To ensure accuracy of the vouchers, do not generate vouchers outside of your approved, professional software products.

New this year:

- Vouchers have the new logo
- Vouchers no longer have registration marks, which are the brackets you normally see on the outer edges

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

Updated Mail Stations

We updated some mail stations to improve processing of payments for businesses. Mail stations for returns and payments may be different; mailing instructions will be on the returns.

Error Rejection Codes (ERCs)

There are a few new Error Rejection Codes you might notice this year.

- One of the new ERCs prevents a name suffix from appearing in the last name field.
- We will also add an ERC to reject returns that have an address without any spaces. Please make sure the address on the return is a valid mailing address. An address error is a common reason a return may be delayed in processing.

Based on your feedback, this year we will send a description of the error along with the error code in our acknowledgement.

If you have questions about ERCs, you can find more information from our main webpage. Click the "Error Rejection Codes" link in the "Tax Professionals" tab.

Fraud Prevention

As we prepare for another tax filing season, it will be even more critical to 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.

IRS “e-Services Online Tool” for EFINs

You should check your EFIN on the IRS’ “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 866-255-0654. You can also contact us at 651-296-3781 or toll free at 1-800-652-9094 for more information.

IRS Tool to Help Monitor PTINs

The IRS also has a tool to help monitor your PTIN. Tax professionals can help protect clients and their businesses from identity theft by checking their PTIN accounts to ensure the number of returns filed using their identification number matches IRS records. It is 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 Form 14157, Complaint: Tax Return Preparer, to the IRS.

Prevent Fraud Resources

We encourage you to always be on the lookout for fraud. Remember to continue making and updating strong passwords on your computer, validating requests for your customers’ information, and being cautious about clicking links in your email.

Recently, we’ve seen an increase in the number of victims for W2 phishing scams. To raise awareness about the fraud attempts, we created a poster you can put up at your workplace, share with coworkers, or put in employee orientation books.

You can access this poster by using the “News for Tax Preparers” link then look in the “Help Prevent Fraud” area.

Other reminders

M3A, M4A, and M8A Property, Payroll, and Sales Values

M3A, M4A, and M8A property, payroll, and sales values cannot be negative. Currently preparers can make adjustments within the property, payroll, and sales value lines. Our 2017 schemas will reject returns with a negative value on any of these lines. All adjustments should be made on Line 7.

Register Fiduciaries

Ensure Fiduciaries are registered and use their correct Minnesota ID when submitting payments and returns. If the Fiduciary does not have a Minnesota ID, please register them before submitting returns and payments. This will eliminate duplicate accounts being registered and bills sent in error.

State Driver's License or State ID Card Information

Minnesota does not require state driver's license or state ID card information. Providing or not providing driver's license or state ID card information will not affect processing time.

"Where's My Refund" Tool

"Where's My Refund" is available on our main webpage. Every return we receive is different; processing times will vary. Using the "Where's My Refund?" webpage, taxpayers can follow their return through our process. When we are finished processing the return, your customers will see the date their refund was issued.

Notes and Tips

Lastly, I'd like to highlight a few notes and tips for you:

- If your customer wants printed forms, make sure your print settings say "Print Actual Size." This will speed the processing of taxpayer returns.
- If your customer lives in an apartment, make sure you are not entering the apartment number or letter twice.
- If you use electronic payments, your customers 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 main webpage; click "e-Services Information" under the Businesses tab, then "Accounts available to file, pay, and view."
- And of course we encourage everyone to file and pay electronically. It is safe, fast, and easy.

Closing

Sign up for GovDelivery

There are a few other changes that will affect tax year 2018 and beyond. Please sign-up to receive email updates on these changes by clicking on the red envelope on our website or continue to check back for more information in the coming months.

Thank You

We want to thank you in advance for all the work you are doing in preparing for next season. We appreciate your continued support and the job that you do helping taxpayers file their returns. We look forward to working with you before and during this next filing season.

Contact information for questions you have is available on our webpage. You can also contact us at 651-296-3781 or toll free at 1-800-652-9094.