

Webinar with Tax Professionals: September 5, 2019

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Hello and thank you for joining us today. My name is Mark Krause and I'm the Tax Professional Outreach Coordinator with the Income Tax and Withholding Division. I am joined today by Allyson Casseday, the External Training and Communications Specialist with the Corporate Franchise Tax Division, who will be helping present the material today. There are several other Minnesota Department of Revenue employees who are joining us today to assist with your questions.

Before we get started, there are a few housekeeping items we want to cover:

1. We've muted your phone lines. This will eliminate background noise and help facilitate the conversation.
2. At the end of the webinar, we'll open the phone lines one at a time to take your questions and comments. The operator will facilitate this process and will call on those who want to speak one at a time.
 - Select the green tab at the top of your screen labeled Michelle Kluge desktop and select chat
 - A chat box will appear for you to send us questions or comments.
 - We'll capture your questions and comments throughout the webinar. If we do not get to your question, we'll follow up with you afterwards.

Today, we will primarily focus on the changes for the upcoming filing season. This includes:

- Reviewing some of the major legislative changes
- Walking through some of the updated 2019 Minnesota Individual Income and Business Tax forms
- Taking your questions about preparing taxes for the 2019 tax year filing season

Changes for tax year 2017

The 2019 omnibus tax bill recognizes many of the federal law changes that affected tax year 2017. The federal law changes affected depreciation in various ways and included common tax deductions that had previously expired but were extended to tax year 2017. The federal law changes and extended deductions included:

- Mortgage debt forgiveness – excludes from gross income discharge of qualified principal residence indebtedness income
- Various depreciation items – extends through 2017 depreciation rules for assets, generally providing an accelerated depreciation through shorter recovery periods or expensing rules
- Expanded bonus depreciation for property acquired and placed in service after September 27, 2017
- Suspended limits for charitable deductions and special rules for early distributions from retirement accounts related to disaster relief

The bill does not recognize the federal extension of the deduction for mortgage insurance premiums and the tuition deduction. These deductions are not allowed for Minnesota tax purposes in 2017. The department will take a similar approach to implementing these changes that we have taken in the past. We will review and adjust affected returns and issue refunds or bills as appropriate. We anticipate these adjustments will happen by the end of the calendar year.

For tax year 2017, we will remove the additional tax charge (ATC), commonly referred to as the underpayment penalty for estimated income tax if both of the following apply:

- You underpaid due to uncertainty in tax planning as a result of federal tax law changes effective after December 31, 2016
- Your tax after allowable credits is less than \$1,000

If you have already filed, do not amend. If your underpayment of estimated income tax was less than \$1,000 for tax year 2017, we will refund the ATC paid.

If you still need to file your 2017 return, file your return using the updated forms (Schedules M15, M15C, M15NP, and EST).

Changes for tax year 2018

The omnibus tax bill recognizes most of the provisions from the federal law changes that affect tax year 2018. Many individuals will not see a change in their refund or amount due because of the special limited adjustment provision of the tax bill. The bill aligns Minnesota with some complicated federal tax items such as depreciation that would have complicated future returns. We will review and adjust affected returns and issue refunds or bills as appropriate. We anticipate completing these adjustments by the summer of 2020.

For tax year 2018, we will remove the penalty for underpayment of estimated income tax (“ATC”) due to the uncertainty of tax planning that resulted from the historic federal law changes made in the TCJA in 2016, which were not addressed in Minnesota law until 2019.

If you already filed a 2018 return, do not amend. We will refund the ATC paid. If you still need to file your 2018 return, do not include the ATC on the return. We removed the 2018 Schedules M15, M15C, M15NP and EST.

Moving on to late file and late pay penalties, if you are assessed a penalty and interest due to the uncertainty of tax planning that resulted from the historic federal law changes made in the TCJA in 2016, which were not addressed in Minnesota law until 2019, you may qualify for relief.

If you have already filed your 2018 return, do not amend. We will adjust your return and remove late file penalties, late payment penalties and interest related to the tax law changes.

If you still need to file, do not include penalties on your return. We will calculate penalties and interest and let you know the amount to mail. You may request the department remove penalty and interest related to the tax law changes by following the instructions in the letter. If you receive a bill that includes penalties and interest related to the sudden 2019 Minnesota tax law changes, you may request the department remove related penalty and interest by following the instructions in that bill.

Feedback

I'd like to take a few minutes to switch gears and share how we have incorporated some tax professional feedback the department has received over the last year. We solicited input and feedback from preparers through various means over the past year. We used your feedback to help develop our forms and how we communicate with our tax professional partners and taxpayers about the tax law changes.

Some suggestions included:

- Labelling form sections on the face of Schedule M1SA, *Minnesota Itemized Deductions*, to clarify types of deductions included
- Creating Schedule M1PR-AI, *Additions to Income*, to identify types of additional nontaxable income needed to calculate household income for the Homestead Credit Refund (for Homeowners) and Renter's Property Tax Refund
- Making commonly used information easier to find on our website as part of our website redesign
- Adding language to our letters explaining that any conformity adjustments are due to tax law changes and not preparer errors
- Implementing new online web forms for some clients to quickly and easily provide us additional information we request. We hope to keep expanding this option to more clients who receive letters from us.

Our contact center has also worked on improving efficiency and effectiveness to assist more customers. We have increased our service levels year after year, reducing hold times and quickly getting customers the information they need. We will continue exploring ways to better serve our customers as new technologies and approaches create new opportunities.

All these subjects came to our attention through listening sessions, our tax law changes email address TaxLawChanges@state.mn.us, and relationships we've built through Outreach work.

Website

I'd like to take a moment to highlight our [Tax Law Changes page](#), which is accessible from the link in the bottom footer of our website.

We've put many items relating to the upcoming filing season on this webpage. For example, you can find the [2019 near final draft forms and instructions](#) for all tax types and the [2019 Legislative Bulletins](#). You can also access our Tax Law Changes FAQs

We organized the [FAQs for Businesses and Individuals](#) and we placed the date last updated next to each.

Going one step further, we've organized these FAQs by topic and also let you know if the FAQs are new or updated and when we last updated them. These pages should help you stay on top of our updates as we approach the filing season and as we post more answers to your questions. If you have a question we have not yet answered on our FAQ pages, email us at TaxLawChanges@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 gray envelope at the bottom footer of our website to sign up for email updates. There are other email lists under "Tax Professionals" that you can sign up for as well along with email lists specific for businesses.

2019 Business and Fiduciary Income Tax Law Changes

Next, I will be sharing a high-level overview of the Minnesota tax law changes impacting 2019 tax returns for business and fiduciary income taxpayers.

You can access [2019 draft forms and instructions](#) for many tax types on our website.

The legislature passed a number of new Minnesota modifications relating to the federal international reform. Here is the [2019 Schedule KPI, Partner's Share of Income, Credits, and Modifications](#), to highlight just one of the many business forms and schedules we updated to include these modifications.

First, Minnesota does not conform to the **foreign derived intangible income deduction**, commonly known as FDII (pronounced "FID-ee"). This deduction has a new Minnesota addition to reverse the federal effects shown on line 6 of 2019 Schedule KPI. Minnesota is not taxing **deferred foreign income** under Internal Revenue Code (I.R.C.), section 965, for any income taxpayers. On the KPI the deferred foreign income modifications are on lines 7 and 13. Similarly, Minnesota is not taxing **global intangible low-taxed income**, more commonly known as GILTI (pronounced "guilty"). On the KPI, the GILTI subtraction is on line 14. The line numbers for these modifications will be different on our other forms.

The legislature also passed a few more Minnesota modifications. **Section 199A** is a federal deduction available to individuals, estates, and trusts with "qualified business income." Minnesota does not allow this federal deduction and requires an addback modification for fiduciary income taxpayers. In addition,

the legislation passed a new modification for medical cannabis manufacturers so they can subtract **federally disallowed section 280E expenses**. This subtraction is on line 15 of Schedule KPI. This subtraction will be on different lines on our other forms.

Now I am going to cover just a few of the Tax Cuts and Jobs Act (TCJA) provisions that Minnesota recognizes the tax effect of.

Section 179 expensing was modified by expanding the list of qualified property and increasing maximum expensing to \$1 million and investment phase-out threshold to \$2.5 million. Minnesota now recognizes these changes with the familiar 80% addition and subtractions for 5 years. This change is effective for tax year beginning after December 31, 2017.

Bonus depreciation was extended and the adjusted basis depreciation deduction was increased to 100% for both new and used property. Minnesota now recognizes these changes with the 80% addition and subtractions for 5 years. This treatment applies to assets placed in service after September 27, 2017.

For example, if a taxpayer elects 100% first-year deduction for bonus depreciation on their federal return, Minnesota conforms to the adjusted basis of the property regardless if it is new or used property. The taxpayer still needs to addback 80% of their federal bonus depreciation on their Minnesota return. However, the taxpayer will be able to recognize the 80% addback as 20% subtractions in each of the five subsequent Minnesota tax returns.

Business interest deduction limitation was enacted as part of the TCJA that generally limits a business's interest deduction to 30% of adjusted taxable income. Minnesota now recognizes this limitation effective for tax years beginning after December 31, 2017. For unitary businesses, the limitation applies to the entities within the Minnesota combined group, which may or may not be the same as the federal consolidated group. The limitation calculation uses the attributes of only those entities included in the Minnesota combined group. Combined groups that are different from the federal consolidated group will need to complete federal Form 8990, *Limitation on Business Interest Expense Under Section 163(j)*, for Minnesota purposes to determine their Minnesota recognizable interest deduction.

Like-kind exchanges were limited by the TCJA and allowable only on real property. Minnesota now recognizes this limitation effective at the same time the change was effective federally. If you already filed Schedule LK, *Kind-Kind Exchange*, the department will be adjusting your return to reverse the effects of Schedule LK.

The **corporate net operating loss, or NOL deduction** was limited to 80% of the corporation's taxable income as a part of the TCJA. Minnesota now recognized this 80% limitation for C corporations. We have updated the instructions for [2019 Schedule NOL, Net Operating Loss Deduction](#), for this change, including a new example on Page 2. This change is effective for NOL deductions recognized on returns for tax years beginning after December 31, 2017.

The federal **historic structure rehabilitation tax credit** changed as a part of the TCJA to require a 5-year payout of the federal credit. Minnesota conformed to this change and now requires that the credit is claimed in Minnesota in equal installments over 5 tax years beginning when the property is placed in service.

The tax bill defined what **disqualified captive insurance companies** are and requires them to be included in the Minnesota combined group's Minnesota corporate franchise tax return. A disqualified captive insurance company is a company that is both of the following:

- Licensed as a captive insurance company or derives less than 50% of its total premiums from outside the unitary business
- Pays less than 0.5% of its total premiums is premiums tax, or receives less than 50% of its gross receipts from premiums

This change is effective for tax years beginning after December 31, 2016.

The tax bill expanded the definition of **mutual fund managers** when determining the sales factor for businesses. The rule now applies to corporations, trusts, and persons, which includes individuals, estates, and partnerships effective for tax years beginning after December 31, 2018.

The tax bill added a provision that, effective for tax years beginning after December 31, 2018, disallows the corporation dividend received deduction for dividends attributable to **debt-financed stock**. We have updated our [2019 Schedule DIV, Deduction for Dividends Received](#), to incorporate this change on Line 10.

The tax bill made a minor change to the estate tax **qualified small business and farm property deductions** effective for estates of decedents who died after December 31, 2017. The deductions are expanded to allow spousal ownership to be counted in determining if the decedent meets the 3-year ownership test. This change is incorporated on the [2019 Form M706Q, Election to Claim the Qualified Small Business and Farm Property Deduction](#).

Finally, the legislature established a new program called **Launch Minnesota** that began July 1, 2019. The program provides grants and business assistance to entrepreneurs and emerging technology based companies. The grant portion of the program, Innovation Grants, may be used for research and development expenses, direct business expenses, and the purchase of technical assistance or services from public higher education institutions and nonprofit entities. Expenditures funded through innovation grants cannot be used to claim the Credit for Increasing Research Activities ("R&D Credit"). The [2019 Schedule RD, Credit for Increasing Research Activities](#), is updated to refer to Launch Minnesota and the resulting disallowance of expenditures Question 6 asking about participation in Launch Minnesota was added to page 3 of Schedule RD.

2019 Minnesota Individual Income Tax Forms

The 2019 forms have been updated to reflect the changes in the new Minnesota tax law enacted on May 30, 2019. We'll run through our forms to highlight some of these changes.

We'll start with [2019 Form M1, Individual Income Tax](#). Overall, the form is the same, but there are new line references and some of the schedules feeding into the form have been changed.

2019 Form M1, Individual Income Tax

Line 1

Line 1 of Form M1 is federal adjusted gross income (FAGI).

Line 2

Additions to income are reported on line two and come from [2019 Schedule M1M, Income Additions and Subtractions](#). If we look at the additions section of the 2019 Schedule M1M, we'll see just a couple new additions.

Line 7 - Foreign-derived intangible income deduction under section 250 of the Internal Revenue Code. For Minnesota purposes, the amount of the federal deduction must be added to income. The other addition is **Line 13** - Distributions from higher education savings accounts used to pay K-12 tuition. The total additions from line 17 are reported on line 2 of Form M1.

Line 4

Line 4 is where taxpayers report itemized deductions or the standard deduction. The tax bill created Minnesota definitions for both of these items.

The Minnesota standard deduction is now defined by Minnesota Statute 290.0123 and matches the federal standard deduction amounts for 2019. The deduction is reduced as adjusted gross income exceeds \$194,650 for all filing statuses except for Married filing separately. It is reduced for income exceeding \$97,325 for an individual who is married and filing a separate return. The standard deduction amounts for tax year 2019 are as follows;

- **Married filing jointly and Qualifying widow(er)** - \$24,400
- **Head of household** - \$18,350
- **Single and Married filing separately** - \$12,200

For taxpayers who are over 65, there is an additional deduction of \$1,300 for married taxpayers and their spouse, or \$1,650 dollars for taxpayers who are not married or a surviving spouse. For taxpayers who are blind, there is another additional deduction of \$1,300 for married taxpayers and their spouse, or \$1,650 for taxpayers who are not married or a surviving spouse.

For taxpayers who can be claimed as a dependent on another individual's return, the standard deduction is the greater of \$1,100 or the taxpayer's earned income plus \$350, up to the standard deduction for their filing status.

2019 Minnesota Itemized Deductions (Schedule M1SA)

The Minnesota itemized deductions are now defined by Minnesota Statute 290.0122. Minnesota's allowable itemized deductions are similar to the federal deductions, so some deductions will carry from the federal Schedule A while others will be determined separately. The total itemized deductions are reported using [2019 Schedule M1SA, Minnesota Itemized Deductions](#).

Lines 1-4

Medical and dental expenses are allowed for Minnesota and are the same as the deductions allowed federally. The amount of the Minnesota deduction is limited to the amount exceeding 10% of adjusted gross income.

Lines 5-10

Minnesota allows a deduction for taxes paid. The deduction for state and local personal property taxes and real property taxes is limited to \$10,000 or \$5,000 for Married filing separately. The deduction also includes taxes on foreign income, war profits, and excess profits taxes (under I.R.C., section 164) which are not subject to the limitation.

Lines 11-14

A deduction is allowed for home mortgage interest and is limited to the first \$750,000 for loans originated after on or after December 16, 2017. There is no deduction allowed for home equity interest and mortgage insurance premiums treated as interest.

Lines 15-18

A deduction is allowed for charitable contributions. The carryover amount from tax year 2018 into tax year 2019 may be calculated using the increased contribution base from the federal return; however, the allowable deduction for tax year 2018 remains limited.

Line 19

Minnesota allows you to deduct personal casualty or theft losses for personal use property using [2019 Schedule M1CAT, Casualty and Theft](#). The deduction for casualty or theft loss is not limited to federally declared disaster areas. Taxpayers must continue to report casualty or theft gains on their federal return.

Lines 20-23

The deduction for unreimbursed employee business expenses is allowed to the extent the expenses exceed two percent of their adjusted gross income and are reported on [2019 Schedule M1UE, Unreimbursed Employee Business Expenses](#).

Line 24

Certain miscellaneous deductions are allowed for Minnesota as itemized deductions. These deductions are limited to the following items:

- Impairment-related work expenses of a person with a disability (I.R.C., section 67(d))
- Estate taxes under I.R.C., section 691(c)
- Deduction allowable in connection with personal property used in a short sale under I.R.C., section 67(b)(8)
- Claim of right for amounts greater than \$3,000 (I.R.C., section 1341)
- Unrecovered annuity investment due to death of the annuitant (I.R.C., section 72(b)(3))
- Amortizable bond premium that are not tax exempt (I.R.C., section 171)
- Taxes, interest, and business depreciation expenses of a tenant-stockholder of a cooperative housing corporation (I.R.C., section 216)

The Minnesota itemized deductions are limited when a taxpayer's Minnesota adjusted gross income is more than \$194,650 for all filing statuses except for Married filing separately. For an individual who files Married filing separately, the itemized deductions are limited when their Minnesota adjusted gross income is more than \$97,325. For a married couple filing separately, if one spouse chooses to itemize their deductions, their spouse must also itemize.

2019 Form M1, *Individual Income Tax* (continued)

Line 5

Line 5 captures the allowable dependent exemption amount. Exemptions are now defined under Minnesota Statute 290.0121 and are limited to dependents only. The amount of the exemption is \$4,250 per dependent. To qualify as a dependent, an individual must meet the qualifications under sections 151 and 152 of the Internal Revenue Code. The exemption phases out when adjusted gross income exceeds the following amounts: \$291,950 for Married filing jointly and Qualifying widow(er); \$243,300 for Head of household; \$194,650 for Single; and \$145,975 for Married filing separately.

Line 6

Line 6 is for reporting the state income tax refund which can be pulled from line 1 of federal Schedule 1.

Line 7

Subtractions from income are reported on line 7 and are pulled from Schedule M1M. There are a few changes for subtractions to highlight for tax year 2019.

Line 31

There is a new subtraction for expenses of medical cannabis manufacturers registered with the Minnesota Department of Health. The subtraction equals the expenses that would have been deductible but are not allowed federally due to I.R.C., section 280E.

Line 39

The Social Security Subtraction is increased. The maximum subtraction for 2019 is \$5,150 for Married filing jointly/Qualifying widow(er), \$4,020 for Single/Head of household, and \$2,575 for Married filing separately.

Lines 43 and 44

There are two additional subtractions related to foreign income provisions. Taxpayers are allowed to reduce their Minnesota taxable income by the amount of global intangible low-taxed income that is included in their gross income. There is also a subtraction allowed for deferred foreign income recognized under I.R.C., section 965.

Line 9

Minnesota taxable income equals federal adjusted gross income plus any Minnesota additions to income, and is reduced by Minnesota modifications, standard or itemized deductions, and exemptions.

Line 10

Tax from the table in the Form M1 instructions. For tax year 2019, the tax rate for the second tier was reduced from 7.05% to 6.8%. The top tax bracket, taxed at 9.85%, has a lower threshold for all filing statuses.

Line 11

The calculation for Alternative Minimum Tax reflects the new additions and subtractions.

Line 13

Part year residents and non-residents continue to use [2019 Schedule M1NR, Nonresidents/Part-Year Residents](#), to determine their Minnesota tax and report the amount on line 13.

Line 14

Line 14 captures other tax amounts reported on the following 2019 schedules:

- [Schedule M1HOME, First-Time Homebuyer Savings Account](#)
- [Schedule M1529, Education Savings Account Contribution Credit or Subtraction](#)
- [Schedule M1LS, Tax on Lump-Sum Distribution](#)

These include additional tax amounts for distributions from first time homebuyer savings accounts and higher education savings plans not considered qualified distributions. Also included on this line is the tax on lump sum distributions.

Line 16

The [2019 Marriage Credit \(Schedule M1MA\)](#) is reported on line 16. The form is updated to account for the increased Minnesota standard deduction and the loss of the personal exemption.

Lines 17 and 18

The credit for long-term care insurance premiums and the credit for taxes paid to another state have not changed.

Line 19

Credits reported on [2019 Schedule M1C, Other Nonrefundable Credits](#), are included on line 19. There are no new credits to report on Schedule M1C for 2019. The schedule is updated to provide lines for taxpayers to report carryforward amounts for the Beginning Farmer Management Credit, Tax Credit for Owners of Agricultural Assets, and the Credit for Increasing Research Activities. When claiming the carryforward amounts, taxpayers should enter the prior year's certificate numbers in the space provided.

Line 26

Refundable credits are still reported on [2019 Schedule M1REF, Refundable Credits](#), and entered on line 26 of Form M1. There are a few changes to refundable credits for 2019.

The changes to the Working Family Credit can be seen on [2019 Schedule M1WFC, Working Family Credit](#). During the 2017 legislative session, the credit was expanded to include individuals without children between the ages of 21 and 65. The law enacted in the 2019 special legislative session allows individuals to claim the credit even if they exceed the federal income limitations. To claim the credit under the expanded eligibility, individuals must still be otherwise eligible to receive the federal Earned Income Tax Credit. The other change to the Working Family Credit is an additional tier for taxpayers with three or more children.

Schedule M1WFC is updated to reflect these changes, and the section for dependent information is updated. Since taxpayers may claim the Minnesota Working Family Credit and not the federal Earned Income Tax Credit, Schedule M1WFC will request additional information about dependents. The Working Family Credit table in the M1 instructions includes a table for those claiming the credit with three or more children.

The Angel Investment Tax Credit has returned for tax year 2019 and 2021. The minimum investment threshold remains at \$10,000 but is reduced to \$7,500 for investments made in qualified greater Minnesota businesses, veteran-owned, minority-owned, or women-owned businesses. The credit will be claimed on line 8 of Schedule M1REF.

2019 Form M1PR, Homestead Credit Refund and Renter's Property Tax Refund

[Form M1PR, Homestead Credit Refund \(for Homeowners\) and Renter's Property Tax Refund](#), is updated and reorganized for 2019. We can begin at the top of the form.

Lines 1 through 4

These lines remain the same for 2019.

Line 5

Line 5 continues to request additional nontaxable income. Previously, we requested the type and amount of income received by providing a space for this information on the front of the form. In 2019,

we have provided [2019 Schedule M1PR-AI, Additions to Income](#). The same information is requested with more space for providing it. The total amount reported on Schedule M1PR-AI will be included on line 5 of the M1PR.

One legislative change is for individuals who received alimony from a 2019 divorce decree. They must report the amount received on Schedule M1PR-AI to the extent it was not included in their gross income.

Lines 7 through 11

These lines include the subtractions which were previously lines 31 through 35. New to the subtractions section is line 10 which is the subtraction for alimony paid during 2019 that was not deductible from the claimant's federal adjusted gross income.

Line 13

The income of the claimant reported on line 6 is reduced by the allowable subtractions total from line 12. This line will be used to determine a renter's property tax refund.

Line 14

Those claiming a homeowner's property tax refund will include a co-occupant's income which is determined from a worksheet in the instructions.

Line 15

Line 15 is the household income used for determining a homeowner's property tax refund.

Lines 16 through 18

These lines are completed by renters.

Line 16 and 17

These lines are new for 2019. We have updated our [CRP, Certificate of Rent Paid](#), for 2019. In prior years, landlords would multiply the amount of rent paid by 17% on the CRP. Beginning in 2019, the renter must multiply the amount of rent paid by 17% on Form M1PR.

The renter's refund is determined on line 18.

Lines 19 through 25

These lines are used to determine the homeowner's property tax refund. The homeowner's refund is found on line 22.

The special refund is the last section of Form M1PR on **lines 26 through 38**. A new checkbox is added to line 30 of the special refund on the 2019 form. This checkbox indicates that the claimant was eligible for the Market Value Homestead Exclusion for Veterans with a Disability in the prior year.

Closing

Thanks again for joining us. 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 tax year filing season.

We'll post the script for this webinar under our [Tax Law Changes page](#) as well as the [Conference Calls and Webinars page](#) on our website.

We're committed to meeting our priorities for the upcoming filing season. If you have further comments or ideas, contact us on the Tax Professional Outreach Line at 651-556-6606 or email taxpro.outreach@state.mn.us.

Remember to check our [Tax Law Changes FAQs](#) as we regularly post new questions and answers. You can also email your questions about the 2019 tax year filing season to TaxLawChanges@state.mn.us. Thanks again for attending our webinar.