Webinar with Tax Professionals: September 15, 2020

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.

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 at the Minnesota Department of Revenue.

I am joined today by Allyson Casseday, the External Training and Communications Specialist with the Corporate Franchise Tax Division, who will be demonstrating the forms updates, and representatives from our Policy Teams who will be helping present today. There are also several other Department of Revenue employees who are joining us 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. We will be taking questions only by chat this year. At the end of the webinar, we’ll answer your questions that you have entered into the chat box. Do not use the Question and Answer feature in WebEx; use the chat box instead.

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

- Reviewing some department updates
- Walking through some of the updated 2020 Minnesota Business and Individual Income Tax forms
- Taking your questions about preparing taxes for the 2020 tax year filing season

Before we begin, I would like to introduce Dan Getschel, Director of Income Tax and Withholding, to provide a few comments on behalf of the Commissioner’s Office.

Comments from Dan Getschel
I’d like to start by saying thank you for joining this call today. I know this has been a very challenging filing season due to COVID-19. I encourage you to review the Our Response to COVID-19 section on our website for the most up-to-date information.
The department has been able to maintain its level of service for 2019 income tax and property tax refund returns and has been answering taxpayer calls and emails even though most employees have been working from home.

We appreciate your partnership and will continue to ask for your feedback as we move closer to the 2021 filing season.

I’ll now turn the call back over to Mark with some department updates.

**Department Updates**

We do have a few updates that I would like to share with you as we head towards the upcoming 2021 filing season.

1. **2017 and 2018 Return Corrections**
   
   As you know, we have been adjusting 2017 and 2018 returns affected by last year’s state tax bill. As of today, we have completed the adjustments for all of the 22,500 identified Corporate Franchise Tax returns.

   As for Individual Income Tax returns, we have identified over 208,000 returns for tax 2017 and 99% of those have been completed. There are roughly 1,000 2017 returns we plan to adjust by the end of this year. These taxpayers also filed 2018 returns that we will review for potential adjustments, so we are doing our best to review both years at the same time.

   We identified about 230,000 returns for 2018 that need adjustment, and so far we have adjusted 95% of them. There are roughly 12,000 2018 returns remaining that need to be reviewed.

   As you know, we previously instructed you to not file 2017 or 2018 amended returns specifically for adjustments related to the Minnesota tax law changes. On July 28, we sent an email indicating that you may amend any returns that we have not yet adjusted. We have noticed that some of these amended returns are coming in.

   On September 3, we sent 7,700 letters to taxpayers whose returns we still need to adjust. The letter lets them know they may amend their returns if they do not want to wait for our adjustments.

   I would like to share a few tips on submitting Form M1X, *Amended Minnesota Income Tax*:
   
   - Verify that column A matches the original return. Include the original amount due even if not paid and the original refund amount even if not received. If these amounts are not correct, we will need to manually review the return.
• Verify that your client has not received a tax order related to conformity. There have been cases where we received an amended return but it did not include our previous conformity adjustment.
• Be as specific as you can in the explanation for the amending section of the form. Let us know where changes came from and how you determined the new amounts.
• Disclose as much additional information as you can to help us process the return.
• Include any appropriate schedules with new additions or subtractions.

2. e-Services Upgrade
We will be upgrading our e-Services system in November. You will still be able to complete the same tasks, but the look and feel will be upgraded for better usability and functionality. Stay tuned for more information.

3. Form M99 – Credit for Military Service in a Combat Zone
This form will be available for online filing beginning in 2021. Our online filing system will allow you to file this form electronically instead of mailing it.

4. Federal Payments and Unemployment Compensation
Some federal COVID-19 relief payments your clients received may affect their Minnesota returns.
• Economic Impact Payments are not included in Minnesota adjusted gross income. These payments provided $1200 for single individuals, $2400 for married couples, and $400 for each dependent.
• All Unemployment Insurance payments are taxable and included in Minnesota adjusted gross income. This includes the $600 a week for Federal Pandemic Unemployment Compensation and the $300 a week from the Lost Wages Assistance Program.

Unemployment income may reduce your clients’ refunds or increase their amount due. Since taxes were not withheld on the additional unemployment payments, we encourage you to see if your clients need to pay estimated tax.

Website
I’d also like to highlight our Tax Law Changes page, which is accessible from the link in the footer of our website.

We’ve put many items relating to the upcoming filing season on this webpage. For example, you can find the 2020 near final draft forms and instructions for all tax types and the FAQs for Businesses and Individuals.

We will organize the FAQs and place the date last updated next to each. 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 in the footer of our website. If you have already signed up for these emails, encourage your colleagues to also sign up. There are other email lists under “Tax Professionals” to sign up for as well as email lists specific for businesses.

Now I’d like to introduce Geoff Fournier from the Corporate Franchise Tax Division. He’ll be walking you through some of the changes to our business and fiduciary income tax forms.

2020 Business and Fiduciary Income Tax Law Changes

I will be demonstrating how to access draft forms and instructions on our website. I will also share a high-level overview of the 2020 Minnesota form changes for business and fiduciary income tax payers.

I will first show you where our 2020 draft forms are on our website. From our home page, select the box labeled Tax Professionals. On this page, scroll down, and open the “Software Providers” section and select the Draft Forms and Instructions link.

From this page, you can access draft forms and instructions for many tax types.

Let’s take a look at one of these tax types: S Corporations.

The biggest change you may notice on the screen is the return of Schedule KSNC. Since current Minnesota law does not adopt federal acts enacted after December 31, 2018, business and fiduciary income taxpayers must make nonconformity adjustments on their 2020 returns.

In order to help taxpayers, tax professionals, and the department in identifying which adjustments are being made, we brought back the NC schedules for tax year 2020. Similar to 2018, there are seven business and fiduciary NC schedules: M4NC, M2NC, M2SBNC, KFNC, KSNC, KPIINC, and KPCNC.

Let’s take a look at Schedule KSNC. As you review the various NC schedules, you will notice all are similar in the order of the federal act provisions and the number of lines.

For flow-through entities, each K NC schedule flows directly to the recipient’s NC schedule. For individuals receiving K NC schedules, we’ve included direction on where to include the amount on Schedule M1NC of their Individual Income Tax return.

The total nonconformity adjustments flow onto the normal K schedules only to calculate composite income tax and nonresident withholding for nonresident partners, shareholders, and beneficiaries.

In addition to the nonconformity schedules, we made other changes to the business and fiduciary income tax forms.
We’ll open Schedule KS to point out one of these changes.

On Schedules KS, KPI, KPC, and KF, we added a line for Minnesota backup withholding. Minnesota requires backup withholding when the payee is subject to federal backup withholding on reportable payments made to a trust for personal services.

Minnesota backup withholding is equal to the payment multiplied by the highest Minnesota tax rate for individuals, estates, and trusts. Taxpayers must pass the backup withholding through the entity’s partners, shareholders, or beneficiaries on the appropriate K Schedule lines.

Relating to this change, we updated Form AWC.

Form AWC assists taxpayers in calculating their alternative withholding amount. We added line 5 to help ensure taxpayers do not calculate too much alternative withholding.

You may notice that the Form BANK is no longer on the draft forms page. We eliminated Form BANK due to it being obsolete.

The tax type with the most changes is Fiduciary Income Tax. Let’s look at Form M2.

You may notice we made changes to the tax credit, withholding, and estimated tax payment lines on this form. You will see on Form M2 that lines 15 through 25 are new or renumbered. We changed these lines to more closely mirror the layout on Forms M1 and M4. We made similar changes on Form M2X.

At the top of Form M2, we added three new checkboxes. These are the Statutory Resident, Statutory Nonresident, and Due Process Nonresident checkboxes. If a trust checks Due Process Nonresident, they are required to file a new schedule, Schedule M2RT, which we will bring up now.

This schedule is very similar to the resident trust questionnaire in the 2019 Form M2 instructions. Trusts must file Schedule M2RT if they make due process constitutional claims regarding residency to the department.

Now we will switch to the Corporate Franchise Tax returns.

On the M4 series, we added a new line on Form M4T. It is line 4b for Minnesota nonunitary partnership income.

In addition, we reduced the previous two A/B lines for the dividends received deduction to just one line, which is line 8.

We made a few changes to Schedule RD, Research and Development Credit.
To help explain the Schedule RD changes we made, I’ll discuss a recent guidance update. On June 17, we updated our guidance for the Minnesota Credit for Increasing Research Activities (also known as the R&D credit) for C Corporations filing a combined return.

Previously, Schedule RD stated that only the earning member may use a credit carryover. Upon further review, we determined that taxpayers must apply the credit carryover to the other members similar to how the credit is applied in the year of generation.

For combined groups, the R&D credit carryforward must be used:
- First by the earning member to the amount of their tax liability
- Then by other members of the group to the amount of their tax liabilities

This change is effective for tax years beginning after December 31, 2012. You may apply this change within the statute of limitations to claim a refund. We have updated our 2019 Schedule RD and draft 2020 Schedule RD to reflect the new guidance. If you or your clients are impacted for a period within the statute of limitations to claim a refund, file Form M4X, Amended Franchise Tax Return/Claim for Refund.

In addition, tax years currently under active audit, in administrative appeals, and refund claims will be processed consistent with this change.

The change in guidance required changes to Schedule RD.

On Schedule RD, we made changes to the credit calculation on page 2. Lines 41 and 42 pull in carryover credits received from other members of the combined return and take out carryover credits allocated to other members of the combined return. We also added two new intentionally left blank lines as Lines 43 and 44.

For my last topic, I will provide an update on federal partnership audit adjustment reporting in Minnesota.

If a partnership is audited by the IRS under the federal partnership audit regime established as part of the Bipartisan Budget Act of 2015, and there are adjustments, the partnership and potentially partners in the reviewed year must file amended Minnesota returns for the years that changed.

Taxpayers must file amended Minnesota returns within 180 days after the federal final determination date. They must also pay tax due resulting from the change at the time of filing.

Guidance for partnerships depends on three circumstances.
- if the partnership paid the income or withholding tax liability on the original return
- if the partners paid the original income tax liability
- if a partnership or partner fails to report a federal change or adjustment of tax
For more information, visit our website and type Partnership Audit into the Search box.

This concludes the business and fiduciary income tax update portion of the conference call. I will now turn it over to Chris Henjum and Clint Zahnow to review changes affecting Individual Income Tax for tax year 2020.

**2020 Minnesota Individual Income Tax Forms**

**Chris:** Hi, my name is Chris Henjum and I am a Policy Lead for the Income Tax and Withholding Division.

We’ve updated our 2020 Individual Income Tax forms to reflect annual changes and the noncomformity between Minnesota tax laws and federal tax laws, including the CARES, TCDTR, SECURE, FFCR, and PPPFA Acts.

We’ll run through our forms to highlight some of these changes.

We’ll start with Form M1, Individual Income Tax. We added some new lines to list dependents and moved some credits (including the Marriage Credit, Long-Term Care Insurance Credit, and Credit for Taxes Paid to Another State) to Schedule M1C, Nonrefundable Credits.

**Line 1**

Line 1 of Form M1 is federal adjusted gross income (FAGI). If you complete Schedule M1NC, Federal Adjustments, other forms and instructions that point to adjusted gross income will use the amount from line 34 of Schedule M1NC and not line 1 of Form M1.

**Line 2**

Taxpayers report additions to income on line 2 and income from Schedule M1M, Income Additions and Subtractions. The additions shown on Form M1M and its line number have not changed.

**Line 4**

Line 4 is where taxpayers report itemized deductions or the standard deduction

The Minnesota standard deduction is defined by Minnesota law and generally matches the federal standard deduction amounts for 2020. The deduction is reduced as adjusted gross income exceeds $197,850 for all filing statuses except for Married Filing Separately. It is reduced for income exceeding $98,925 for an individual who is married and filing a separate return.

The standard deduction amounts for tax year 2020 are:

- Married Filing Jointly and Qualifying Widow(er): $24,800
- Head of Household: $18,650
- Single and Married Filing Separately: $12,400

The additional standard deduction has not changed for tax year 2020.
Itemized Deductions
Minnesota itemized deductions are defined by Minnesota law. Some Minnesota itemized deductions are similar to the federal deductions, but they may require a modified calculation. Other deductions will carry directly from the federal Schedule A. The total itemized deductions are reported using Schedule M1SA, Minnesota Itemized Deductions, which we’ll look at now.

Lines 1-4
Minnesota allows a deduction for the medical and dental expenses that are allowed federally. The amount of the Minnesota deduction is limited to the amount exceeding 10% of adjusted gross income.

Lines 5-10
Taxpayers may deduct certain state and local 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 section 164 of the Internal Revenue Code which are not subject to the limitation.

Lines 11-14
Taxpayers may deduct home mortgage interest on loans that do not exceed $750,000, or $375,000 for Married Filing Separately, that originated 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
Taxpayers may deduct charitable contributions. The carryover amount from tax year 2019 into tax year 2020 may be different between the Minnesota and federal returns. This is due to a change in the allowable federal charitable deduction limitation for 2019. This also affects the allowable 2020 deduction for contributions.

The Minnesota allowable deduction for tax years 2019 and 2020 remains limited to 60% of income.

Line 19
Taxpayers may deduct personal casualty or theft losses for personal use property using 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. Minnesota does not recognize the provisions of federal qualified disaster losses under the TCDTR Act. This allows taxpayers to claim losses on their federal return while also claiming their standard deduction. Taxpayers must itemize deductions to claim a casualty or theft loss for Minnesota purposes.
**Lines 20-23**
Taxpayers may deduct unreimbursed employee business expenses to the extent the expenses exceed 2% of their adjusted gross income and are reported on 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 under section 67(d) of the Internal Revenue Code (or I.R.C.)
- Estate taxes under section 691(c) of the I.R.C.
- A deduction allowable in connection with personal property used in a short sale under section 67(b)(8) of the I.R.C.
- Claim of right for amounts greater than $3,000 section 1341 of the I.R.C.
- Unrecovered annuity investment due to death of the annuitant under section 72(b)(3) of the I.R.C.
- Amortizable bond premium that are not tax exempt under section 171 of the I.R.C.
- Taxes, interest, and business depreciation expenses of a tenant-stockholder of a cooperative housing corporation under section 216 of the I.R.C.

Minnesota itemized deductions are limited when a taxpayer’s Minnesota adjusted gross income is more than $197,850 (or $98,925 for Married Filing Separately). As a reminder, if a married couple files separately and one spouse chooses to itemize their deductions, the other spouse must also itemize.

**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 exemption amount is $4,300 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:

- $296,750 for Married Filing Jointly and Qualifying Widow(er)
- $247,300 for Head of Household
- $197,850 for Single
- $148,375 for Married Filing Separately

**Line 6**
Line 6 is for reporting the state income tax refund pulled from federal Schedule 1.
Line 7
Subtractions from income are reported on line 7 and are pulled from Schedule M1M.

The subtractions shown on Schedule M1M and their line numbers are the same as 2019. The ending calculation line for Schedule M1M subtractions has moved to line 47 because of an inserted “intentionally left blank” line.

Line 39
The Social Security Subtraction is increased. The maximum subtraction for tax year 2020 is $5,240 for Married Filing Jointly or Qualifying Widow(er), $4,090 for Single or Head of Household, and $2,620 for Married Filing Separately.

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
This line lists the tax from the table in the Form M1 instructions.

Line 11
The line calculates Alternative Minimum Tax from Schedule M1MT, Alternative Minimum Tax.

Line 13
Part-year residents and nonresidents continue to use Schedule M1NR, Nonresidents/Part-Year Residents, to determine their Minnesota tax and report the amount on line 13.

The 2020 Schedule M1NR is now two pages instead of one. Some lines containing multiple adjustments flowing from Schedule M1M have been split. Of note:

Line 10
Bonus depreciation from line 3 of Schedule M1M

Line 11
Section 179 addition from line 4 of Schedule M1M

Line 12
Suspended loss from line 8 of Schedule M1M

Line 13
Other required additions from Schedules M1M and M1AR
Line 14
Federal adjustments from line 34 of Schedule M1NC

Line 22
Net operating loss carryover adjustment from line 35 of Schedule M1M

Line 23
Social Security benefit and discharge of indebtedness of education loans from Schedule M1M

Line 24
Subtraction for federal bonus depreciation from line 21 of Schedule M1M

Because of the added lines, the “ratio” is now on line 30 and final calculation in on line 32.

Line 14
Line 14 captures other tax amounts reported on Schedules M1HOME, M1529, and M1LS. These include additional tax amounts for distributions from first-time homebuyer savings accounts and higher education savings plans that are not considered qualified distributions. Also included on this line is the tax on lump-sum distributions.

Line 16
Credits reported on Schedule M1C are included on line 16. There are no new credits to report on Schedule M1C for 2020. Some existing credits have moved from the Form M1 to Schedule M1C, including the Marriage Credit (line 1), Credit for Long-Term Care Insurance Premiums (line 2), and Credit for Taxes Paid to Another State (line 3).

Line 26
Taxpayers will continue reporting refundable credits on Schedule M1REF, Refundable Credits, and enter the total on line 22 of Form M1. There are a few changes to refundable credits for 2020.

The changes to the Working Family Credit can be seen on Schedule M1WFC, Working Family Credit. The Working Family Credit program has seen changes in recent years, including expanding to include individual without children between the ages of 21 and 65, allowing individuals to claim the credit even if they exceed federal income limitations, and adding a new tier for those with three or more children.

As the Working Family Credit changed, so has Schedule M1WFC. To reflect the increasingly state-specific provisions, the Schedule M1WFC now contains a worksheet to calculate earned income rather than referring to the federal worksheet. It also requests additional information regarding dependents and provides a table in the Form M1 instructions for taxpayers claiming a credit with three or more children.
Note that Medicaid Waiver Payments will be included in earned income through worksheets in the schedule. More information regarding this will be available when we post the Schedule M1WFC instructions in October.

The Angel Investment Credit expires for tax year 2020 but is scheduled to return for tax year 2021.

Finally, Schedule M1NC makes necessary adjustments to the state return as a result of nonconformity. Each line describes provisions in the federal tax acts passed by the U.S. Congress after December 31, 2018, which state law does not conform to.

We expect to post the Schedule M1NC instructions by October 1. The instructions may provide additional information on items of nonconformity for Individual Income Taxpayers.

This concludes the updates to Form M1 changes for the 2020 tax year filing season. Now, I’m going to turn it over to Clint Zahnow to go over the Property Tax Refund.

**M1PR**

Form M1PR, Homestead Credit Refund and Renter’s Property Tax Refund, remains the same for 2020, but we will provide a brief overview along with some reminders.

**Line 5** lists Additional Nontaxable Income. Since 2019, we have provided Schedule M1PR-AI, Additions to Income, to report additional nontaxable income. This includes a positive result from line 32 of Schedule M1NC for federal adjustments. Taxpayers will include the total amount reported on Schedule M1PR-AI on line 5 of Form M1PR.

**Lines 7 through 11** include allowable subtractions. Line 11 is for a negative total from line 32 of Schedule M1NC for federal adjustments.

On **line 13**, the income of the claimant reported on line 6 is reduced by the allowable subtractions total from line 12. We use this line to determine a renter’s property tax refund.

**Line 14** is where those claiming a homeowner’s Homestead Credit Refund will include a co-occupant’s income determined from a worksheet in the instructions.

**Line 15** is the household income used for determining the Homestead Credit Refund.

**Lines 16 through 18** are completed by renters.

**Line 16 and 17** Since 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 are used to determine the Homestead Credit Refund for homeowners. This refund is found on line 22.

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

This concludes the updates to Form M1PR changes for the 2020 tax year filing season.

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 2020 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 will also post a summary of the tax form changes we discussed during this webinar.

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.