Newsletter

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Weber & Deegan, Ltd

Certified Public Accountants

INSIDE THIS ISSUE

- Minnesota Tax Conformity 1
- Opportunity Zone Program 3
- Dependent Care Benefits 4
- Withholding Calculator 4

Minnesota Tax Conformity Has Arrived

2019 Minnesota tax law changes and your tax return

In May, the Minnesota Legislature passed a tax bill that brings the state's tax code into conformity with several, but not all, federal tax changes enacted between December 16, 2016, and December 31, 2018, including some provisions from the Tax Cuts and Jobs Act. More notably, some Minnesota tax provisions signed into law are retroactive, affecting 2017 and 2018 returns.

What does this mean for your return?

Most taxpayers will not be impacted by the retroactive changes in Minnesota's new tax law. However, some 2017 and 2018 Minnesota tax returns will need to be adjusted to reflect these recent law changes.
The Minnesota Department of Revenue announced they will make the necessary adjustments to 2017 and 2018 returns that require changes resulting from conformity. You do not need to file an amended tax return at this time.

For our clients who extended their 2018 tax return, we will evaluate each of those on a case-by-case basis and determine if it's feasible to wait to file until the Minnesota Department of Revenue updates its tax forms, or if we should continue to prepare your return on the current forms as originally instructed.

Any correspondence you receive from the Minnesota Department of Revenue should be forwarded to your contact or Carla Strot (e-mail) We will review and confirm the accuracy of any adjustments proposed and update your file, as it impacts future tax filings, accordingly.

Our commitment to you

We will continue to analyze the state's tax changes and monitor communications from the Department of Revenue and the Minnesota Society of CPAs. We will update you as we learn more about the new law and its impact to your Minnesota tax liability. You are welcome to reach out if you have any questions concerning your return.

ITEM	INDIVIDUALS
Taxable Income	Starting point changing from federal taxable income (FIT) to federal adjusted gross income (AGI)
Standard Deduction	Conforming to the federal standard deductions for MFJ-$24,400, SINGLE-$12,200 and HOH-$18,350 (2018 standard deductions were roughly half of the new ones)
Exemptions	New MN specific $4,250 per dependent exemption but eliminates the personal exemption (2018 allowed both dependent and personal exemptions
Itemized Deductions	Conforming to itemized deductions for taxes paid, charitable donations, home mortgage interest and medical expenses (Unreimbursed employee expenses and casualty losses are same as 2018)
Credits	Working family tax credit- increasing maximum limits and credit amounts, and adding a tier for taxpayer with 3+ children
Subtractions	Social Security subtraction increasing from $4,700 to $5,510 for MFJ and from $3,660 to $4,020 for HOH
Alimony	Conforming to alimony payments as nondeductible to payer and nontaxable to recipient
Tax Rates	Second tier tax rates decreasing to 6.80% from 7.05%
Penalty	2017/2018 penalty waiver for underpayments <$1,000 if caused by tax planning from federal tax reform

ITEM	BUSINESSES
Section 199A	Nonconforming with QBI (Qualified Business Income) deduction that is allowed under federal law. MN starting point of taxable income changing from FTI to AGI
NOLs	Nonconforming with 80% net income limit on this deduction
Excess business losses	Conforming to limitation on the use of active business losses to $500,000 for MFJ and $250,000 for others
Bonus Depreciation	Conforming to 100% bonus depreciation for all assets on/after Sept. 27, 2018.The tax bill removes MACRS for 2017 & 2018; allows for used assets; maintains 80% add-back rule
Section 179	Conforming to higher deduction limit and phase-out but maintains 80% addback
Section 163(j)	Conforming to limitation of net business interest deduction to 30% of income
Sales Tax Nexus	The economic nexus threshold is changed to retail sales totaling more than $100,000 or 200 or more retail sales. Before that date, the threshold is $100,000 in sales from at least 10 transactions or 100 transactions

Opportunity Zone Program Overview
By: Ed Mielke

One new provision of the TCJA of 2017 that has not gotten much attention is the new Opportunity Zones Program. Opportunity Zones are census tracts nominated by governors into which investors can invest in new projects intended to spur economic development in exchange for certain federal tax benefits. Areas of the country that are deemed opportunity zones can mean big tax savings for investors looking into long-term development projects in these designated areas. Let us look at the how one can invest in Opportunity Zones, and what that can mean for taxes.

To invest in Opportunity Zones, one must roll the capital gains from a sale of a prior investment (stock, bonds, real estate, a company) into an Opportunity Fund within 180 days of the sale. The investor rolls some or all of the gains into the fund, and only the taxable gains rolled over will be eligible for the full tax benefits. If you plan to hold this investment for the long term, you will reap the rewards of tax savings on the growth of the new investment.

The taxpayer will get three main benefits from investing in opportunity zones. They include the following: a deferral of capital gains on the old investment, a reduction of the capital gain tax realized on the old investment, and no tax on any capital gains from an investment in an opportunity zone fund if held for a minimum ten year period

Let us dig into each of these three benefits and see how one can get these benefits from investing in Opportunity Zones.

First off is the deferral of the capital gain on the old investment. This means that tax on the gain can be deferred until 2026. Unless the investment is sold before this date, at which time the tax would be due. Secondly, the rate at which these gains are taxed can be reduced depending on how long the investment is held. After five years, the capital gain is reduced by ten percent and if it is held for seven years, it is reduced by another five percent. Finally, if the investment in the Opportunity Fund is held for at least ten years then the basis in the investment will match the fair market value at the time of sale and will in turn lead to no taxable gain on your tax return.

If you have any questions or interest in Opportunity Zone investing please contact your Weber & Deegan contact for more information.

Dependent Care Benefits

Just a quick reminder to taxpayers that summer day camp costs qualify for the dependent care credit. If you sent your child to any day camps this summer, such as those for sports, computers, math, theater, of just general fun, don't forget about this tax break. The same goes for camps to help improve your child's reading or studying skills. But expenses for summer school, tutoring programs and overnight camps don't qualify. Before and after school care programs are also eligible for the credit.

Here's a quick tutorial on the rules for taking the dependent care credit. Expenses for the care of children under age 13 and qualifying relatives must be incurred so you can work or look for a job, and you must report the provider's tax ID number on Form 2441. If taking the credit to help care for a relative who isn't a qualifying child, such as an aging parent or grandparent, that person needs to have lived with you for more than six months during the year and be unable to care for him or herself. The credit is worth 20% to 35% of up to $3,000 in eligible child care expenses, depending on your income…$6,000 if you have two or more children needing care.

Withholding Calculator

With the TCJA many taxpayers found out in April that their withholding wasn't adequate anymore. Please use the IRS withholding estimator below to calculate your withholding and as always feel free to reach out to us if you have any questions.

https://www.irs.gov/individuals/tax-withholding-estimator