



Taxes Committee

As prepared for House and Senate Taxes Committees

February 20 and 21, 2018

Mission/Vision/Values

Mission

Working together to fund Minnesota's future.

Vision

Everyone reports, pays, and receives the right amount: no more, no less.

Values

Integrity, Respect, Excellence, and Accountability



Administering Minnesota's tax code

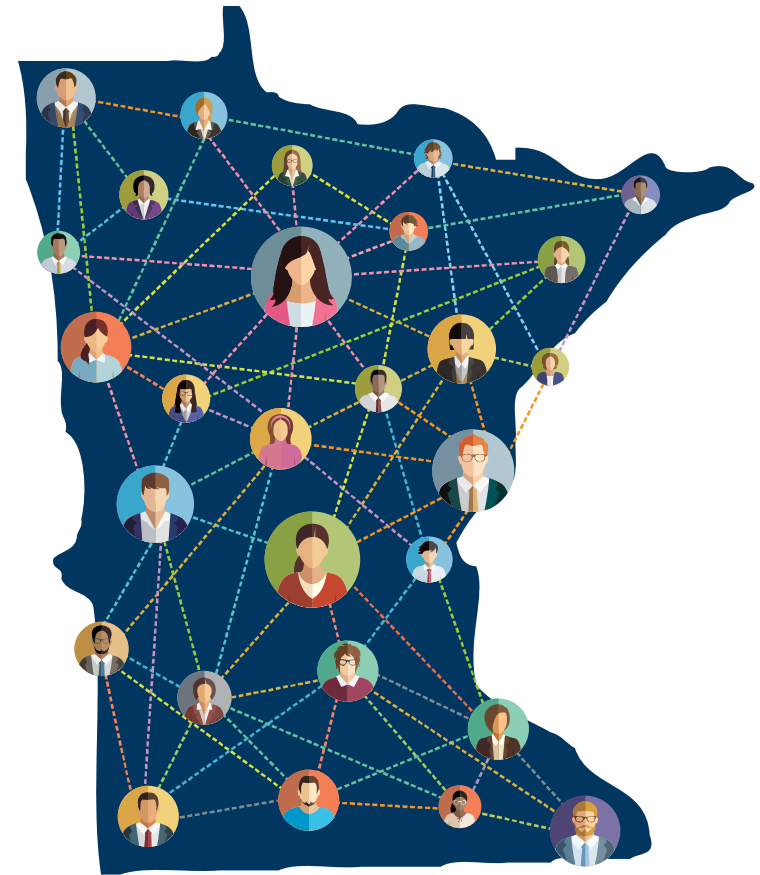
Help customers understand and meet their obligations under the law

Many different tax types

- Individual Income
- Property
- Sales and Use
- Corporate
- Mineral
- Lawful Gambling
- Tobacco
- Petroleum
- and more...

Our broad base of customers

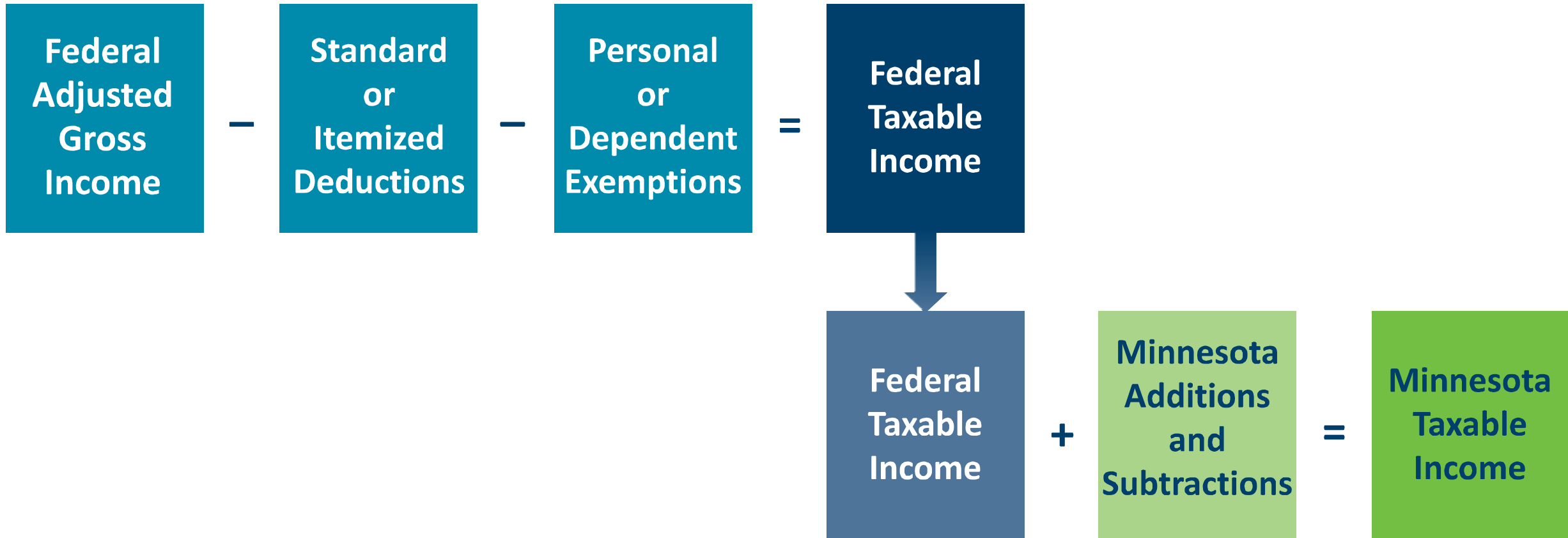
- 2.9 million individual income tax filers
- Tax professionals, legislators, military, seniors, farmers
- Over 800,000 property tax filers
- 87 counties and 800 licensed property tax assessors
- 415,000 businesses file and pay
 - 160,000 businesses remit sales tax





Minnesota and the 2017 Federal Tax Law

Calculating Taxable Income for Individuals



Individual Provisions

- Reduces tax rates between zero and three percent depending on the bracket
- Increases Standard Deduction
- Increases Child Tax Credit and reduces the amount of the personal and dependent exemptions to zero
- Makes changes to itemized deductions
- Doubles the estate tax exemption
- Provides 20% deduction for certain pass through income
- Sunsets Most individual provisions in 2025

Businesses Provisions

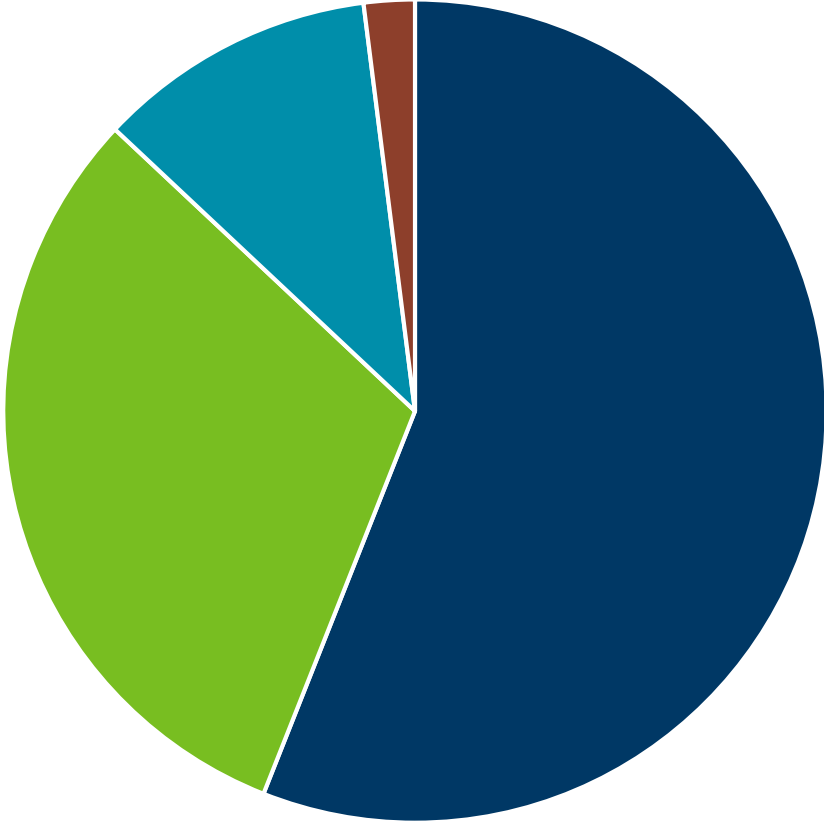
- Rate cut (35% to 21%)
- Corporate AMT repeal
- Expanded 179 expensing and bonus depreciation
- Limitations on Business Interest Deduction and Net Operating Losses
- New taxing method for multi-national corporations



2017 Federal Tax Law Impacts to Individual Income Tax Customers

Individual Income Tax Customers

Returns by Filing Method



■ Preparer-Electronic ■ Taxpayer-Electronic ■ Taxpayer-Paper ■ Preparer-Paper

Individual Income Tax Customers

- Outreach and education
- Plain language
- Volunteer Income Tax Assistance (VITA)
- Protecting taxpayers from refund fraud

Examples of Complexity

- Standard Deduction
- Itemized Deduction
- Personal Exemptions

Standard Deduction

Federal Standard Deduction

- Calculate Federal Adjusted Gross Income (FAGI)
- Apply the larger standard deduction
- Calculate Federal Taxable Income (FTI)
- Calculate federal tax before credits
- Deduct federal credit for dependents
- Determine federal tax liability

State Standard Deduction

- Start with Federal Taxable Income (FTI)
- Apply Minnesota additions and subtractions to income
- Add back the larger federal standard deduction
- Deduct the smaller state standard deduction
- Calculate deduction for exemptions based on family size
- Subtract deduction to determine MN taxable income
- Determine Minnesota tax liability

Itemized Deductions

Federal Itemized Deductions

- Calculate Federal Adjusted Gross Income (AGI)
- Prepare Federal Schedule A
- Reduce FAGI by itemized deduction amount
- Calculate Federal Taxable Income (FTI)
- Calculate federal tax before credits
- Deduct federal credit for dependents
- Determine federal tax liability

State Itemized Deductions

- Start with Federal Taxable Income (FTI)
- Apply Minnesota additions and subtractions to income
- Prepare Minnesota supplemental schedule
- Reduce income for additional itemized deductions
- Calculate deduction for exemptions based on family size
- Subtract deduction to determine MN taxable income
- Determine Minnesota tax liability

- Compare the total federal and state tax liability using the standard deduction versus itemized deductions
- Select the filing option
- Finalize both the federal and state returns for filing

Impact to Individual Income Tax Customers

- More taxpayers may need to hire tax professionals or buy software to prepare their tax returns
- Taxpayers may pay more for professional tax services or software
- Refunds may take longer due to inadvertent errors
- Taxpayers will need to plan ahead

Impact to Preparers and Vendors

- Tax preparers will spend more time preparing Minnesota returns and explaining differences to taxpayers
- Tax preparers and software vendors need to plan ahead
 - Vendor programming takes time
 - Preparers need to understand impacts to properly advise taxpayers and prepare returns

New Forms, Schedules, and Instructions

- Create new income tax schedules
- Modify current income tax and property tax refund forms and schedules
- Draft additional pages of instructions and change others

- Increased customer service needs
 - Outreach prior to filing
 - Customer assistance while filing
 - More complex return reviews
 - Post-processing audits

Revenue's Priorities

- Minimize impact to customers
- Support voluntary compliance
- Assist taxpayers
- Protect integrity of the tax system



2017 Federal Tax Law Impacts to Business Tax Customers

Business Tax Customers

- 50,000 Corporations and other businesses making up over 30,000 Minnesota returns
- 225,000 partnerships, S corporations, and trusts
- 700,000 partners, shareholders, and beneficiaries

Improved Service

- Revenue Notices
- Rulemaking
- Outreach
- Timely audits

Federal nonconformity will impact all business types

- Estates and trusts and beneficiaries
- Partnerships and individual or entity partners
- C corporations
- S corporations and shareholders

Examples of Complexity

- Bonus depreciation
- Like kind exchange

Bonus Depreciation

- Separate the value of used and new property
- Add 100% of used property value
- Add 50% of new property value
- Add 80% of the remaining value
- Subtract 1/5 of the 80% addition over five years
- Track separate basis and depreciation schedules for each asset

Like Kind Exchange

- Identify eligible tangible personal property for Minnesota like kind exchange treatment
- Subtract gains included in Federal Taxable Income
- Claim like kind exchange treatment on a Minnesota return
- Separately track basis until newly acquired property is sold

New Schedules and Instructions

- Nonconformity schedule for each entity level return
- Nonconformity schedule for each K schedule
- New instructions, worksheets, and schedules for complex modifications

Revenue's Priorities

- Minimize impact to customers
- Support voluntary compliance
- Information on complex questions
- Protect integrity of the tax system



2017 Federal Tax Law Administrative Impacts Minnesota Department of Revenue

Administrative Costs

- Minimize impact to customers
- Support voluntary compliance
- Information on complex questions
- Protect the integrity of the tax system

Administrative Costs

- Create and update filing forms and instructions
- Update tax systems
- Train and prepare employees
- Increase outreach and education to provide customer support
- Increase customer assistance due to filing complexity
- Process returns on a timely basis
- Provide legal analysis, advice, and opinions for both external and internal questions
- Maintain compliance, enforcement, and advocacy activities



Next Steps