

First Class

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Tax Newsletter

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MN Center of fiscal excellence has rated Minnesota as having the most progressive income tax system in the nation. Low for low income; high for higher income folks.

The chart below gives a comparison of income taxes for this region, on incomes of \$ 75K, \$100K and \$100K with \$25K capital gain. (South Dakota has no income tax). Note MN and Illinois have no lower capital gain rate. In certain situations, this can result in paying more MN income tax than federal income tax.

Only Illinois has a lower rate on pensions. There is some discussion about exempting social security and pensions from tax but it is unlikely to happen In MN and Wisconsin.

Income	75K	100K	% fed	75K earned 25K Cap gain	% fed
Federal	7,221	11,374	100%	7,821	100%
MN	3,206	4,968	44%	4,968	64%
WI	3,691	5,566	49%	5,008	64%
IA	4,356	6,601	58%	6,025	77%
IL	2,649	3,587	32%	3,587	46%
ND	598	1,027	9%	823	11%

Texas has no income tax, but their RE tax on a \$150K home is \$1,000 higher than MN/WI.

Supreme Court has ruled that inherited IRAs are not exempt from bankruptcy. (Traditional IRAs and 401Ks generally are.)

How long should I keep records?

This is the official list from the IRS

Keep records for 3 years if situations (4), (5), and (6) below do not apply to you.

1. Keep records for 3 years from the date you filed your original return or 2 years from the date you paid the tax, whichever is later, if you file a claim for credit or refund after you file your return.
2. Keep records for 7 years if you file a claim for a loss from worthless securities or bad debt deduction.
3. Keep records for 6 years if you do not report income that you should report, and it is more than 25% of the gross income shown on your return.
4. Keep records indefinitely if you do not file a return.
5. Keep records indefinitely if you file a fraudulent return.
6. Keep employment tax records for at least 4 years after the date that the tax becomes due or is paid, whichever is later.

I am a little mystified why anyone filing a fraudulent return would keep records at all, but... that is the official advice.

A guy gets on a plane and takes his seat next to a good-looking woman, using his best pick-up line he asks her "does this airline charge extra to sit next to handsome men?"

She replied "Yes, but I wouldn't pay."

New mileage rates for 2017:

Business use of a car, the mileage rate for 2017 will be 53.5 cents per mile, down from 54 cents per mile in 2016.

Medical or moving mileage rate is 17 cents per mile, charitable mileage set by Congress at 14 cents per mile.

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Changes are expected in Federal rates, brackets and probably itemized deductions.

Generally, the proposals being floated in Washington would lower the highest income tax rates, increase the standard deduction to approximately double, and may eliminate some deductions. The Trump Proposal would increase the standard deduction to \$24,000, eliminate deductions for medical and taxes. The deduction for state income tax, property tax, sales tax and personal property taxes would be eliminated. Possible limits on the mortgage interest deduction are being considered. Some rationalization of various incentives for education would be consolidated probably into a single credit and/or deduction. Stay tuned all the proposals are in flux who knows what will happen.

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Notes of explanation:

Currently a taxpayer is allowed an itemized deduction for the higher of **sales taxes paid, or state income taxes** paid. Personal property taxes are also deductible; in Minnesota, they consist of auto license tabs, above the minimum rate. Wisconsin has personal property tax but generally individuals do not pay.

Charitable deductions need to be substantiated with receipts. No receipt, no deduction.

When I prepare your income tax return, I mail you a paper copy, with a **form 8879** that needs to be signed and returned to me, that form gives me legal permission to file your return electronically, the tax return will not be filed until I receive the 8879.

Minnesota property tax returns are due August 15th. The refund is calculated on the prior year's income and the current years property taxes. 2016's income tax return needs to be completed and the statement of property taxes payable in 2017 must be issued by the county before the property tax refund can be calculated. I go down my list of completed returns and check to see who is eligible for a refund sometime between April and June.

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One of my accounting buddies told me this story:

An out-of-state taxpayer received a DUI in Minnesota, and was sentenced to 183 days. If you are present in Minnesota for more than six months you must file Minnesota income tax as a resident on all of your income for that year. This individual was required to file as a Minnesota resident, even though his residency was clearly involuntary

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Latest MN law change

Social Security recipients will be allowed an additional subtraction from taxable income. For married filers, the subtraction is \$4,500, which is reduced by 20% of income over \$77,000. For single filers, the subtraction is \$3,500 reduced by 20% for income over \$60,200.

If you find yourself with substantial changes in income, or other changes of financial circumstances you may want to review your estimates, or withholding allowances. Give me a call that can usually be recalculated in a few minutes on the phone.

Once again, I will remind you I am a notary, and willing to notarize for clients for free.

I have tried to send everyone a happy birthday card. If anyone has been missed then happy birthday.

Have a good summer!



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