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First Class

John Murray CPA

Tax Newsletter

June 2018

Office changes:

During the off-season at my advanced age I have decided to take Fridays off. I do cheat a little and answer my emails sometimes but generally I will get back to you on Monday. I have had a couple of three-day weekends now, and they are kind of nice.

Reminder on W-4s for teenagers

If you have a student working a summer job and they do not expect to pay taxes, have them fill out their W-4 as "exempt". This will eliminate withholding and they will not need to file a tax return to get their money back.

The Minnesota mess:

It has been decided or rather non-decided by our legislature and governor that Minnesota will not adopt the federal tax code as it has been changed. This will create huge problems for the 2018 tax year with all kinds of adjustments. I would expect next legislative session will probably adopt some of the changes but they may be made retroactive. That is a real headache for accountants.

MN Property tax refunds:

The Revenue Department has determined that taxpayers who make charitable contributions out of their IRAs (qualified charitable distributions or QCDs) which are nontaxable for income tax purposes, shall include them in their calculation of income for property tax refund purposes.

Effectively this increases income on which the property tax refund is based and may reduce the property tax refund for those who make QCDs.

Other changes:

There is now a credit or deduction for 529 contributions in Minnesota. The credit is on a sliding scale up to \$250 if married joint income is below \$160,000. There is a subtraction for contributions to a 529 plan up to \$3000 with no income limit if the credit is not taken.

Wisconsin

At this time, it looks like Wisconsin will conform to federal rules for 2018.

Federal changes

The **standard deduction** has been doubled to \$24,000 married, \$12,000 single, this will eliminate the need for a lot of people to itemize deductions. Personal exemptions have been eliminated.

Alternative minimum tax (ATM) limits have been raised, effectively eliminating ATM for all but seven-figure income taxpayers.

Alimony will *not longer* be deductible for the payor or income to the recipient.

The yearly limit on **gifts**, and not having to file a gift tax return, has been raised to \$15,000 per individual per year up from \$14,000.

Business entertainment:

Prior to the tax reform legislation of late 2017, 50% of business-related entertainment expenses (with some exceptions) were deductible. Beginning in 2018, entertainment-related expenses are no longer deductible.

The itemized deduction for taxes is now limited to a total of \$10,000 for both real estate and income tax. This limit on deductible taxes may cause major problems for some taxpayers.

Medical deductions will remain the same at 7^{1/2}% of AGI.

The limit on **charitable contributions** is raised to 60% of adjusted gross income rather than the previous 50%.

Miscellaneous itemized deductions, generally they were costs for the production of income, accounting fees, financial management fees, union dues, safety deposit box, mileage for work and other similar expenses, these expenses will no longer be allowed as a deduction.

If you have mileage expenses for work it would be wise to negotiate with your employer to have them reimburse you. Under current law it is a deductible expense for a business but not for individuals.

Estate law exemption is now up to \$11,200,000 per individual that eliminates all but the largest estates from any estate tax.

Section 199A

Sec. 199A is a new section in the tax law that allows taxpayers other than corporations a deduction of 20% of qualified business income earned in a qualified trade or business, subject to certain limitations.

Qualified trades and businesses include all trades and businesses except the trade or business of performing services as an employee and "specified service" trades or businesses: those involving the performance of services in law, accounting, financial services, and several other enumerated fields, or where the business's principal asset is the reputation or skill of one or more owners or employees. So far so good, however...There are many unclear points in the new

law, does it apply to real estate? Are insurance agents covered? How are losses handled?

We taxpayers await guidance.

A lawyer goes into a pet store to buy a parrot. The pet store owner told him the first parrot over there can do wills, and costs \$100, the second parrot does wills and settles divorces and it costs \$200, and the parrot over in the corner costs \$1,000.

The lawyer wanted to know what the \$1k parrot did? The pet store owner replied "not much of anything, but the other two refer to him as senior partner".

2018 estimates:

If you would like to know what your income taxes would look like under the new tax law I can calculate a close number. Give me a call.

Under the new tax laws in 2018 a retired married couple with combined income of \$75,000, assume \$40K soc security and \$35K other would pay the following taxes:

Federal	\$2784
MN	1169
WI	720
IL	246
IA	1260
ND	290

Before everyone starts packing for Illinois or North Dakota remember, there are sales and property taxes to consider, as well as license plate fees, insurance costs and other factors.

Have a good summer!

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