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First Class

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Tax Newsletter

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Repeated advice:

Run your name through www.missingmoney.com Lots of money gets lost for one reason or another. Check your deceased relatives, and your live ones ...you never know what you may find.

The following is not an editorial merely an observation.

-3Minnesota mess:

here are some of the subtractions which are possible with a Minnesota tax return, all adjustments from the federal:

US bond interest from mutual fund dividends
charitable deductions if you did not itemize on the federal
various depreciation differences with the federal
Sec 179 adjustments
subtraction for person age 65 or older
active-duty military pay
military pensions
donating human organs
income tax paid to another state
gain from sale of insolvent farm
AmeriCorps national service program education awards
railroad maintenance expenses
contributions to qualified 529 education savings programs
discharge of indebtedness of education loans

Many of the subtractions are subject to income or other limitations.

Here are the credits:

Taxes paid to another state
Marriage credit
Child and dependent care credit
credit for parents of stillborn children

working family credit
business investment credit
Credit for attaining master's degree for teachers
a license
long-term care insurance credit
student loan credit
transit pass for employers
credit for increasing research activities
historic structure rehabilitation credit
credit for tax paid Wisconsin

Again, many of these credits are limited by special situations or income and actually apply to very few people.

There are more wrinkles in the state tax code that I have not included here. All the additions, subtractions and credits are a good idea for someone. But the sum total of the system is overwhelming complexity.

In addition, Minnesota does not follow the changes the feds have enacted, therefore we operate under the old federal rules plus all the above adjustments.

Our legislature has created a mess.

Two major areas for tax opportunities under the new tax laws

Qualified charitable distribution (QRD) from IRA. After attaining age 70 ½ distribution from an IRA is mandatory. You can choose to make a charitable contribution with all or part of it direct to a charity. It is then not taxed as income and not used as a deduction. Due to the increase in the standard deduction many taxpayers will not be itemizing anyway. Therefore, income will be lower and taxes lower.

MSAs. Medical savings accounts require a high deductible policy. They can be used to pay for Medicare premiums as

well as other medical expenses. Contributions can be made to them in retirement, you do not have to be working to have an MSA.

Parking space

You think housing, health care and college tuition are expensive? Just to put things in perspective, a parking space in Hong Kong costs \$400,000+.

401K loans

It is possible to borrow from a 401K account. The loan must be repaid within 5 years and the interest is not deductible. Borrowing from a retirement account is always a risky move.

However, if home loan interest was not being used as a tax deduction and the loan will be repaid in the 5-year window, paying off a home mortgage with a 401K loan and paying interest into you own retirement account rather than a financial institution might make some sense.

New federal rules:

There is a new 20% expense deduction that applies to trade and businesses. This can apply to rental property if it can be considered a trade or business. Designated professions medical, law, accounting actuary and some others do not get the deduction if they are high income, over \$415K (married), There is a phase out below that number.

Miscellaneous deductions, and personal exemptions are gone for 2018. Deduction for taxes is limited to \$10,000.

Federal proposal:

A Senate bill kicking around congress would allow the first \$450K of a spousal inherited IRA to be spread out over the life expectancy of the spouse, as currently the case. Above that it would be distributed and taxed over five years. This would be a major change and it is a likely revenue raiser. Stay tuned for further developments.

Mileage Rate 2018:

Business 54.5 cents per mile
Medical 18 cents
Charitable 14 cents

You think you are having a bad day?

Louis XIV of France really was as an unpleasant a fellow as he's been depicted. In 1674, when he was visiting a school at Clermont, he heard from the school's authorities that one of the children, a nine- year-old Irish lad named Francis Seldon, had made a pun about the king's bald head.

Louis was furious. He had a secret warrant drawn up for the child's arrest, and young Seldon was thrown into solitary confinement in the Bastille. His parents, members of one of Europe's richest merchant families, were told simply that the child had disappeared. Days turned to months, months to years, and Louis himself passed away. But Francis spent sixty-nine years "in the hole" for making fun of the king's baldness.

Merry Christmas

And

Happy New Year

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