NELSON CPAs

Summer Newsletter **June 2018**

2018 FILING SEASON

The first filing season for Nelson CPAs, LLC was a success. Since April 19th, we have been busy completing the returns that were on extension as well as preparing the MN Property tax returns. We appreciate our relationship with each of you.

TAX PLANNING

In the last six months, you may have noticed your net paycheck and/or pension check increased. This is a result of the Tax Cuts and Jobs Act (TCJA) of 2017 which mandated changes to the withholding tables. The amount of federal taxes withheld from your wages and/or pension decreased. Even the Social Security Administration reduced the federal withholding from your benefit check if you had requested withholding.

The change in the withholding tables was due to the fact that the tax brackets have been expanded and tax rates have been reduced. In this first year of implementation, things won't necessarily work out perfectly. There are other factors to consider such as limitations on itemized deductions, loss of personal exemptions and a wider availability of child tax credits. The bottom line is, after looking at all of the changes, you may be under withheld.

Minnesota Revenue has not adjusted their withholding tables to reflect these changes. At this point, it appears that many people will owe more to Minnesota than they have in the past.

It is more important than ever to plan ahead. We are able to work with you to analyze your situation (including your withholding) to get a good estimate of where your return will end up next year. It's always better to plan ahead than react to an adverse situation. If you need to make a change to your withholding and/or estimated tax payments, it is better to do it sooner rather than later. Please contact us if you'd like to set up a tax planning appointment. Tax planning is billed at our professional rates based on time spent.

STANDARD DEDUCTION BENEFICIAL FOR MORE TAXPAYERS

While you probably won't be filing your tax return on a postcard anytime in the near future, for some taxpayers the TCJA will result in a less complex federal return. The standard deduction has been significantly increased for all taxpayers. However, an offsetting provision of the new law is the elimination of personal exemptions. For example, in 2017 a married couple under age 65 with no children had a standard deduction of $12,700 and personal exemptions of $8,100 for a total of $20,800. In 2018, the standard deduction for that same couple will be $24,000 and no personal exemptions. That is an overall reduction in taxable income of $3,200.

Regardless of the final guidance, the new tax laws will add to the complexity of preparing returns, which may also result in longer preparation times.

CHANGE TO MORTGAGE INTEREST DEDUCTION

There have been several changes to the mortgage interest deduction. In general, you are allowed to deduct interest on acquisition indebtedness of no more than $750,000. You may still only deduct mortgage interest on two properties, but the total acquisition indebtedness is capped at $750,000.

So what is "acquisition indebtedness"? To the extent mortgage proceeds were used to acquire, build, or substantially improve the primary residence that secures the loan, it is acquisition

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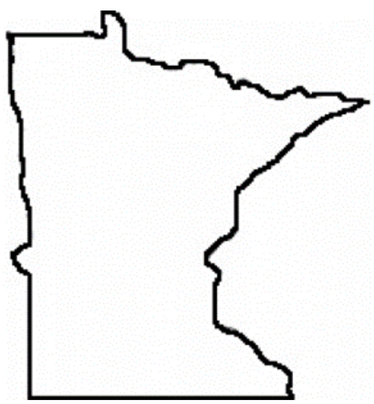
indebtedness – even in the form of a HELOC or home equity loan. On the other hand, even interest on a “traditional” 30-year mortgage may not be fully deductible if it is a cash-out refinance and the cashed out portion was used for other purposes. Taxpayers are still responsible for determining how much is (and isn’t) deductible for tax purposes.

****ACTION ITEM**:**
This means you must actually track (and keep records of) how mortgage proceeds are/were used when the borrowing occurred. It will be important for you to take some time now to get your records in order so we can properly determine your mortgage interest deduction.

Please call us if you need more guidance.

Minnesota News



MINNESOTA REFUND DELAYS

There has been an increase in processing time by the Minnesota Department of Revenue. This is due to an increased focus on protecting taxpayers from fraud and identity theft. They recently made the statement, “In this environment of identity theft and fraud, no return can be considered simple. The length of time to process a return can differ from year to year.”

We anticipate Minnesota property tax refund refunds will also be delayed when the returns are processed this fall. If you have not received your refund and it has been several weeks since your return was filed, you can track your refund status by using the “Where’s My Refund” feature on the MN Revenue website:

www.mndor.state.mn.us

MINNESOTA CONFORMITY TO FEDERAL TAX LAW

You may have been hearing about “conformity” in the news lately. Conformity means that MN tax law is aligned with federal law. Currently we are concerned about conformity for both 2017 and 2018.

2017 conformity became an issue in early February, 2018 when legislation was signed at the federal level that extended some provisions of federal law retroactive to January 1, 2017. Minnesota has NOT adopted those extensions at this point. Typically when this type of conformity issue has happened in the past, the MN legislature retroactively adopts the federal changes and then adjusts previously filed tax returns accordingly. Unfortunately, the Legislative session ended without any action.

2018 conformity is far more complex. Adjustments will need to be made on taxpayers’ Minnesota returns for items that don’t conform with the TCJA. In many cases Minnesota taxable income will increase but we don’t have any clear guidance from the Legislature or Minnesota Revenue at this point.

MINNESOTA CREDITS AND SUBTRACTIONS

It isn’t all bad news with Minnesota Revenue. There are a couple of things you can still take advantage of in 2018 to improve your Minnesota tax situation.

Some taxpayers may receive benefit by paying a certain amount of their student loans down. There is a credit up to $500 available for paying principal and interest on student loans, based on your income. If you are planning on paying some or all of your student loans down and want to know the minimum you can pay and still get the credit, consider having us do some planning for you.

Another option would be to contribute to a §529 Education Savings Plan. You can make the contribution for yourself, your children or grandchildren, nieces and nephews, even for people who are not related to you! There is a credit or a subtraction for this, again, depending on your income.

CONTACT INFORMATION

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Feel free to call us for more information about these items or any other questions you may have.