



# Client Newsletter

2025 TAX HIGHLIGHTS  
WITH COMPLIMENTS  
FROM:



**B. Johnson & Assoc., Ltd.**  
CERTIFIED PUBLIC ACCOUNTANTS

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## A publication of the Minnesota Association of Public Accountants

*The Minnesota Association of Public Accountants has prepared this newsletter. It is not intended to be inclusive. Any questions concerning the contents or other tax questions should be directed to your MAPA Accountant.*

### INDIVIDUAL HIGHLIGHTS

#### WHEN DOES A DEPENDENT HAVE TO FILE A RETURN

A dependent must file a return if the dependent has:

1. Earned income only and the total is more than \$15,750.
2. Unearned income only (i.e., income which is not compensation for services), and the total is more than \$1,350.
3. Both earned and unearned income and the unearned income is more than \$450 or the total income is more than \$15,750.

#### KIDDIE TAX

Children who have investment income greater than \$2,700 may be subject to tax based on their parent's income. This tax has been expanded in a very complex manner to potentially apply to children under age 24 as of year-end. This extended version of the kiddie tax targets two groups who have attained age 18: 1) those who reach their 18th birthday during the year, and 2) those in full-time student status for at least five months of the year who attain their 19th through 23rd birthday during the tax year. There is a further test for those in the age 18-23 groups. The kiddie tax only applies if the earned income of the child (wages and self-employment income) does not exceed one-half of the child's support for the tax year. In calculating support, amounts covered by scholarships are not taken into account. The tax does not apply to a child who is married and files a joint return for the tax year.

#### NET INVESTMENT INCOME TAX

For 2025, an additional 3.8% Net Investment Income Tax (NIIT) will be assessed on taxpayers with a modified adjusted gross income (MAGI) exceeding \$250,000 for those filing jointly, or surviving spouse, \$200,000 for head of household and single, \$125,000 for those filing married filing separately. The tax is 3.8% of the lesser of net investment income or the excess of MAGI over the threshold amount.

#### ADDITIONAL 9% MEDICARE TAX

An individual is liable for additional Medicare tax if the individual's wages, compensation, or self-employment income (together with that of his or her spouse if filing a joint return) exceed the threshold amount for the individual's filing status. The threshold amounts are: \$250,000 for married filing jointly, \$125,000 for married filing separately, and \$200,000 for all others.

## STANDARD DEDUCTIONS

Filing Status:	Standard Deduction	Additional for elderly and/or blind
Single	\$15,750	\$2,000
Head of Household	\$23,625	\$2,000
Married Filing Jointly	\$31,500	\$1,600
Married Filing Separately	\$15,750	\$1,600

If an individual can be claimed as a dependent on another taxpayer's return, the regular standard deduction is limited to \$1,350 or the dependent's earned income plus \$450 up to the regular standard deduction. If the individual is over 65 years of age and/or blind, the additional deduction will be added to the above.

## ITEMIZED DEDUCTIONS

Beginning in 2018 through 2025 taxpayers are no longer required to phase out their itemized deductions under the Tax Cuts and Jobs Act.

## STANDARD MILEAGE ITEMIZED DEDUCTION RATES

The standard mileage rate allowances for 2025 are 14 cents for charitable miles and 21 cents for moving and medical.

## STUDENT LOAN INTEREST

Taxpayers paying qualified education loans may be able to deduct up to \$2,500 of interest on the loans in 2025. There is a phase out that begins for taxpayers with a modified adjusted gross income above \$85,000 for single taxpayers and \$170,000 for married filing jointly taxpayers.

## PREMIUM ASSISTANCE CREDIT

Beginning in 2014, certain low-income and moderate-income individuals are eligible for a refundable income tax credit to help pay for the health insurance coverage in a qualified health plan purchased through a Health Insurance Marketplace, also known as the Exchange. Individuals can elect to have the estimated credit amount paid directly to the insurer to help pay monthly health insurance premiums during the calendar year. These are called advance payments. Generally, taxpayers eligible for the credit have household income for the tax year of at least 100%, but not more than 400% of the federal poverty line, and do not have access to employer-sponsored affordable coverage that provides a minimum value. A taxpayer whose advance credit payments exceed the final premium tax credit owes the excess as an additional income tax liability. The IRS has placed limits on the amount of the credit the taxpayer has to pay back based on household income. The Inflation Reduction Act extended the credit through 2025.

## CHILD TAX CREDIT

For 2025, the credit for each child under the age of 17 is \$2,200. For taxpayers with incomes above \$200,000 (\$400,000 married filing jointly), the credit is phased out by \$50 for each \$1,000 of adjusted gross income above the threshold amount. For taxpayers whose tax liability is not large enough to fully utilize the allowable credit, up to \$1,700 is refundable.

The Tax Cuts and Jobs Act created a new credit that started in 2018 called the credit for other dependents. This is a \$500 credit for each qualifying relative. Unlike the child tax credit, this is nonrefundable.

## ADOPTION CREDIT

The adoption credit can now be taken on expenses up to \$17,280. The phase out applies for filers with AGIs between \$259,190 and \$299,190. For 2025, the adoption credit is refundable up to \$5,000, a change from prior years when it was nonrefundable.

## AMERICAN OPPORTUNITY TAX CREDIT

The American Recovery and Reinvestment Act of 2009 created a \$2,500 higher education tax credit that is available for the first four years of college. The credit is based on 100% of the first \$2,000 of tuition and related expenses (including books) paid during the tax year and 25% of the next \$2,000 of tuition and related expenses paid during the tax year, subject to a phase-out for AGI in excess of \$80,000 (\$160,000 for married couples filing jointly). 40% of the credit is refundable.

## LIFETIME LEARNING CREDIT

If a taxpayer, spouse, or dependent is a student, the taxpayer may be eligible for a nonrefundable credit of up to \$2,000 (20% of the first \$10,000 of qualified tuition and expenses). The credit is allowed for an unlimited number of years on a per taxpayer basis. It covers all 4 years of post-secondary education as well as graduate school and courses to improve job skills.

There is a phase out for taxpayers with modified adjusted gross income above \$80,000 (\$160,000 married filing jointly).

## RESIDENTIAL CLEAN ENERGY CREDIT

Taxpayers are allowed a 30% credit for the purchase of qualified property placed in service during 2025 including:

- Qualified solar energy property used to generate electricity.
- Qualified solar water heating property.
- Geothermal heat pumps.

The credit was previously available through 2032 but now expires for expenditures made after December 31, 2025, under the One Big Beautiful Bill Act (OBBBA).

## COVERDELL EDUCATION SAVINGS ACCOUNTS (FORMERLY EDUCATION IRA)

Up to \$2,000 per beneficiary per year may be contributed to an ESA for a beneficiary under age 18, regardless of whether the contributor or the beneficiary has earned income. Contributions are nondeductible and are phased out pro rata as modified adjusted gross income increases from \$95,000 to \$110,000 single (\$190,000 to \$220,000 married filing jointly). A Coverdell ESA can be used to pay elementary, secondary, and higher education expenses.

## HOME OFFICE EXPENSES

Expenses related to a home office are generally deductible if: 1) the space is used exclusively and on a regular basis as your principal place of business, or a place where patients, clients, or customers deal with you; or 2) the space is used exclusively and regularly for administrative or management activities of your business, and there is no other fixed location available for performing such activities.

Effective for tax years beginning on or after January 1, 2013, the IRS allows a safe harbor business use of home deduction at a rate of \$5 per square foot for the portion of the home used in the qualified business, not to exceed 300 square feet.

## ESTIMATED TAX PAYMENTS

No penalty for failure to pay estimated tax applies if the total tax due is less than \$1,000. Household employment taxes must be included in your estimated payments. If this exception does not apply, you must pay the lesser of: 1) 90% of the tax shown on the current year return, or 2) 100% of the tax shown on the prior year return. For individuals with adjusted gross income over \$150,000 in 2025, the estimated payments should equal 110% of the prior year's tax liability.

## SOCIAL SECURITY EARNINGS LIMITS

For 2025, the earnings limit is \$23,400 for retirees ages 62 up to full retirement age (FRA). One dollar of benefits will be reduced for every two dollars earned above this amount. For individuals reaching FRA in 2025, the earnings limit for the months prior to reaching FRA is \$62,160. Beginning with the month that you reach your FRA, there is no limit on your earnings.

## TAXABLE SOCIAL SECURITY INCOME

Social security income may be taxable depending on other income received. The maximum amount of Social security income that can be included in taxable income is 85%.

## SOCIAL SECURITY PAID BY WAGE EARNERS AND SELF-EMPLOYED INDIVIDUALS

Social security tax on wages and self-employment income is composed of two parts: FICA (Federal Insurance Compensation Act) tax of 12.4% and Medicare tax of 2.9%, rates that have remained unchanged since 1990. Half of these taxes are paid by the employee and the other half by the employer. Self-employed individuals pay the full amount. For the 2025 tax year, the FICA wage base limit is \$176,100. Wages and self-employment income over this amount are subject only to the Medicare tax.

## GAIN FROM SALE OF PRINCIPAL RESIDENCE

A taxpayer generally may exclude up to \$250,000 (\$500,000 on a joint return) of gain realized on the sale or exchange of a principal residence. The taxpayer must have owned and occupied the residence as a principal residence for at least two of the five years before the sale or exchange.

The IRS Reform Act says homeowners can receive a portion of the exclusion based on how long they live in the home as long as the move is due to a change in place of employment, health, or unforeseen circumstances.

If a second home or rental property is converted to a principal residence after January 1, 2009, be aware that prior depreciation and/or some of the gain may be taxable.

## CAPITAL GAINS FOR INDIVIDUALS

In 2025, the capital gains rates for sales of long-term capital assets (held more than 12 months) will be determined by income instead of by tax bracket. Rates are shown in the following table.

Long-term Capital Gain Rate	Annual Income			
	Single	Married Filing Jointly	Married Filing Separately	Head of Household
0%	\$0-\$48,350	\$0-\$96,700	\$0-\$48,350	\$0-\$64,750
15%	\$48,351-\$533,400	\$96,701-\$600,050	\$48,351-\$300,000	\$64,751-\$566,700
20%	Over \$533,400	Over \$600,050	Over \$300,000	Over \$566,700

For 2025, qualified dividends will continue to be taxed at the same rates as long-term capital assets.

## INDIVIDUAL IRA CONTRIBUTIONS (TRADITIONAL OR ROTH)

If you or your spouse have taxable compensation (earnings subject to FICA and Medicare tax), you may be eligible to contribute to an Individual Retirement Account (IRA). For 2025, the maximum contribution to a Traditional IRA or ROTH IRA is \$7,000 if you are under age 50, and \$8,000 if you are age 50 or older as of the end of the year.

Taxable deductions for contributions to a Traditional IRA may be limited if you or your spouse are covered by an employer-sponsored retirement plan or if your income exceeds certain thresholds. Beginning in 2020, the age limit of 70 ½ for making IRA contributions was eliminated, allowing individuals of any age with earned income to contribute. ROTH IRA contributions may still be limited based on filing status and income. Contributions to any IRA can be made up to the filing deadline (without extension). Excess contributions and any earnings on those excess amounts are subject to penalty if not withdrawn prior to the due date of your individual income tax return (including extensions).

## REQUIRED MINIMUM DISTRIBUTIONS

The SECURE Act made several changes for RMDs required to be made after December 31, 2019. The required beginning date is now generally April 1 of the calendar year following the calendar year in which the individual reaches age 73. If you reach age 73 in 2025, you must take your first RMD by April 1, 2026 and your second RMD by December 31, 2026.

## HEALTH SAVINGS ACCOUNT CONTRIBUTIONS (HSA)

If your health insurance meets the high-deductible health plan (HDHP) guidelines, you may be eligible to contribute to an HSA. For 2025, the maximum HSA contribution limits are as follows:

- Single coverage \$4,300 (minimum deductible: \$1,650)
- Family coverage \$8,550 (minimum deductible: \$3,300)

An additional contribution of \$1,000 is allowed if you are age 55 or older as of the end of the year (\$2,000 if married filing jointly and both spouses are age 55 or older). Contributions to an HSA may be made up to the tax filing deadline (without extension). Excess contributions are not deductible and are subject to penalty unless withdrawn by the due date of the tax return (including extensions).

## ELECTRIC VEHICLE TAX CREDIT

A credit that ranges from \$2,500 to \$7,500 is available for the purchase of an eligible new electric vehicle (EV). The Inflation Reduction Act extended the EV tax credit through December 2032, but the One Big Beautiful Bill Act (OBBA) repealed that extension. Under the OBBA, vehicles must be acquired before September 30, 2025 to qualify. The modified adjusted gross income (MAGI) limits remain:

- \$300,000 for married couples filing jointly
- \$225,000 for heads of household
- \$150,000 for all other filers

In addition, qualifying EVs must meet critical mineral and battery component requirements to be eligible for the credit.

Beginning January 1, 2023, a separate tax credit for used EVs is available – equal to the lesser of \$4,000 or 30% of the vehicle purchase price. However, a previously owned EV does not qualify if purchased for resale. To claim the used EV credit, the taxpayer's MAGI must not exceed:

- \$150,000 for married filing jointly
- \$112,500 for heads of household
- \$75,000 for all other filers

This used EV credit also expires for vehicles acquired after September 30, 2025.

## NO TAX ON TIPS

New for 2025 through 2028, the OBBBA introduces a deduction allowing employees and self-employed individuals to deduct qualified tips from taxable income. To qualify, tips must be reported on the taxpayers Form W-2, Form 1099, or other approved statement furnished to the individual. Employers are required to file information returns with the IRS and furnish statements to employees showing the amount of tips received and the occupation in which the tips were earned. The IRS will publish a list of occupations that “customarily and regularly” receive tips, which will determine eligibility for the deduction. Other notes to consider regarding the deduction:

- Qualified tips include voluntary cash or charged tips received directly from customers or through tip sharing arrangements.
- The maximum annual deduction is \$25,000.
- For self-employed individuals, the deduction may not exceed the net income from the trade or business in which the tips were received.
- The deduction phases out for taxpayers with MAGI over \$150,000 (\$300,000 for joint filers).

## NO TAX ON OVERTIME

New for 2025 through 2028, the OBBBA introduces a deduction for individuals who receive qualified overtime compensation. The deduction applies only to the portion of pay that exceeds the employee’s regular rate of pay – that is, the “half” portion of *time-and-a-half* pay. Qualified overtime must be reported on the individuals Form W-2, Form 1099, or another approved statement furnished to the individual. Employers are required to file information returns with the IRS and furnish statements to employees showing amount of qualified overtime received. Other notes to consider regarding the deduction:

- The maximum annual deduction is \$12,500 (\$25,000 for joint filers).
- The deduction phases out for taxpayers with MAGI over \$150,000 (\$300,000 for joint filers).

## CAR LOAN INTEREST DEDUCTION

New for 2025 through 2028, the OBBBA introduces a deduction for interest paid on a loan used to purchase a qualified vehicle. The maximum deduction is \$10,000, and it phases out for taxpayers with MAGI over \$100,000 (\$200,000 for joint filers). To qualify for this deduction, the vehicle loan must meet the following requirements:

- The interest must be paid on a loan that originated after December 31, 2024.
- The vehicle must be new (used vehicles do not qualify).
- The vehicle must be for personal use (not for business or commercial use).
- The loan is secured by a lien on the vehicle.
- The vehicle is a car, minivan, van, SUV, pickup truck, or motorcycle, with a gross vehicle weight rating of less than 14,000 pounds.
- The final assembly of the vehicle must occur in the United States.

## SENIOR DEDUCTION

New for 2025 through 2028, the OBBBA introduces a consistent deduction for taxpayers age 65 and older. Qualified individuals can deduct \$6,000 per eligible senior. This means married couples filing jointly can claim up to \$12,000 deduction if both spouses qualify. The deduction phases out when MAGI exceeds \$75,000 for single filers and \$150,000 for married filing jointly.

## STATE AND LOCAL TAX (SALT) CAP

New for 2025 through 2029, the OBBBA increases the SALT deduction cap from \$10,000 to \$40,000 for most filers (or \$20,000 for married individuals filing separately). The cap will be adjusted for inflation, rising to \$40,400 in 2026 and increasing by 1% annually through 2029. Beginning in 2030, the SALT cap will revert to the current level of \$10,000 (\$5,000 for married filing separate filers), as established by the TCJA.

A phaseout begins at \$500,000 MAGI (\$250,000 for married filing separately) in 2025. The deduction is reduced by 30% of the amount by which MAGI exceeds the threshold. The phaseout reduces the increased cap but never falls below a \$10,000 floor (\$5,000 for married individuals filing separately). The phaseout threshold increases to \$505,000 in 2026 and continues to rise by 1% annually through 2029.

## BUSINESS HIGHLIGHTS

### STANDARD MILEAGE AND PER DIEM RATES

The standard mileage rate allowance under the optional method for vehicle expense for 2025 is 70 cents per business mile.

The IRS has provided optional per diem allowances for lodging and meals and incidental expenses (M&IE) while traveling for business and away from home. These are calculated using a high-low method based on the locality visited. The 2025 daily rate is \$319 for travel to any “high-cost locality”, which includes a \$86 M&IE component and \$233 for lodging.

The 2025 daily rate is \$225 for travel to any “low-cost locality”, which includes a \$74 M&IE component and \$151 for lodging. The 2025 rates are effective for per diem allowances that are paid to an employee on or after October 1, 2024, for travel away from home on or after October 1, 2024.

The special M&IE rate for the transportation industry is \$80 per day in the continental US and \$86 per day outside the continental US.

### HEALTH DEDUCTION FOR SELF-EMPLOYED

The self employed health insurance deduction for 2025 is 100%. Effective March 30, 2010, the self-employed health insurance deduction may also be claimed by a taxpayer with respect to a child who has not attained age 27 by the end of the tax year.

In early 2011, the IRS has revised its guidance and reversed its position by stating in the 2010 Form 1040 instructions that “Medicare Part B premiums can be used to figure the deduction.” IRS guidance would suggest that Medicare Part D premiums would also qualify.

### SECTION 179 (DEPRECIATION)

Subject to a dollar limit, the election allows you to deduct, in the tax year for which the election is made, the cost of qualifying property placed in service during the tax year. The immediate deductions allowed are in lieu of capitalization and later depreciation deductions. The 2025 annual deduction limit is \$2,500,000. The deduction is phased out (i.e., gradually reduced) if more than a specified amount of qualifying property is placed in service during the tax year. The 2025 amount is \$4,000,000. The annual deduction limit and qualifying dollar limitation is now indexed for inflation.

### SPECIAL DEPRECIATION ALLOWANCE (BONUS DEPRECIATION)

The OBBBA reintroduces 100% bonus depreciation for qualifying assets placed in service after January 19<sup>th</sup>, 2025, and makes the 100% rate permanent for future tax years. This provision applies to new and used purchased property. The following types of property qualify for 100% special depreciation allowance:

- MACRS property with a recovery period of 20 years or less.
- Water utility property.
- Computer software.
- Certain long production period and transportation property.
- Qualified plant property.
- Qualified film, television, and theatrical production.

The OBBBA also establishes an elective 100% depreciation allowance for Qualified Production Property (QPP). To qualify under this new category, the property must meet the following criteria:

- Must be nonresidential real property used as an integral part of a qualified production activity.
- Placed in service in the United States or any US possession.
- The original use must commence with the taxpayer.
- Construction must begin after January 19, 2025, and before January 1, 2029.
- The taxpayer must elect to expense the property.
- Property must be placed in service before January 1, 2031.

### SMALL BUSINESS HEALTH CARE TAX CREDIT

This credit is for small employers, with less than 25 full-time workers who cover at least 50% of the cost of health care coverage for some of its workers based on the single rate. The employer must pay average annual wages below \$66,600. This credit is worth up to 50% of a small business’ premium costs in 2025. However, for tax years beginning after 2013, the credit is only available if the employer purchases health insurance coverage for its employees through an Exchange.

### MONTHLY PAYROLL DEPOSIT THRESHOLD

If your Form 941 payroll tax liability is under the \$2,500 threshold, employers in a return period are not required to make monthly deposits. All tax deposits must be paid online through EFTPS.

## QUALIFIED BUSINESS INCOME (QBI) DEDUCTION – SECTION 199A

The QBI deduction, previously set to expire after the 2025 tax year, is made permanent under the OBBBA. The legislation also expands the phase-in ranges allowing more business owners to qualify for the deduction. The QBI deduction allows eligible small businesses to deduct 20% of the lesser of qualified trade or business income or taxable income after excluding net capital gains. If taxable income exceeds certain thresholds, additional limitations apply based on factors such as W-2 wages paid, type of business, and business investment in tangible, depreciable personal or real property.

## MINNESOTA HIGHLIGHTS

### MINNESOTA CONFORMITY

Under current law, definitions used in determining taxable income are based on the Internal Revenue Code, as amended through May 1, 2023. Since that date, Congress has enacted the One Big Beautiful Bill Act (H.R. 1). Because Minnesota has not yet adopted these federal changes, adjustments must be made to correctly determine Minnesota taxable income. Taxpayers must use Schedule M4NC to report these differences.

### VOLUNTEER MILEAGE REIMBURSEMENT SUBTRACTION

If you received mileage reimbursement in service of a charitable organization, you may now subtract the amount you received which exceeded the 14 cents per mile volunteer mileage rate. See Schedule M1M, *Income Additions and Subtractions*, for additional information.

### PUBLIC PENSION INCOME SUBTRACTION

There is a subtraction for certain qualified public pension income for tax years 2023 and later. Taxpayers qualify if they earned public pension income, did not earn credit toward social security benefits on the income, and are ineligible to receive social security benefits for the same service. The subtraction is limited to \$27,080 for both married taxpayers filing jointly and surviving spouses, and \$13,540 for all other filers.

### WORKING FAMILY CREDIT

The age requirement has been lowered from 21 years old to 19 years old for taxpayers with no qualifying children. See Schedule M1CWFC, *Minnesota Child and Working Family Credit*, for additional information.

### PASS-THROUGH ENTITY TAX CREDIT

The pass-through entity tax credit is a refundable credit available to qualifying individuals who are owners of a pass-through entity that elects to pay tax at the entity level. The entity passes the refundable credit for taxes paid at the entity level through to its individual shareholders, partners, or beneficiaries. For additional information, see Schedule M1REF - *Refundable Credits*.

### SCHEDULE M1MB, BUSINESS INCOME ADDITIONS AND SUBTRACTIONS

Schedule M1MB is now used to report business related additions or subtractions previously found on Schedule M1M. These can be received as an individual, as a partner of a partnership, as a shareholder of an S corporation, or as a beneficiary of a trust or estate.

### FILM PRODUCTION CREDIT

The film production credit is a nonrefundable credit for 25% of eligible production costs. In order to qualify for the credit, a taxpayer must apply to the Department of Employment and Economic Development (DEED) and receive a credit allocation certificate. See Schedule M1C, *Nonrefundable Credits*, for additional information.

### STANDARD DEDUCTION

The standard deduction increased for each filing status. The standard deduction is reduced if your income exceeds \$238,950 (\$119,475 if you are married and filing a separate return). These are the standard deduction amounts determined for your filing status:

- \$14,950 for Single
- \$29,900 for Married Filing Jointly or Qualifying Widower
- \$14,950 for Married Filing Separately
- \$22,500 for Head of Household

## DEPENDENT EXEMPTIONS

The dependent exemption amount is \$5,200 for each qualifying dependent in 2025. Your total exemption amount is reduced if your income exceeds certain amounts based on your filing status:

- \$239,050 for Single
- \$358,550 for Married Filing Jointly or Qualifying Widow(er)
- \$179,275 for Married Filing Separately
- \$298,800 for Head of Household

## PASS-THROUGH ENTITY TAX

A pass-through entity (PTE) tax allows partnerships, LLCs, and S corporations to pay tax on behalf of their owners. Owners who collectively control more than 50% of the entity may elect to pay the PTE tax, and the election is binding on all owners. The tax rate is equal to the highest individual income tax rate of 9.85%.

Beginning in 2023, partial elections are permitted if not all owners are qualifying owners. A 100% allocation to Minnesota is required for resident partners, and the prior requirement that at least one qualifying owner be subject to the state and local tax (SALT) has been removed.

## TAX RATES

Individual income tax rates are 5.35%, 6.80%, 7.85% and 9.85%. The AMT rate is 6.75%.

## EDUCATION TAX CREDIT

Families with children in grades K-12 may qualify for a refundable tax credit of up to \$1,500 per child for educational expenses paid during the year. The income and credit limits are based on the number of qualifying children. For families with 1 or 2 children, household income must be below \$81,820. For families with more than 2 children, the income limit increases by \$3,000 per child.

## SUBTRACTION FOR SCHOOL EXPENSES

You may subtract a maximum of \$1,625 per qualifying child (K-6) and \$2,500 (grades 7-12) for qualifying expenses. There is no family maximum deduction. The term "qualifying child" is the same as the federal definition of a qualifying child for Earned Income Credit purposes. This will allow a custodial parent who makes educational expenditures for his or her child to claim the subtraction even if the non-custodial parent claims the child as a dependent.

## CHILD TAX CREDIT

Starting in 2023, a child tax credit of \$1,750 per child under 18 with no cap on number of children. The same eligibility requirements of the Working Family Credit apply. The credit is phased out for married filing jointly taxpayers with incomes over \$37,910 (\$31,950 for other filers). Schedule M1CWFC is also used for reporting this credit.

## MARRIAGE CREDIT

The marriage credit for 2025 provides married taxpayers who each have at least \$31,000 of earned income, a credit against the Minnesota regular tax. The credit ranges from \$2 to a maximum of \$1,851.

## CHARITABLE DEDUCTIONS

Individuals who do not itemize on their federal income tax return are allowed to subtract contributions that would be charitable deductions under the IRS code. Up to 50% of the total contributions for the year in excess of \$500 can be subtracted.

## SUBTRACTION FOR SOCIAL SECURITY BENEFITS

The recently enacted legislation creates a personal income tax subtraction for an amount of certain social security benefits for tax years beginning after 2016. The maximum subtraction is \$5,840 for married couples filing joint returns, \$4,560 for single and head of household filers, and \$2,920 for married couples filing separate returns. The subtraction is reduced by 20% of provisional income over specified income thresholds.

Legislation expanded the subtraction starting in 2023. Taxpayers can now subtract using the current method or a new simplified method. The simplified method allows all taxable social security benefits to be subtracted for taxpayers with an adjusted gross income of \$84,490 or less (\$108,320 or less for married filing jointly, and \$54,160 or less for married filing separate). The subtraction gets phased out by 10% for every \$4,000 over the threshold.

## **SUBTRACTION FOR CONTRIBUTIONS TO 529 PLANS**

Effective for tax years beginning after 2016, the legislation allows personal income taxpayers to subtract up to \$1,500 (\$3,000 for married filing jointly) of contributions to any state's Sec. 529 college savings plan or prepaid tuition plan. The subtraction excludes amounts that are rolled over from other college savings plans and is limited to taxpayers who do not claim the new Sec. 529 savings plan credit.

## **SECTION 529 COLLEGE SAVINGS PLAN CREDIT**

Effective for tax years beginning after 2016, the legislation creates a non-refundable income tax credit for contributions to any state's Sec. 529 college savings plan, including prepaid tuition plans. For individual filers and married couples, the credit is available in an amount equal to 50% of contributions, up to a maximum of \$500. For individual filers, the maximum credit is phased out by 2% of adjusted gross income in excess of \$96,220. The credit is fully phased out for individual filers at \$121,220 of adjusted gross income. For married couples filing joint returns, the maximum credit is phased out in two stages, and is fully phased out when AGI reaches \$198,200.

## **STUDENT LOAN CREDIT**

Minnesota residents may apply for a credit for principal and interest payments on higher education loans, effective for tax years beginning after 2016. The maximum credit is \$500 each year (or \$1,000 for married couples who file a joint return if both spouses made payments on a qualified loan). In order to qualify for the credit, a taxpayer must have one or more qualified education loans. "Qualified education loan" is defined as any loan used to pay for the costs of attending an undergraduate or graduate degree program at an educational institution eligible for federal financial aid, including federal direct and Perkins loans, state loans, and private student loans.

## **MILITARY PERSONNEL**

Minnesota residents, on active duty, stationed outside of Minnesota are no longer considered nonresidents for income tax purposes. However, you are allowed a subtraction for military compensation, if included in federal taxable income, including Active Guard Reserve (AGR) program compensation earned under U.S. Code Title 32 and income earned under U.S. Code Title 10.

Beginning with tax year 2016, Minnesota will allow taxpayers to subtract certain military retirement pay (including pensions) when calculating Minnesota taxable income and Minnesota alternative minimum taxable income. To qualify for this subtraction, the retirement pay must be taxable on the federal return, and for:

- Service in the active component of the military (U.S. Code Title 10, sections 1401 to 1414);
- Retirement pay for service in the reserve component (U.S. Code Title 10, section 12733); or
- Survivor benefit plan payments (U.S. Code Title 10, sections 1447 to 1455).

To claim the subtraction, you must file Schedule M1M, Income Additions and Subtractions. Taxpayers who claim this subtraction may not claim the nonrefundable credit for past military service.

A Minnesota resident who served in a combat zone or qualifying hazardous duty area at any time from January 1, 2019, through December 31, 2025, may be eligible for a refundable credit. The credit for 2025 equals \$120 for each month or part month served in a combat zone for taxpayers whose military records indicate Minnesota as their home of record.

Effective January 1, 2013 – If you (and your spouse if filing a joint return) are a veteran of the military (including the National Guard and Reserves), you may qualify for a nonrefundable credit reducing your income tax by as much as \$750 for past service. You can qualify for this credit if you have been separated from service and meet one or more of the following conditions:

- You served in the military for at least 20 years;
- You have a service-related disability rated by the U.S. Department of Veterans Affairs as being 100% total and permanent; or
- You were honorably discharged and receive a pension or other retirement pay for service in the military.

Veterans with income of more than \$37,500 are not eligible for the credit.

