2025 MNCPA

Tax Guide For Minnesota Legislators

2024 TAX CHANGES • AUTOMOBILE AND TRAVEL EXPENSES • LIVING, MEAL AND CAMPAIGN EXPENSES • PLUS MORE

mncpa
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MEMBERS OF THE MINNESOTA LEGISLATURE:

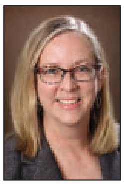
On behalf of the nearly 8,000 members of the Minnesota Society of Certified Public Accountants (MNCPA), we are pleased to present you with the 2024 Tax Guide for Minnesota Legislators.

Many responsibilities come with being an elected official. It also has certain income tax laws that apply specifically to your role as a legislator. Use this guide to help you better understand these provisions and provide answers to some frequently asked questions about the tax laws affecting legislators. Please note: The guide does not cover personal or business tax matters unrelated to your role as a legislator.

MNCPA members work in a variety of professions, including public accounting firms, business and industry, education and government. In addition, CPAs are tax and financial experts and can interpret and explain how legislative proposals will affect Minnesota businesses and your constituents. This session, as you debate these issues, the MNCPA and our members are ready to provide you with the assistance and advice you need to make confident decisions.

We hope the 2024 Tax Guide for Minnesota Legislators is useful when you file your 2023 income tax return.

Sincerely,



Linda Wedul, CAE
President & CEO

Geno Fragnito
Director of Government Relations

This publication is designed to provide accurate and authoritative information regarding the subject matter covered. It is distributed with the understanding that the information is presented in general terms and is not intended to be used as a basis for specific action without obtaining the services of a competent tax professional.

The 2024 Tax Guide for Minnesota Legislators is also available at **www.mncpa.org/legtaxguide**.

RECENT TAX UPDATES

Recent updates
The Inflation Reduction Act (IRA) was signed into law in August 2022 by President Joe Biden. For individuals, most of the provisions in the bill extend credits. For example, the Premium Tax Credit, which is available for taxpayers who acquire health insurance through the marketplace, has been extended through 2025. The bill also extends energy credits for individuals who undertake solar panel projects and purchase electronic vehicles for an additional 10 years.

Subhead need here for 1099...
1099 reporting thresholds have been updated for certain 1099s, specifically 1099-Ks. The changes have been stalled for a few years, but the IRS is beginning their phased in approach for the new thresholds. These types of 1099s are required to be sent by third-party settlement organizations (TPSO), which include, but not limited to, credit card companies, Venmo, PayPal, Ticketmaster, etc. If you received more than $5,000 in payments for goods and services through a TPSO, you should expect to receive a 1099-K for 2024 (the threshold is reduced to $2,500 in 2025). Receiving payments for people reimbursing you are not considered payments for goods and services. It is important to make sure that people do not send you money as a business if your not actually operating as a business.

The IRS is beginning to provide draft versions of new compliance 1099s for the sale of digital assets (i.e. bitcoin and dogecoin). For any sales of digital assets, brokers will be required to send a new form called 1099-DA. Assuming no delays to the roll out by the IRS, taxpayers can expect to start receiving these new forms in January 2026 (for sales made in calendar year 2025).

2024 TAX CHANGES

1. **Standard mileage rates**
   - Business: 67 cents per mile (increased to 70 cents per mile in 2025).
   - Medical: 21 cents per mile (same in 2025).
   - Charitable: 14 cents per mile (same in 2025).
2. **Maximum IRA contributions**
   The 2024 annual limit for IRA contributions was $7,000. The limit on annual contributions to an IRA remains the same at $7,000 for 2025. The additional catch-up contribution limit for individuals 50 and older was not subject to an annual cost-of-living adjustment, and remained at $1,000 for 2024 and 2025.
3. **Maximum 401(k) contributions**
   The 2024 annual limit for 401(k) contributions was $23,000. The annual maximum 401(k) contribution is increased to $23,500 for 2025. The additional catch-up contribution limit for individuals 50 and older was $7,500 and remains at $7,500 for 2025.
4. **Top marginal tax rate changes**
   The tax law changes from the Tax Cuts and Jobs Act (TCJA) continue with a top marginal tax rate of 37% for federal returns, and 9.85% for Minnesota returns.
5. **Minnesota estate tax exemptions**
   This was $3 million in 2024. As a result of tax changes from TCJA, the federal exemption for decedents dying and gifts made after Dec. 31, 2017, and before Jan. 1, 2026, is $10 million. After taking into account the necessary inflation adjustment, the exemption was $13.61 million in 2024.
6. **Affordable Care Act update**
   The Patient Protection and Affordable Care Act required each individual to have qualifying health care coverage or be subject to a fee called the shared responsibility payment. Under TCJA, the shared responsibility payment was eliminated and taxpayers are no longer required to make a payment if qualifying health care coverage was not obtained.

EFFECTS OF THE TAX CUTS AND JOBS ACT

TCJA suspended the federal deduction for unreimbursed employee expenses and miscellaneous deductions subject to the 2% floor. Minnesota conformed many of its tax laws to the federal tax code enacted by TCJA, but chose to retain the deduction for unreimbursed employee expenses on its state tax return. The Minnesota Department of Revenue created Schedule M1UE to calculate the deduction for unreimbursed employee business expenses.

Minnesota's partial conformity leads to complex tax filings. Taxpayers can take the standard deduction on the federal return and itemize deductions on the Minnesota return. Schedule M1UE requires adequate record keeping, as noted in this guide, that may be more time consuming than the benefit of the deduction. Prior to preparation, individuals need to consider the cost benefit of preparing a Schedule M1UE and itemizing deductions on the Minnesota tax return.

AUTOMOBILE AND TRAVEL EXPENSES

How do I report my mileage or automobile expenses on my personal Minnesota tax return?
Mileage or automobile expenses are reported on Schedule M1UE, Unreimbursed Employee Business Expenses.

How much can I deduct for the auto mileage I incur traveling to and from St. Paul?
The standard mileage rate was 67 cents per mile for business miles driven in tax year 2024. The rate increases to 70 cents per mile in 2025. The deduction is applicable to legislators who travel more than 50 miles to the State Capitol, or legislators whose tax home is not St. Paul.

Your tax home is the entire city or general area where you regularly conduct business. Section 162(h) of the IRC allows you to elect to treat your residence in your home district as your tax home, as long as your residence is more than 50 miles from the Capitol.

You should report all mileage, both reimbursed and unreimbursed, on Schedule M1UE. Generally, Minnesota reimburses legislators at the IRS business-use mileage rate while the Legislature is in session. If there are additional mileage expenses over the reimbursements received, it's tax deductible as an employee business expense. Any reimbursements in excess of expenses should be included in income.

An alternate method is to deduct your actual automobile expenses. This includes the total cost of gas, oil, repairs, maintenance, insurance and other vehicle expenses. With this method, you must first calculate the business-use percentage on your vehicle by dividing your business miles by your total miles driven during the year. Other mileage incurred when traveling to and from St. Paul may also qualify as business mileage, such as trips for special party caucuses or committee meetings.

The Minnesota Department of Revenue (DOR) requires "adequate records or other corroborative evidence" to support deductions. The DOR has the authority to disallow any business-use deductions and credits when they're not adequately reported with the proper supporting records.

If I deduct actual automobile expenses, which specific expenses am I allowed to deduct?
Deductions may include car wash expenses, gasoline, oil, repairs, insurance, tires, license plates and similar items. Personal property taxes (e.g., vehicle tabs) are reported as a separate itemized deduction.

What other mileage expenses may I deduct other than travel to and from the Capitol?
All automobile mileage is considered business mileage and is tax deductible if incurred for the following purposes:

- Traveling within your home district for speaking engagements or meetings that you determine are important to attend due to your political position.
- Traveling from one town to another to attend civic or political functions.
- Traveling to meetings related to your legislative duties, or working to ascertain facts concerning possible legislation.

A written record of this mileage must be maintained whether you choose the standard mileage or actual expense method.

The DOR allows me to deduct either the standard mileage rate or itemize all of my actual automobile expenses. Which method results in the greater tax deduction?
It is advisable to keep track of both methods to determine which method is most beneficial to you. The standard mileage rate is generally easier to track. However, once you use the actual automobile expenses method, you may not be able to use the standard mileage rate method for that vehicle in future years. When completing Schedule M1UE, be sure to fill in only the sections that apply to the method you use.

If I use the standard mileage method, may I deduct any other expenses?
Yes. Parking fees and tolls for business purposes may also be deducted.

What about miles traveled while attending meetings during a political campaign for my reelection?
Minnesota statutes specifically state that campaign expenses are not tax deductible. Due to this, you must distinguish between expenses that are directly related to a campaign for reelection and those that are attributable to serving your constituency. When you attend meetings for both purposes, you must determine your primary purpose for attending the meeting and then deduct (or not deduct) the expenses accordingly.

If I use another mode of transportation to get to St. Paul, such as a train, bus or airplane, may I deduct these expenses in addition to mileage?
A deduction is allowed for these and other means of transportation paid by you. You may not claim both the mileage you would have otherwise incurred by driving a car and the cost of the train, bus fare or an airplane ticket.

You will also need to report any reimbursements you receive for travel by bus, train or airplane. As before, if your mileage reimbursement is less than your travel expenses, the difference is tax deductible. But, if the mileage reimbursement is more than the expenses you incurred, the difference will be taxable income to you.

On occasion, I ride with another person to St. Paul. Can I deduct the mileage for that particular day, even though I did not drive?
No. When you ride with someone else, you may not claim any mileage expense. If you take the state's weekly travel reimbursement, this becomes excess income and is taxable (unless you pay the other legislator for a portion of their costs, in which case only the difference would be taxable).

While away from home, I stay in St. Paul at a hotel for the legislative session, and drive or take a taxi to the Capitol each day. May I deduct these travel costs?
Yes. As long as St. Paul is not considered your "tax home," transportation between your hotel and the Capitol is a deductible business expense.

If I have an office in my home district, may I deduct the mileage expense from my residence to this office?
No. The mileage from your residence to your place of business is considered a nondeductible commuting expense.

I received a traffic violation ticket because I was rushing to get to St. Paul for legislative business. Is the fine a deductible expense?
No. A traffic violation fine is a penalty and is not a deductible expense.

LIVING EXPENSES

What living expenses are deductible for tax purposes on my Minnesota return?
Minnesota allows you to deduct living expenses while you are away from your tax home on Schedule M1UE. Your deductible living expenses are the number of legislative days (when the Legislature is in session) multiplied by the greater of the federal per diem; or the legislator's state per diem (not to exceed 110% of the federal per diem).

There are two methods used to calculate per diem pay. The first is called the high-low method and the second is called the regular federal per diem rate method. The per diem rates are updated every year and go into effect Oct. 1. Also, the rates vary by location.

Does the deductible per day allowance for living expenses include travel costs, or the cost of telephones or faxes?
No. The allowed deductible per day does not include cab fares or other vehicle expenses incurred while traveling in or to St. Paul, or the cost of telephones or faxes. These amounts may be deducted in addition to the per day allowance.

If I live within 50 miles of St. Paul, can I still deduct living expenses on my taxes?
If you do not make the Section 162(h) election, or if you live within 50 miles of St. Paul, then your tax home is determined by a facts and circumstances test. Generally, if you spend more time in St. Paul than you do in your home district, and your most significant income-producing activity is as a state legislator, then St. Paul would be your tax home. If that is the case, then the cost of meals and lodging while in St. Paul would not be deductible, nor would the cost of travel to and from St. Paul.

If St. Paul is your tax home, you may be allowed a business expense deduction for travel expenses incurred within your home district. Consult a certified public accountant to see if you qualify for this deduction.

MEAL EXPENSES

As a member of the Legislature, I am often requested (and sometimes required) to attend dinners and events within my district. May I deduct the costs of these dinners?
Yes. You are allowed to deduct 50% of the amount you pay for business-related meals. Any transportation costs incurred attending dinners or events for you and your guests are 100% deductible. If you are reimbursed for any of these expenses by the state or any person, the deduction is limited to the difference.

The DOR has rules against deducting meal expenses deemed to be lavish and/or extravagant. The portion that is determined to be extravagant must be removed from the total cost of the meal before applying the 50% limitation. Meal expenses are reported on Schedule M1UE. Refer to IRS Publication 463 for more information.

If I meet constituents regarding legislative issues, and we have a meal together and I pay for the meal, is this tax deductible?
Yes. But, again, it's subject to the 50% limitation. You must be able to support the expense by keeping adequate records, including the time, place, attendees and a tenor of the discussion.

Occasionally, I entertain other elected officials. The primary purpose is for maintaining communication with them and to explore common problems. May I deduct this expense?
Generally, entertainment expenses are nondeductible. However, you are allowed to deduct 50% of the amount you pay for business-related meals. If food or beverages are provided during an entertainment event, and the food and beverages were purchased separately from the entertainment, you may be able to deduct the separately stated costs as a meal expense.

Overall, meal costs are deductible if these expenses have a business purpose, and the individuals you are entertaining have a business relationship with you.

CAMPAIGN EXPENSES

Are campaign expenses deductible for tax purposes?
No. Campaign expenditures out of your own resources are not deductible.

Even though a public office is included in the definition of a "trade or business," campaign expenses are considered to be personal in nature and nondeductible. Nondeductible campaign expenditures include:

- Expenses for attending political conventions; contributions to the political party that sponsored the candidacy; campaign travel expenses; campaign advertising; expenses of successfully defending your position in a contested election; and filing fees and the cost of legal fees paid in litigation over redistricting.

It's important to distinguish between expenses that are directly attributable to serving your constituency, and expenses that are directly related to an election or reelection campaign.

Can individual donors claim a charitable tax deduction on their personal income tax returns for contributions to my campaign?
No. Contributions to a political campaign are not considered a gift to charity.

Can individuals claim a refund for contributions made to Minnesota political parties and candidates for Minnesota state offices?
Yes. Minnesota refunds up to $100 for taxpayers who are married filing jointly and $50 to individuals who are single or married but filing a separate tax return. To receive a refund, the donor must obtain a political contribution receipt (Form EP-3) from the qualified candidate. This form is then attached to the Political Contribution Refund Application (Form PCR) and submitted to the DOR. Individuals cannot get an extension to file Form PCR. You must file the form by April 15, 2025.

Are campaign receipts and expenses subject to IRS examination?
Yes. The IRS has ruled that campaign contributions used solely for an election campaign, or a similar purpose, are not taxable income to the candidate. However, any contributions over and above the expenses for an election campaign must be included in the candidate's taxable income.

HOME OFFICE DEDUCTION

Can I deduct expenses for an office in my home?
Yes. In order to deduct home office expenses, you must meet the following requirements:

- You must have an area of your home dedicated exclusively to business use.
- The area must be used for business on a regular basis — occasional meetings or incidental use does not qualify.
- The home office must be the principal place of business. In order to determine if the home office qualifies as a principal place of business, consider:
  - The amount of time spent at each location.
  - The relative importance of the work performed at each location.

If your home office is the location where you perform the managerial and administrative duties of your business, and it is the only fixed location where business is conducted, it will likely qualify for the home office deduction. This requirement may also be satisfied if you regularly conduct face-to-face meetings in your home with constituents, and these meetings represent a substantial and integral part of the business.

Legislators may also need to operate their home office at the convenience of their employer. In order to claim the deduction, you should acquire confirmation of this fact from your employer.

What home office expenses are deductible?
Expenses for a home office generally fall into two categories:

- **Direct** expenses are costs incurred to benefit only the business portion of the home, such as painting the office. Direct expenses are generally fully deductible.
- **Indirect** expenses are costs incurred to run the entire home, such as utilities, insurance, real estate taxes, mortgage interest, repairs and maintenance. These costs are deductible based on the percentage of your home used for business.

Those that qualify for the home office deduction are also allowed to claim a deduction for rent or depreciation of the property.

Campaign expenses for election or reelection are not deductible, even if they would normally fall under the umbrella of the home office deduction. Reimbursed expenses are also not deductible.

How do I calculate the deduction?
When figuring the amount you can deduct for the business use of your home, you will use either your actual expenses or a simplified method.

Using actual expenses requires costs associated with the home office to be categorized by direct and indirect expenses. Unrelated home expenses (e.g., lawn care or painting a room not used for business) are not deductible. Under the simplified method, the allowable area (the lesser of 300 square feet or the area of the home used for business) is multiplied by the prescribed rate of $5. The maximum deduction per year using the simplified method is $1,500.

You can switch between the regular and simplified methods on a year-by-year basis.

What happens if I sell my home after depreciating it using the home office deduction?
You may need to recapture the depreciation and include it as taxable income in the year of sale. Generally, if you sell your primary residence and meet certain holding period requirements, you can exclude some or all of the gain from taxable income. However, if you have claimed depreciation on your home office, you are not allowed to exclude gain equal to the amount of depreciation claimed.

Where should I report my home office expenses?
Legislators should report expenses for the business use of their home on Schedule M1UE, Unreimbursed Employee Business Expenses. If work was performed by a taxpayer designated as an independent contractor, expenses should be reported on Form 8829, Expenses for Business Use of Your Home.

TELEPHONE EXPENSES

Can I deduct the cost of my home telephone on my Minnesota return?
The basic cost of your home telephone is an expense you would incur regardless of whether you were a member of the Minnesota Legislature and, therefore, is not deductible. However, any additional charges would be deductible on Schedule M1UE if they relate to state business and to your position as a legislator.

If you have a separate telephone installed exclusively for legislative business, then the entire cost of that telephone can be deducted as an employee business expense.

Can I deduct the cost of my cellular telephone?
Yes. However, adequate records must be kept to establish what percentage of the total cell phone use was for legislative business. The business-use percentage is used to determine the correct costs that can be deducted as an employee business expense.

OTHER EXPENSES

What other expenses can I deduct on my Minnesota tax return?
There are many other expenses you can incur as a legislator that may be deductible as an unreimbursed employee business expense reported on Schedule M1UE. These include:

- **Office supplies**, postage and stationery.
- **Dues** to certain organizations that benefit your capacity as a legislator.
  - Note: Dues to certain organizations you were already a member of for personal reasons may be deductible to the extent you can show business use and purpose. Dues paid to country clubs, social clubs, athletic clubs, business luncheon clubs, and airline and hotel clubs are not deductible, regardless of business purpose.
- **Subscriptions** to additional newspapers and magazines because of your position as a state legislator, including special weekly papers in your district and publications relating to politics, the state or related areas of government.
  - Note: If you incurred these expenses prior to your position as a legislator for personal reasons, the costs wouldn't be deductible.
- **Holiday greeting cards** to persons with a political relationship to you.
- **Newsletters** sent to constituents.
- **Payroll expenses** if employing and paying staff from personal funds. In such cases, you must obtain a federal identification number for each employee on your personal payroll and pay the appropriate payroll taxes.

ADVERTISING

Are advertising expenses deductible on Minnesota state returns?
Yes. The cost of advertising is an ordinary and necessary business expense for a public official. Deductible advertising and promotion expenses include:

- Ads in magazines or trade journals that support business and community activities in your district.
- Sponsoring events attended by constituents.
- Calendars, pens or similar items that include your address and phone number.

Advertising expenses are deductible as a miscellaneous itemized deduction on Schedule M1UE of your personal tax return, and are subject to the 2% adjusted gross income limitation.

Note: All advertising during election or reelection campaigns are not an allowable deduction on your personal income tax return, and should be paid for using campaign contributions.

BUSINESS GIFTS

Am I allowed to deduct the cost of business gifts?
Yes. Business gifts are deductible on Schedule M1UE up to $25 per donee per year. You must keep records to verify all of the following information:

- The cost and description of the gift.
- The date upon which the gift was made.
- The business reason for the gifts, or the benefit derived or expected as a result of the gift.
- The relationship between you and the recipient, including name, title or other designation sufficient to establish a relationship.

It is not necessary to record the recipient's name if the business relationship of the gift is clear, and if it is apparent that the $25 per donee limitation is not being avoided.

RECORD KEEPING FOR SUBSTANTIATION

Do I need to keep receipts and other records to support expenses on my Minnesota tax return?
Yes. Adequate and complete records are a vital part of efficient and correct tax return preparation. Records serve to substantiate deductions and credits under examination, and as a quality control measure to ensure that you claim all the deductions entitled to you.

What constitutes adequate records?
You should keep a log, account book or similar record to document your expenses. You should also keep receipts that include the date, time, location, amount paid and business purpose of the expenses. The records should be recorded at or near the time of the expense for an accurate and timely record-keeping system.

A log or journal is a good starting place for recording expenses; however, a simple listing may not represent sufficient evidence. Receipts, invoices and bills should be kept whenever possible to support the expense log. While items such as receipts and invoices can stand on their own, others need a corresponding log entry. For example, a canceled check on its own is often not sufficient evidence for establishing the business purpose of the payment.

You should generally have separate documentation for each expense. However, reasonable combining is allowed, especially if the group of expenses can be considered a single unit or use. Examples of allowed aggregation are combining the cost of a meal and tip, or combining multiple taxi fares over the course of a single day.

Some types of expenses, such as travel, gifts, transportation and entertainment, require additional detail in order to be properly substantiated on your state return:

- **Travel** expenses should be appropriately separated by type of expense (travel, lodging, meals, etc.) and should note the duration of the trip (days, hours, miles, etc.), destination, amount of time spent on business, and the business purpose or expected benefit of the trip.
- **Business gifts** should be documented by a description, cost and date of the gift. The business purpose of the gift and the intended benefit to be gained should also be documented. The business relationship between the recipients must be established by documenting relevant information (name, title, etc.).
- **Transportation** expenses should be appropriately separated by type. The destination and business purpose of the trip should also be documented. For trips by car, you should document the total miles driven on each trip as well as any costs of operating and maintaining the vehicle (fuel, oil, etc.). You should also document the total miles driven each year for each vehicle used for business purposes in order to calculate the business-use percentage for the vehicle.

It is especially important that you retain supporting documentation, in addition to a log, for the travel expenses described above. Such documentation would include receipts, bills, travel vouchers, copies of tickets and other forms of evidence to attest to the occurrence and purpose of the trip or event.

Finally, an essential part of good record keeping is timeliness. Expenses should be recorded as they occur, or shortly after, to ensure all necessary details are captured and expenses are not forgotten. A diligently updated log provides greater support than one recreated from memory at year-end.

How long do I need to keep these records?
Generally, you should keep your records for three years from the date of filing the state tax return on which you claimed the deduction. However, the period of limitations is longer if the taxpayer requests an extension, or if there has been a substantial omission from gross income. There is no statute of limitations in cases of fraud.

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MINNESOTA SOCIETY of CERTIFIED PUBLIC ACCOUNTANTS
1650 W. 82nd St., Suite 600, Bloomington, MN 55431
p: 952-831-2707 | 1-800-331-4288 | f: 952-831-7875 | www.mncpa.org

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OlsenThielen
CPAS AND ADVISORS

2675 Long Lake Road
Roseville, MN 55113
(651) 483-4521

300 Prairie Center Drive, #300
Eden Prairie, MN 55344
(952) 941-9242

www.otcpas.com

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