

# Alert: Taxes Are on the Rise

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The Minnesota Legislature recently enacted the Omnibus Tax Bill, which significantly increases certain taxes and creates new taxes, in addition to the recent federal tax increases. Key provisions of the Omnibus Tax Bill include the following:

## **Income Tax:**

The Omnibus Tax Bill raises the Minnesota individual income tax rate starting January 1, 2013, by 2%, from 7.85% to 9.85%, on taxable income in excess of \$150,000 for single taxpayers and \$250,000 for married taxpayers who file a joint return. This is in addition to the 2013 federal individual income tax rate increases, including a 4.6% increase in the top federal individual income tax rate and the reinstatement of the phase out of itemized deductions and personal exemptions. The phase out of itemized deductions alone can effectively decrease the value of state tax deductions, charitable contributions, and certain other itemized deductions by up to 80%. In addition to the above increases, the new 3.8% federal health care tax is applicable to net investment income and other passive income. High income individual taxpayers, especially charitably inclined taxpayers, may see an effective increase in their tax rates of well over 10%.

## **Gift Tax:**

The Omnibus Tax Bill creates a new gift tax effective for gifts made after June 30, 2013. The Minnesota gift tax will be 10% of the value of gifts in excess of the federal gift tax annual exclusion amount (\$14,000 for 2013). A lifetime credit in the amount of \$100,000 will be allowed, which is the equivalent of \$1 million in value of gifts. Minnesota taxable gifts exclude the transfer of (i) real estate located outside of Minnesota; (ii) tangible personal property normally kept outside of Minnesota; and (iii) intangible personal property owned by a non-resident of Minnesota.

## **Estate Tax:**

Effective January 1, 2013, gifts made within three years of death will be subject to Minnesota estate tax. Also effective January 1, 2013, real estate and tangible personal property located in Minnesota and held by a non-resident of Minnesota in a pass-through entity will be subject to Minnesota estate tax. For example, if a building located in Minnesota is held by a limited liability company owned by a non-resident, the value of the building will now be subject to Minnesota estate tax.

## **Cigarette Tax:**

The Omnibus Tax Bill increases the tax on a pack of cigarettes from \$1.23 to \$2.83, an increase of \$1.60 per pack.

## Practice Areas

Business Law

Estate Planning and Wealth Preservation

