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WEEKLY TAX UPDATE

December 19, 2011

Federal

Business Standard Mileage Rate is Unchanged for 2012

IRS has announced that the optional mileage allowance for owned or leased autos (including vans, pickups or panel trucks) will remain at 55.5¢ per mile for business travel after 2011—that is, unchanged from the July 1, 2011 mid-year adjustment. This rate can also be used by employers to reimburse tax-free under an accountable plan employees who supply their own autos for business use, and to value personal use of certain low-cost employer-provided vehicles. The rate for using a car to get medical care or in connection with a move that qualifies for the moving expense will decrease by .5¢ from the July 1, 2011 mid-year adjustment to 23¢ per mile.

Minnesota

Minnesota Highlights Withholding Tax Changes for Tax Year 2012

The Minnesota Department of Revenue has issued a release that discusses withholding tax changes and other announcements for tax year 2012

New e-Services online filing and payment system. In October 2011, the Department began the transition of all businesses from the current e-File Minnesota system to the new online filing and paying system, e-Services. The new e-Services system is used by business taxpayers, as well as tax professionals with clients who are business taxpayers. The new system will continue to offer filing and paying capabilities and will introduce additional features and functionality to its users.

Taxpayers will know when they have been transitioned to the new system when they enter their Minnesota ID in eFile. Taxpayers will then be directed to a new screen with the "Welcome to Minnesota e-Services." Taxpayers will know their account has been moved to e-Services when they see this screen.

New website. In mid-2012, the Department will launch a redesigned website. It will feature simple navigation and a more attractive, intuitive design, allowing users to access the information they need as quickly as possible. The new link is www.revenue.state.mn.us. Until the new site is launched, both the new link (www.**revenue**.state.mn.us) and old link (www.taxes.state.mn.us) will direct visitors to the current site.

Upcoming due dates. Taxpayers must submit 2011 Forms W-2 and 1099 to the Department by February 28, 2012. The 2011 year-end returns for quarterly and annual filers are due February 28, 2012. All deposits are due on their regularly scheduled due dates.

Quarterly filing changes. In e-Services, the fourth quarter return will no longer serve as an annual reconciliation. The return will include only wage and withholding information for the fourth quarter.

Change in reporting 2% construction contractor withholding. Starting January 1, 2012, taxpayers will be required to report their 2% construction contractor withholding on a quarterly basis. Currently, 2% construction contractor withholding is reported only on the fourth quarter return. In e-Services, taxpayers will report the 2% withholding every quarter. There is a check box on each quarterly return in e-Services to indicate whether the taxpayer has had 2% construction contractor withholding. When the taxpayer checks the box, additional fields will be displayed to enter withholding amounts.

Form W-2 electronic filing threshold. For tax year 2011 and beyond, taxpayers must electronically submit Forms W-2 and 1099 to Minnesota if the taxpayer has more than 10 forms to file. The Department encourages taxpayers to submit Forms W-2 and 1099 electronically even if the taxpayer files 10 or fewer forms.

Form W-4MN. Form W-4MN is the Minnesota equivalent of federal Form W-4. Employees must complete Form W-4MN if they: (1) claim fewer Minnesota allowances than federal allowances; (2) claim more than 10 Minnesota allowances; (3) want additional Minnesota withholding tax deducted each pay period; or (4) claim to be exempt from federal and/or Minnesota withholding.

Employers must submit W-4MN to the Department if: the employee claims more than 10 Minnesota withholding allowances; the employee claims to be exempt from Minnesota withholding and the employer expects the employee's wages to exceed $200 per week (except if the employee is a resident of a reciprocity state and has completed Form MWR); or the employer believes the employee is not entitled to the number of allowances claimed.

Federal health care reform. Minnesota has adopted all of the changes to the Internal Revenue Code (IRC) enacted between March 18, 2010, and April 14, 2011, effective the same date as the federal changes. As a result:

- The value of health insurance benefits provided to employees' nondependent children younger than age 27 is exempt for Minnesota tax purposes. (While legislation signed into law in April 2011 conformed Minnesota treatment of these benefits to federal law for 2010 only, this new law covers any benefits provided in 2011 and all future years.)
- The maximum exclusion for employer-provided adoption assistance is the same for both federal and Minnesota tax purposes.
- The exclusion from income of an employee for amounts paid or expenses incurred (up to $5,250 annually) by the employer under an educational assistance program is extended through 2011 and 2012.
- For benefits paid in 2011, employers can provide the same amount of tax-free fringe benefit to their employees for qualified transportation fringe benefits that the employer provides through transit passes and vanpooling as the employer provides to employees as a tax-free parking benefit.

Nonresident entertainer tax changes. Beginning January 1, 2012, compensation paid to an entertainment entity is exempt from Minnesota withholding tax if the total compensation paid to the entity is less than $600 in a calendar year. If the total amount paid to an entertainment entity exceeds $600, withholding is required for all compensation, not just the amount exceeding $600. Previously, 2% withholding was required for all compensation, regardless of the amount(s) paid during the year.

For tax years 2011 and prior, an entertainment entity was entitled to a credit equal to the lesser of $120 or the amount of nonresident entertainer tax withheld from the compensation paid to the entertainment entity. That credit has been repealed.