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Feature Article

2013 TAX PLANNING UPDATE

by [Eric Tuck](#), McGladrey LLP and [Wendy Bell](#), McGladrey LLP



As the end of 2013 approaches, yet another tax season looms and the year-end planning process becomes ever more important.

With many important changes set to go into effect for the 2013 tax filing season, as well as many provisions set to expire at the end of 2013, now is the time to jump start your tax planning efforts.

Planning for individuals

For 2013 and subsequent years, the tax rates reflect a continuation of the "Bush era" tax cuts, except for the addition of a new 39.6% tax rate for the highest bracket. The starting points for this new rate are \$450,000 for married filing joint (MFJ) taxpayers, \$400,000 for single taxpayers, \$225,000 for married filing separate (MFS) taxpayers and \$425,000 for heads of household (HH).

Important to note is that the new top tier tax rate in Minnesota is 9.85% (an increase from 7.85%) for taxable income exceeding \$250,000 for MFJ, \$200,000 for HH and \$150,000 for single taxpayers.

Capital gains/dividends

Taxpayers who now fall into the 39.6% tax bracket will see an increase to their capital gains and dividends tax rate. As opposed to the 15% they have paid in past years, they will now pay 20%. The respective 28% and 25% rates for collectibles and unrecaptured 1250 gains on real estate sales will remain unchanged. Also unchanged is the ordinary income rate that short-term gains are subject to, except now they may be subject to the higher rate (39.6%).

New for 2013: Surtax on net investment income

Beginning in 2013, higher income taxpayers, estates and trusts may now be liable for a 3.8% net investment income (NII) surtax. This surtax is equal to 3.8% percent of the lesser of:

- NII for the tax year, or
- The excess of modified adjusted gross income over the applicable threshold amounts (shown below).

Applicable threshold amounts:

Single	HH	MFJ/ Surviving Spouse	MFS
>200,000	>200,000	>250,000	>125,000



Net investment income includes dividends, rents, interest, passive activity income, capital gains, annuities and royalties. Passive pass-through income will be subject to this new tax, but non-passive income will not. Self-employment income, income from an active trade or business, as well as IRA or qualified plan distributions are also not subject to this NII surtax. Rental income may be considered NII unless earned by a real estate professional. This is an important issue to consider and discuss with your tax advisor.

Additional Medicare tax

Effective for tax years beginning after December 31, 2012, the additional Medicare tax increases the employee's share of Medicare tax by 0.9% on amounts over the specific threshold. Threshold amounts are: \$200,000 for single and head of household taxpayers, \$250,000 for MFJ filers and \$125,000 for MFS taxpayers.

Taxpayers who anticipate additional liability may request that their employer(s) take out additional withholding at year end.

Retirement plans

The elective deferral (contribution) limit for employees participating in a 401(k) plan is \$17,500 for 2013. The catch-up contribution limit for employees over 50 years old is \$5,500. The IRS recently announced that these limits will remain unchanged for 2014.

continued on next page



The annual contribution limit on an Individual Retirement Arrangement (IRA) is \$5,500, with an additional catch-up of \$1,000 allowed for taxpayers over 50 years of age. These limits will again remain unchanged in 2014.

### Estate and gift taxes

The annual gift tax exclusion for 2013 is \$14,000 per recipient. Spouses may "split" their gifts, effectively increasing the maximum exclusion per recipient to \$28,000. The same \$14,000 limit applies for 2014.

The American Taxpayer Relief Act of 2012 (ATRA) has permanently provided for a maximum federal unified estate and gift tax rate of 40%, with an inflation-adjusted \$5 million exclusion for gifts

made and estates of decedents dying after December 31, 2012. This means the lifetime exclusion for 2013 is \$5.25 million. The lifetime exclusion will increase to \$5.34 million in 2014.

Some important provisions to note specifically for Minnesota are that gifts made over the annual exclusion within three years of death are now considered when determining estate tax return filing requirements. Also, non-resident decedents owning interest in a pass-through entity that has property in Minnesota are now subject to Minnesota estate tax. Lastly, a significant change with the new Omnibus Tax Bill is that a gift tax of 10% is imposed on gifts in excess of the lifetime exclusion of \$1 million. This new gift tax applies to Minnesota residents for gifts made after June 30, 2013.

### Planning for businesses

Some important incentives set to expire at the end of 2013 include bonus depreciation, Code Section 179 expensing and 15-year recovery for qualified property, as well as other various provisions.

### Bonus depreciation

Again in 2013, 50% bonus depreciation is allowed for qualified MACRS property with a recovery period of 20 years or less. The property must also be new and placed in service before January 1, 2014. As mentioned above, this is one provision set to expire after 2013.

### Code Section 179 expensing

This deduction is still available through 2013 for taxpayers who elect to treat qualifying property as an expense rather than a capital expenditure. The annual dollar limit of \$500,000 still exists as well as the annual \$2 million overall investment limitation. This limitation applies before the \$500,000 is reduced, dollar for dollar, for any amount over that \$2 million threshold. Property that is qualified for 179 expensing includes qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property.

### 15-year recovery for qualified property

Another provision set to expire at the end of 2013 is the 15-year recovery period for qualified leasehold improvements, qualified retail improvements and qualified restaurant property. Beginning in 2014, these assets will be written off over a 39 year period unless the law is extended again.

### Final repair/capitalization regulations

In September, the IRS released the final "repair" regulations that outline and explain when taxpayers must capitalize costs and when they can deduct expenses for acquiring, maintaining, repairing and replacing tangible property.

So what does this mean for taxpayers? The final regulations will apply to tax years beginning on or after January 1, 2014. Taxpayers, however, have the option to apply either the final or temporary regulations for years 2012 and 2013. The IRS has promised "transition guidance" to be released later this year to help taxpayers better address this upcoming issue.

### Important changes to note specific to Minnesota

As with all tax laws, provisions are always subject to change and new regulation. There are a few important changes specific to Minnesota for businesses, including the new categories and rates for the Minnesota minimum fee, so you may not necessarily be able to use the "same as last year" approach when determining your minimum fee. Also for Minnesota purposes, qualified leasehold improvements, restaurant buildings and retail improvements must be 39-year property, rather than 15-year property as seen in previous years.

These are some of the more prevalent issues affecting taxpayers as the 2013 calendar year wraps up and a new tax season is set to begin. As 2013 comes to a close, there is still time for effective tax planning.

## MSCA MEMBERSHIP RENEWAL FOR 2014

This year, renewing your MSCA membership is very quick and easy, and by following the process below, you will receive a receipt immediately for your convenience. In addition, log in to your MSCA profile to ensure all information is accurate. **Everyone who completes/ updates their entire profile, including their home address, will be entered into a chance to win a \$50 VISA gift card.**

To renew your membership and view your online profile, follow these steps:

1. Log in to your [MSCA Account](#) with your member ID and password.
2. Once you log in, your profile will be on the home page. If it's not, please click **Welcome, [your name]** in the top right corner. On the right hand side, where there is a list of **Other Actions**, click on **Renew My Membership**. You can then choose to renew your membership or renew your colleague's membership using their express code.

NOTE: The contact information in your profile is what will be printed in the 2014 MSCA Membership Directory, so please make sure your online profile contact information is complete and accurate by January 31, 2014. Anything received after that will not be reflected in the 2014 Membership Directory.

## Member Profiles

**Jim Hornecker**  
SUPERVALU



**What is your primary career focus?** New store development for SUPERVALU's corporate and independent businesses from Ohio to the west coast.

**What is your favorite Disney movie?** Since the Mouse owns Pixar, I'd have to say *The Incredibles*.

**What junk food is your weakness?** Gluten free chocolate chip cookies.

**What makes you feel old?** This question.

**What is something you have always wanted to try?** A simple real estate deal.

**If you could hire out one household chore, what would it be?** Yardwork. Seasonal allergies crush me.

**What is your favorite board game?** Clue. It's always enjoyable to blend a cool-headed logic puzzle with a macabre discussion of the relative advantages to Colonel Mustard of bludgeoning someone with a candlestick instead of blasting him with a revolver.

**What is your favorite alcoholic drink?** Petite Syrah. It's with no embarrassment that I prefer a libation that has the word "petite" in its name. This is a manly purple-ish wine.

**What was your favorite toy as a kid?** As a little kid in Florida we had a pool in the backyard. I nearly grew scales I spent so much time in it.

**How many rings before you answer the phone?** However long it takes for me to pull it out of my pocket and not drop the fool thing.

**What is something you said you would never do, but did anyway?** Go back to work for SUPERVALU.

**How long have you been an MSCA member?** 6 years.

**Paula Foley**  
Klodt Incorporated



**What is your primary career focus?** Asset management, human resources, and lots of miscellaneous stuff.

**What is your favorite Disney movie?** I don't have one.

**What junk food is your weakness?** Cake and cookies.

**What makes you feel old?** I just became a grandma.

**What is something you have always wanted to try?** Cake decorating classes.

**If you could hire out one household chore, what would it be?** Cleaning the house.

**What is your favorite board game?** Trivial Pursuit.

**What is your favorite alcoholic drink?** Absolut and Tonic.

**What was your favorite toy as a kid?** My bike.

**How many rings before you answer the phone?** Usually one.

**What is something you said you would never do, but did anyway?** Go on a cruise.

**How long have you been an MSCA member?** I started going to meetings in 1988. I don't recall when I actually became a member.

## Hot (or Cold) Topic

# BEMIDJI WOOLEN MILLS

by **Judy Lawrence**,  
Kraus-Anderson Companies



It is getting a little chilly out, and our thoughts are turning to giving gifts and keeping warm. One of my favorite stores is the Bemidji Woolen Mills in Bemidji, Minnesota. This is my logic: if you can stay warm in Bemidji, you can stay warm anywhere. Since this store has Bemidji in its name, it must be confident in its products!

Bemidji Woolen Mills is the "go to" place for locals to get all of their winter stock of socks, mittens, hats, jackets, and of course, long underwear. It carries not only its own products, but also the products of 35 other winter garb suppliers. The company gained some notoriety as the supplier of Republican primary candidate Rick Santorum's sweater vests!

Established 90 years ago, first generation American father and son, Ira P. and Ira H. Batchelder, set out to produce outdoor woolen apparel for the logging industry. Today it continues this tradition and has its retail store right in downtown Bemidji as well as a complete manufacturing facility in the Bemidji Industrial Park.

Do yourself a favor and tour the Bemidji Woolen Mills website ([www.bemidjiwoolenmills.com](http://www.bemidjiwoolenmills.com)) to find all kinds of things to keep you warm while you are supporting a Minnesota tradition.

*Special note: My own favorite baby gift is the toddler's Paul Bunyan Buffalo Plaid Shirt Jacket. There is nothing cuter than this red and black jacket on a miniature lumberjack.*



## JOIN AN MSCA COMMITTEE

Now is a great time to join a committee – time commitments vary, so you will be able to find a committee that's right for you.

For more information about each committee, visit [MSCA Committees](#).



**MSCA committees need you!**

**Grab a seat at an upcoming committee meeting!**



■ The owners of **Chef Shack**, one of the Twin Cities' very first food trucks, will shift gears into a brick-and-mortar space. Lisa Carlson and Carrie Summer plan to launch Chef Shack Ranch at the corner of 31st Avenue S. & East Franklin Avenue in the Seward Neighborhood right across the bridge from the Prospect Park neighborhood, in the old Lucy's Ethiopian Space.

■ **Turkey To Go**, the Minnesota State Fair staple that later expanded into the food truck and restaurant market, has shut down one of its two brick-and-mortar locations. The company's St. Paul counter, at Alliance Bank food court, closed last month.

■ Next up in Minneapolis' brewery boom is a pizza brewpub called **Day Block Brewing**. Day Block will probably open sometime in January in the former Spill the Wine location at 1101 Washington Avenue S.



■ The hotly-anticipated restaurant **The Rabbit Hole** has opened. The restaurant is the second space from The Left-Handed Cook's Thomas Kim and Kat Melgaard; while both spaces are housed in Midtown Global Market, the Rabbit Hole is a fully-enclosed restaurant.

■ **Costello's Bar & Grill** is ending its 19-year run on Selby Avenue in St. Paul and leasing its space to Luke Shimp, who will use the neighborhood bar to open a second **Red Cow** restaurant.

■ **Noodles & Co.** opened its 34th Minnesota restaurant this past month in Stillwater. The new restaurant is near the intersection of Highway 36 & Stillwater Boulevard, in a shopping center with a Jimmy John's Gourmet Sandwiches and Chipotle Mexican Grill.

■ A Mexican restaurant called **Hussong's Cantina** is in talks with the developer of a new retail building planned for 901 Washington Avenue in downtown Minneapolis. If a deal comes together, Hussong's would occupy 5,000 sf of space on the first floor, plus another 5,000 sf on a rooftop patio.



■ A new restaurant concept called **The Salad Bar** has signed a lease for the former Jamba Juice space at City Center in Minneapolis. It will occupy 1,459 sf next to Starbucks on the center's ground level and another 347 sf at a kiosk and patio-style seating area on the skyway level.

■ **Apple** is relocating its store at Rosedale Center. It will move in December into a larger space that is just less than 10,000 sf.

■ Two new Mall of America tenants will open soon. **JM Cremp's Boys Adventure** — owned and operated by Jay and Maria Asplin of Dassel, Minn., and their five sons — will open a shop on the second floor's north side. It will sell clothing, gear, toys, books and activity kits. Meanwhile, a create-your-own-pizza concept called **Pizza Studio** will open in early December on the third floor's south side.

■ Local restaurateur Corey Burstad has converted a former gas station near Central Avenue & Main Street into **Bluzy's Roadside**, a burger, taco and sausage eatery with 26 beer taps.

■ **Sisu**, a new women's clothing store, opened in Woodbury in November. It's occupying space next door to Angelina's Kitchen at 2170 Eagle Creek Lane in the Eagle Valley Marketplace.



■ A developer is offering \$6 million to **Richfield's Academy of the Holy Angels** to turn part of the private school's east lawn into a retail center. Potential tenants could include a drug store such as a Walgreens or CVS, a coffee shop, a sandwich shop, a bank and a frozen yogurt store. It would maintain the general aesthetic of Holy Angels' existing buildings.

■ A Bundt cake-only bakery franchise has reached the Twin Cities, the same place where the Bundt cake pan was invented 63 years ago. Jill Tullemans and Patty Balster are behind the new **Nothing Bundt Cakes** location in Eden Prairie's Lariat Center I at 8435 Joiner Way. Nothing Bundt Cakes is a Las Vegas-based franchise with 72 bakeries in 18 states.

■ Buffalo Wild Wings Inc. has selected the site for its first **PizzaRev** location in Minnesota. PizzaRev has signed a lease for a 2,400-sf space at Knollwood Crossings in Hopkins.



■ **Specially Yours** in Hopkins has closed. During 13 years in downtown Hopkins, owner Cindy Shear says she's seen business on Main Street ebb and flow, but since the departure of several contemporary stores, including Corset, Fringe and Lillian's, there's just not enough traffic to support a boutique.

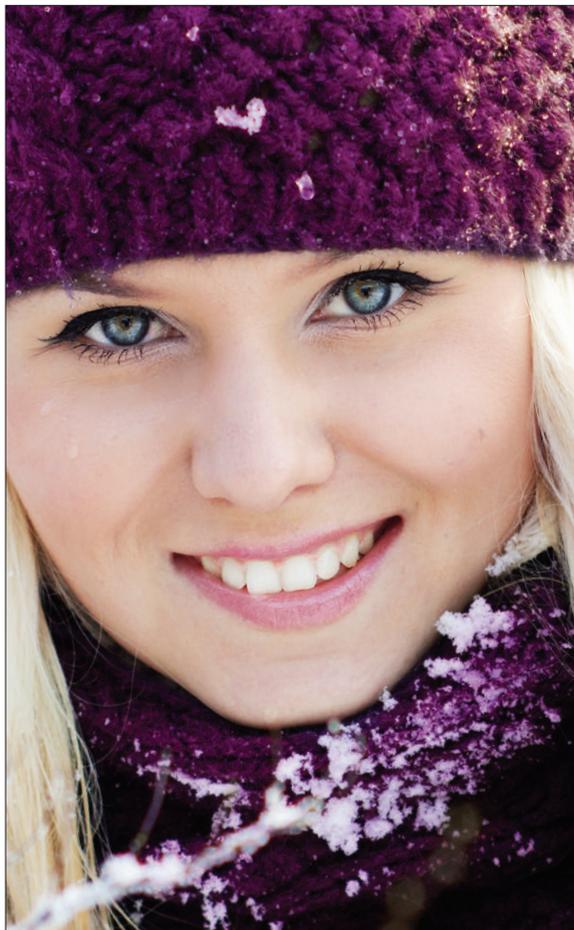
■ **Whymisy** is closing after over 13 years at the Galleria. The lease demands of the Edina shopping center, which recently has welcomed several new national stores, just became unsustainable for the small boutique.

■ **Blockbuster**, which had more than 9,000 retail stores across America just nine years ago, is closing the few hundred video-rental stores that it still has. The remaining Blockbuster stores in Minnesota will close by early January. They are located in Uptown, Bloomington, West St. Paul and Rosemount.

continued on next page

## Minnesota Marketplace - continued

- **Associated Bank** is relocating its operations from IDS Center into two different downtown Minneapolis buildings. Associated's retail branch will go into 1,335 sf on the skyway level of the Baker Center, the former G. Allen Jewelers space.
- Maple Grove is on the path to becoming home to the largest liquor store in the state. **Haskell's** is moving in with a 20,000-sf store, blowing up its average store footage of 8,000 sf by more than double. It is taking over the former Office Max space located next to Target.
- **Chuck & Don's Pet Food Outlet** opened a Maple Grove location in late October. The 4,282-sf store, located at 8115 N. Wedgewood Lane, is the pet-supply chain's 20th location in Minnesota.
- **Tin Whiskers Brewing** has purchased space in the Rossmor building, according to co-founder George Kellerman. The 3,700-sf taproom is projected to open in late spring of 2014.
- **Big Frog Custom T-Shirts** is set to open at 1815 Radio Drive in a 1,331-sf space at Woodbury's City Centre this winter. Big Frog Custom T-Shirts, a franchise, is what it sounds like: a company that designs and prints custom clothing.
- **CVS Pharmacy** has been given the OK to build a store in Hastings on an entire block along Vermillion Street, the city's main drag. Six homes and three businesses — Hastings Gift, Garden & Floral, Great Clips and a vacuum cleaner shop — occupy the 1.8-acre site. The plan calls for a 13,000-sf store in the center of the site, with parking on the west side of the property by Vermillion Street (U.S. 61) and a drive-thru on the east side toward Sibley Street.
- The Minnetonka City Council signed off on a conditional use permit necessary for **Banfield Pet Hospital** to move into the Westwind Plaza shopping center at 4777 County Road 101. The hospital will occupy nearly 3,000 sf of space between Beijing Restaurant and Bruegger's Bagels.
- Uptown restaurant **Lake & Irving** opened at—where else—Lake Street & Irving Avenue. Run by brothers Chris and Andrew Ikeda, the 3,800-sf restaurant promises American food with Asian influences
- **Boom Island Brewing Company** has moved to new quarters at 2014 Washington Avenue N. in the Minneapolis North Loop and will be opening a 49-seat tap room and patio.
- **Bridal Aisle Consignment** has leased 2,912 sf in a shopping center at County Road 81 & Highway 169, Osseo, MN.
- **Great River Pet Center** opened in 5,476 sf freestanding building at I-694 & Century Avenue in Oakdale, MN. GRPC is a boarding and pet care business.



# festive. holiday.

## {SHOPPING}

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Please contact any member of the Newsletter Committee with suggestions or article ideas.

## MEMBER NEWS

CBRE has welcomed two seasoned retail brokers to their Minneapolis office. First Vice President **Matt Friday** brings 18 years of experience as well as a cadre of national and regional clients to CBRE. Vice President **David Daly** has 8 years of experience and specializes in retail properties with a concentration on Occupier Services and Institutional Landlord Representation.

Two former members of MSCA, **Thomas Crowley** and **Kenneth Stensby**, were recently inducted into the Minnesota Real Estate Hall of Fame by the Shenehon Center for Real Estate at the University of St. Thomas Opus College of Business. Inductees are chosen for their "outstanding business performance, high standards of ethics and sense of community."

## MSCA Events

# LOOKING AHEAD TO 2014

Monthly Program

Third Thursdays

## JANUARY 2014

SUN	MON	TUES	WED	THUR	FRI	SAT
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

For more information and registration, go to [www.msca-online.com](http://www.msca-online.com)

Click on date within current month for details and registration link for that meeting.

To view MSCA program presentations, [click here](#).

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from the MSCA staff  
Karla & Ryan

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## Program Recap

# 2013 STATE OF RETAIL RETAIL TOURNAMENT OF CHAMPIONS

by [Greg Brenny](#), Fafinski Mark & Johnson, P.A.



The November program provided perspective on the state of the local and regional retail markets. One main take away from the program was that the local retail market is certainly improving and on the road to recovery, and in the case of North Dakota in and around the Bakken formation, the retail market continues to explode and presents tremendous opportunity. Three speakers covered diverse topics that included an overview of the investment markets, the North Dakota oil boom, and the local retail activity in the Minneapolis-St. Paul metropolitan area. These speakers both summarized the past and gave some predictions for the future. In between speakers, a game between tables was played that consisted of three rounds of trivia questions in various categories related to retail real estate.

Eric Bjelland of Cushman & Wakefield/NorthMarq was the first speaker with a very informative discussion of the investment markets. One item Eric stressed was the importance of the 10 year Treasury Rate on the investment markets. He noted that this summer the rate had an increase spike of about 130 basis points but had since leveled off and decreased. This spike caused a stall in the investment markets this summer. He also discussed that the capital stack had not changed much since 2006 and that lender chaos in 2008 has given way to lender stability in 2013. In discussing local sales, Eric commented that capital flow is available this year, but was not last year. He predicted that the cost of capital will continue to likely remain near historical lows for some time as the new Federal Reserve Board chairman continues the bond buying program for the foreseeable future without taper. Risks include macro elements such as the Affordable Care Act, fiscal cliff, and the dominance of the U.S. Dollar as the currency of trade. Also, eventually the Fed will need to bring tapering back on the agenda later in 2014.

Paul Tucci of Oppidan Investment Company was the next speaker with an exciting discussion about the opportunity in the Bakken area of North Dakota. Paul gave an overview of the oil potential, the staggering residential and retail growth that was taking place, and the current status and future opportunity of the retail market. He started with information on the projections of oil reserves that suggest the recent activity will be around for many years to come. He stressed that some of the past craziness in the labor and rental markets were stabilizing. Employees could be found to work in retail at costs less than peak. More residential apartments and single family homes were being completed causing rents to also become slightly lower. While development and operating costs may be higher than anticipated, revenue for new retail stores at 1.5 to 2 times projections more than covered the increased costs. Paul concluded that tremendous future opportunity remains for retailers and developers. He encouraged everyone to take a field trip and visit the Bakken area.

Mike Sims of Mid-America Real Estate-Minnesota was the last speaker with an encouraging overview of the local retail market. Mike stated that retail activity is back, but with the



Paula Mueller – Moderator, Mike Sims, Mike Broich, Eric Bjellund, Paul Tucci

caution that not in all segments. He gave four retail segments that were experiencing significant activity:

- (1) Small Ball.** Small corners with great locations, often former gas stations, were being redeveloped with single or a multiple tenant targeted projects. This land was expensive, but the prime locations were overcoming costs.
- (2) Mid-Box Vacancies.** These vacancies have been snapped-up and redeveloped over the past several years. Food and fast casual moved in. While this segment has been very active in the past, the trend may be winding down because most A/B locations are gone. Much of what is left is C locations that may be more difficult to redevelop.
- (3) Construction Comebacks.** Several suburban projects are proceeding such as the Promenade of Wayzata and Shingle Creek Crossings at the old Brookdale site. It is encouraging to see suburban redevelopment activity.
- (4) Freestanding Single Tenants.** Activity in this segment is tenant specific. Whole Foods has aggressively taken advantage of the opportunity presented during the recession. Other active retailers include fitness, luxury, fast casual and automotive.

Mike concluded with an optimistic assessment that the retail market is getting healthy again and with a prediction that the positive trend should continue.

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### Winner Listing

#### Retail Tournament of Champions

It was a tie this year!

At the end of the program, the winners of the trivia game were announced. Tables 8 and 17 tied for first place with 5900 points. Congratulations to the winners!

#### Table 8

Matt Rieger  
Stefanie Meyer  
Eric Sheaffer  
Brian Klancke  
Sean Doyle  
Howard Paster  
Philip Skowronski  
Tricia Pitchford

#### Table 17

Matthew Mock  
Mark Robinson  
Peter Armbrust  
Jeff Horstmann  
Brandon O'Connell  
Ole Froystad  
Dave Stalsberg  
Jim Stimmler

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Next page:  
Professional Showcase

