

Income/Franchise:

Minnesota DOR Summarizes Conformity to Some Federal Changes and New Passthrough Entity-Level Tax

2021 Individual Income & Corporate Franchise Tax Legislative Bulletin, Minn. Dept. of Rev. (7/19/21). The Minnesota Department of Revenue (Department) issued a bulletin summarizing recently enacted state legislation [see H.F. 9 (2021), and *State Tax Matters*, Issue 2021-27, for more details on this new law] that addresses the state corporate franchise (income) tax treatment of certain federal law changes; covers state reporting of federal audit adjustments; and creates an annual election for some qualifying pass-through entities to pay tax at the entity-level [see previously issued Multistate Tax Alert for more details on Minnesota's new elective pass-through entity tax]. Addressing provisions on the state reporting of federal adjustments following a partnership level audit by the Internal Revenue Service, the bulletin explains that, by default, each partnership generally must file a federal adjustments report related to the federal changes, and submit such report to both the Department and its direct partners, within 90 days after the final determination date. Moreover, each partnership reporting changes must file amended Minnesota composite and withholding reports for nonresident partners within 180 days. The bulletin also explains that select partnerships reporting federal adjustments after a partnership-level audit may be eligible to make an election to pay the additional tax due to Minnesota at the entity level; a partnership making the election is required to do so on a federal adjustments report filed with the Department within 90 days of the final determination date.

URL: [https://www.revenue.state.mn.us/sites/default/files/2021-](https://www.revenue.state.mn.us/sites/default/files/2021-08/2021%20Individual%20Income%20and%20Corporate%20Tax%20LB.pdf)

[08/2021%20Individual%20Income%20and%20Corporate%20Tax%20LB.pdf](https://www.revenue.state.mn.us/sites/default/files/2021-08/2021%20Individual%20Income%20and%20Corporate%20Tax%20LB.pdf)

URL: <https://www.revisor.mn.gov/bills/bill.php?b=house&f=hf9&ssn=1&y=2021>

URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2021/STM/210709_6.html

URL: <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-tax-mta-minnesota-enacts-pass-through-entity-tax-election.pdf>

Regarding Minnesota's provisions establishing a fully refundable pass-through entity tax (PTE tax) that allows electing pass-through businesses to pay state income tax at the entity level rather than at the owner level, the bulletin comments that by making this PTE tax election, "owners of the pass-through entity can avoid the \$10,000 limit on their federal income tax itemized deduction of state and local taxes (commonly referred to as the SALT Cap) enacted under the Tax Cuts and Jobs Act, P.L. 115-94, and endorsed federally under Notice 2020-75." Accordingly, the bulletin explains that pass-through entities only may make this election in taxable years where the "SALT Cap" is in place, at least one owner is impacted by the SALT Cap, and when owners collectively holding more than 50% ownership in the entity elect to do so. Please contact us with any questions.

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