

Subject Pass-through entity tax

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Overview

H.F. 3967 would modify the pass-through entity (PTE) tax enacted in 2021.

Under the bill, 100 percent of a resident's business income would be allocated to Minnesota for purposes of determining the amount of PTE tax imposed. Under current law, the PTE tax is determined by calculating the tax on each qualifying owner's business income as a nonresident partner (that is, as if the PTE's income were apportioned to the state as for nonresident partnerships.)

H.F. 3967 would also allow PTEs with other PTEs as partners, members, or shareholders to elect to file and pay the PTE tax. However, the income of an S-corporation would not be used to determine the amount of PTE tax imposed for a PTE with an S-corporation as a nonqualifying owner.

Lastly, this bill includes a provision requiring an amended PTE tax return to be filed pursuant to a partnership-level audit.

Summary

Section	Description
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1	Pass-through entity tax.
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Requires 100 percent of the income of a resident owner of an entity taxed as a partnership to be allocated to Minnesota, for purposes of determining the amount of tax paid by a pass-through entity under the pass-through entity tax. The income of a resident owner of an entity taxed as an S-corporation would be apportioned to the state as required for nonresidents.

The modifications to clause (2) would allow pass-through entities owned by another pass-through entity to elect to file and pay the PTE tax. In addition, this section would allow a pass-through entity owned by any trust to elect to file and pay the PTE tax.

Section	Description
	Effective date: retroactive for tax years in 2021.
2	<p data-bbox="316 336 1430 367">Reporting and payment requirements for partnerships and tiered partners.</p> <p data-bbox="316 388 1430 493">Modifies the rules for reporting federal entity-level partnership audits to require an amended pass-through entity tax return and pay additional pass-through entity tax for the reviewed year.</p> <p data-bbox="316 535 1430 567">Effective date: retroactive for tax years in 2021.</p>



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