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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETY-FOURTH SESSION

H. F. No. 3127

04/07/2025 Authored by Davids, Dotseth, Witte, Harder, Robbins and others
The bill was read for the first time and referred to the Committee on Taxes

A bill for an act

relating to taxation; modifying the expiration of the pass-through entity tax; amending Minnesota Statutes 2024, sections 289A.08, subdivision 7a; 290.06, subdivision 23a.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2024, section 289A.08, subdivision 7a, is amended to read:

Subd. 7a. **Pass-through entity tax.** (a) For the purposes of this subdivision, the following terms have the meanings given:

(1) "income" has the meaning given in section 290.01, subdivision 19, paragraph (i). The income of a resident qualifying owner of a qualifying entity that is a partnership or limited liability company taxed as a partnership under the Internal Revenue Code is not subject to allocation outside this state as provided for resident individuals under section 290.17, subdivision 1, paragraph (a). The income of a nonresident qualifying owner of a qualifying entity and the income of a resident qualifying owner of a qualifying entity that is an S corporation, including a qualified subchapter S subsidiary organized under section 1361(b)(3)(B) of the Internal Revenue Code, are allocated and assigned to this state as provided for nonresident partners and shareholders under sections 290.17, 290.191, and 290.20;

(2) "qualifying entity" means a partnership, limited liability company taxed as a partnership or S corporation, or S corporation including a qualified subchapter S subsidiary organized under section 1361(b)(3)(B) of the Internal Revenue Code that has at least one qualifying owner. Qualifying entity does not include a publicly traded partnership, as defined in section 7704 of the Internal Revenue Code; and

(3) "qualifying owner" means:

(i) a resident or nonresident individual or estate that is a partner, member, or shareholder of a qualifying entity;

(ii) a resident or nonresident trust that is a shareholder of a qualifying entity that is an S corporation; or

(iii) a disregarded entity that has a qualifying owner as its single owner.

(b) For taxable years beginning after December 31, 2020, a qualifying entity may elect to file a return and pay the pass-through entity tax imposed under paragraph (c). The election:

(1) must be made on or before the due date or extended due date of the qualifying entity's pass-through entity tax return;

(2) must exclude partners, members, shareholders, or owners who are not qualifying owners;

(3) may only be made by qualifying owners who collectively hold more than 50 percent of the ownership interests in the qualifying entity held by qualifying owners;

(4) is binding on all qualifying owners who have an ownership interest in the qualifying entity; and

(5) once made is irrevocable for the taxable year.

(c) Subject to the election in paragraph (b), a pass-through entity tax is imposed on a qualifying entity in an amount equal to the sum of the tax liability of each qualifying owner.

(d) The amount of a qualifying owner's tax liability under paragraph (c) is the amount of the qualifying owner's income multiplied by the highest tax rate for individuals under section 290.06, subdivision 2c. The computation of a qualifying owner's net investment income tax liability must be computed under section 290.033. When making this determination:

(1) nonbusiness deductions, standard deductions, or personal exemptions are not allowed; and

(2) a credit or deduction is allowed only to the extent allowed to the qualifying owner.

(e) The amount of each credit and deduction used to determine a qualifying owner's tax liability under paragraph (d) must also be used to determine that qualifying owner's income tax liability under chapter 290.

(f) This subdivision does not negate the requirement that a qualifying owner pay estimated tax if the qualifying owner's tax liability would exceed the requirements set forth in section 289A.25. The qualifying owner's liability to pay estimated tax on the qualifying owner's tax liability as determined under paragraph (d) is, however, satisfied when the qualifying entity pays estimated tax in the manner prescribed in section 289A.25 for composite estimated tax.

(g) A qualifying owner's adjusted basis in the interest in the qualifying entity, and the treatment of distributions, is determined as if the election to pay the pass-through entity tax under paragraph (b) is not made.

(h) To the extent not inconsistent with this subdivision, for purposes of this chapter, a pass-through entity tax return must be treated as a composite return and a qualifying entity filing a pass-through entity tax return must be treated as a partnership filing a composite return.

(i) The provisions of subdivision 17 apply to the election to pay the pass-through entity tax under this subdivision.

(j) If a nonresident qualifying owner of a qualifying entity making the election to file and pay the tax under this subdivision has no other Minnesota source income, filing of the pass-through entity tax return is a return for purposes of subdivision 1, provided that the nonresident qualifying owner must not have any Minnesota source income other than the income from the qualifying entity, other electing qualifying entities, and other partnerships electing to file a composite return under subdivision 7. If it is determined that the nonresident qualifying owner has other Minnesota source income, the inclusion of the income and tax liability for that owner under this provision will not constitute a return to satisfy the requirements of subdivision 1. The tax paid for the qualifying owner as part of the pass-through entity tax return is allowed as a payment of the tax by the qualifying owner on the date on which the pass-through entity tax return payment was made.

(k) Once a credit is claimed by a qualifying owner under section 290.06, subdivision 40, a qualifying entity cannot receive a refund for tax paid under this subdivision for any amounts claimed under that section by the qualifying owners. Once a credit is claimed under section 290.06, subdivision 40, any refund must be claimed in conjunction with a return filed by the qualifying owner.

(l) This subdivision expires ~~at the same time and on the same terms as section 164(b)(6)(B) of the Internal Revenue Code~~ for taxable years beginning after December 31, 2027, except that the expiration of this subdivision does not affect the commissioner's

authority to audit or power of examination and assessments for credits claimed under this section.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 2. Minnesota Statutes 2024, section 290.06, subdivision 23a, is amended to read:

Subd. 23a. **Pass-through entity tax paid to another state.** (a) A credit is allowed against the tax imposed on a qualifying entity under section 289A.08, subdivision 7a, for pass-through entity tax paid to another state. The credit under this subdivision is allowed as a credit for taxes paid to another state under subdivision 22, paragraph (a), and may only be claimed by a qualifying owner. The credit allowed under this subdivision must be claimed in a manner prescribed by the commissioner.

(b) This ~~section~~ subdivision expires ~~at the same time and on the same terms as section 164(b)(6)(B) of the Internal Revenue Code~~ for taxable years beginning after December 31, 2027, except that the expiration of this ~~section~~ subdivision does not affect the commissioner's authority to audit or power of examination and assessments for credits claimed under this section.

(c) As used in this subdivision, the following terms have the meanings given:

(1) "income" has the meaning provided in section 290.01, subdivision 19, paragraph (i);

(2) "pass-through entity tax" means an entity-level tax imposed on the income of a partnership, limited liability corporation, or S corporation;

(3) "qualifying entity" has the meaning provided in section 289A.08, subdivision 7a, paragraph (a); and

(4) "qualifying owner" has the meaning provided in section 289A.08, subdivision 7a, paragraph (b).

EFFECTIVE DATE. This section is effective the day following final enactment.