

SENATE
STATE OF MINNESOTA
NINETY-FIRST SESSION

S.F. No. 3654

(SENATE AUTHORS: REST and Chamberlain)

DATE
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5021 Introduction and first reading
Referred to Taxes

OFFICIAL STATUS

1.1 A bill for an act

1.2 relating to taxation; modifying provisions related to partnership audits; providing

1.3 requirements for reporting federal audit adjustments; making technical changes;

1.4 amending Minnesota Statutes 2018, sections 270C.445, subdivision 6; 289A.31,

1.5 subdivision 1; 289A.37, subdivision 2; 289A.38, subdivision 10; 289A.42; 289A.60,

1.6 subdivision 24; 297F.17, subdivision 6; 297G.16, subdivision 7; 469.319,

1.7 subdivision 4; Minnesota Statutes 2019 Supplement, section 290.31, subdivision

1.8 1; proposing coding for new law in Minnesota Statutes, chapter 289A; repealing

1.9 Minnesota Statutes 2018, section 289A.38, subdivisions 8, 9; Minnesota Statutes

1.10 2019 Supplement, section 289A.38, subdivision 7.

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

1.12 Section 1. Minnesota Statutes 2018, section 270C.445, subdivision 6, is amended to read:

1.13 Subd. 6. **Enforcement; administrative order; penalties; cease and desist.** (a) The

1.14 commissioner may impose an administrative penalty of not more than \$1,000 per violation

1.15 of subdivision 3 or 5, or section 270C.4451, provided that a penalty may not be imposed

1.16 for any conduct for which a tax preparer penalty is imposed under section 289A.60,

1.17 subdivision 13. The commissioner may terminate a tax preparer's authority to transmit

1.18 returns electronically to the state, if the commissioner determines the tax preparer engaged

1.19 in a pattern and practice of violating this section. Imposition of a penalty under this paragraph

1.20 is subject to the contested case procedure under chapter 14. The commissioner shall collect

1.21 the penalty in the same manner as the income tax. There is no right to make a claim for

1.22 refund under section 289A.50 of the penalty imposed under this paragraph. Penalties imposed

1.23 under this paragraph are public data.

1.24 (b) In addition to the penalty under paragraph (a), if the commissioner determines that

1.25 a tax preparer has violated subdivision 3 or 5, or section 270C.4451, the commissioner may

1.26 issue an administrative order to the tax preparer requiring the tax preparer to cease and

desist from committing the violation. The administrative order may include an administrative penalty provided in paragraph (a).

(c) If the commissioner issues an administrative order under paragraph (b), the commissioner must send the order to the tax preparer addressed to the last known address of the tax preparer.

(d) A cease and desist order under paragraph (b) must:

(1) describe the act, conduct, or practice committed and include a reference to the law that the act, conduct, or practice violates; and

(2) provide notice that the tax preparer may request a hearing as provided in this subdivision.

(e) Within 30 days after the commissioner issues an administrative order under paragraph (b), the tax preparer may request a hearing to review the commissioner's action. The request for hearing must be made in writing and must be served on the commissioner at the address specified in the order. The hearing request must specifically state the reasons for seeking review of the order. The date on which a request for hearing is served by mail is the postmark date on the envelope in which the request for hearing is mailed.

(f) If a tax preparer does not timely request a hearing regarding an administrative order issued under paragraph (b), the order becomes a final order of the commissioner and is not subject to review by any court or agency.

(g) If a tax preparer timely requests a hearing regarding an administrative order issued under paragraph (b), the hearing must be commenced within ten days after the commissioner receives the request for a hearing.

(h) A hearing timely requested under paragraph (e) is subject to the contested case procedure under chapter 14, as modified by this subdivision. The administrative law judge must issue a report containing findings of fact, conclusions of law, and a recommended order within ten days after the completion of the hearing, the receipt of late-filed exhibits, or the submission of written arguments, whichever is later.

(i) Within five days of the date of the administrative law judge's report issued under paragraph (h), any party aggrieved by the administrative law judge's report may submit written exceptions and arguments to the commissioner. Within 15 days after receiving the administrative law judge's report, the commissioner must issue an order vacating, modifying, or making final the administrative order.

(j) The commissioner and the tax preparer requesting a hearing may by agreement lengthen any time periods prescribed in paragraphs (g) to (i).

(k) An administrative order issued under paragraph (b) is in effect until it is modified or vacated by the commissioner or an appellate court. The administrative hearing provided by paragraphs (e) to (i) and any appellate judicial review as provided in chapter 14 constitute the exclusive remedy for a tax preparer aggrieved by the order.

(l) The commissioner may impose an administrative penalty, in addition to the penalty under paragraph (a), up to \$5,000 per violation of a cease and desist order issued under paragraph (b). Imposition of a penalty under this paragraph is subject to the contested case procedure under chapter 14. Within 30 days after the commissioner imposes a penalty under this paragraph, the tax preparer assessed the penalty may request a hearing to review the penalty order. The request for hearing must be made in writing and must be served on the commissioner at the address specified in the order. The hearing request must specifically state the reasons for seeking review of the order. The cease and desist order issued under paragraph (b) is not subject to review in a proceeding to challenge the penalty order under this paragraph. The date on which a request for hearing is served by mail is the postmark date on the envelope in which the request for hearing is mailed. If the tax preparer does not timely request a hearing, the penalty order becomes a final order of the commissioner and is not subject to review by any court or agency. A penalty imposed by the commissioner under this paragraph may be collected and enforced by the commissioner as an income tax liability. There is no right to make a claim for refund under section 289A.50 of the penalty imposed under this paragraph. A penalty imposed under this paragraph is public data.

(m) If a tax preparer violates a cease and desist order issued under paragraph (b), the commissioner may terminate the tax preparer's authority to transmit returns electronically to the state. Termination under this paragraph is public data.

(n) A cease and desist order issued under paragraph (b) is public data when it is a final order.

(o) Notwithstanding any other law, the commissioner may impose a penalty or take other action under this subdivision against a tax preparer, with respect to a return, within the period to assess tax on that return as provided by ~~section~~ sections 289A.38 to 289A.384.

(p) Notwithstanding any other law, the imposition of a penalty or any other action against a tax preparer under this subdivision, other than with respect to a return, must be taken by the commissioner within five years of the violation of statute.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2017, except that for partnerships that make an election under Code of Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively and applies to the same tax periods to which the election relates.

Sec. 2. Minnesota Statutes 2018, section 289A.31, subdivision 1, is amended to read:

Subdivision 1. **Individual income, fiduciary income, mining company, corporate franchise, and entertainment taxes.** (a) Individual income, fiduciary income, mining company, and corporate franchise taxes, and interest and penalties, must be paid by the taxpayer upon whom the tax is imposed, except in the following cases:

(1) the tax due from a decedent for that part of the taxable year in which the decedent died during which the decedent was alive and the taxes, interest, and penalty due for the prior years must be paid by the decedent's personal representative, if any. If there is no personal representative, the taxes, interest, and penalty must be paid by the transferees, as defined in section 270C.58, subdivision 3, to the extent they receive property from the decedent;

(2) the tax due from an infant or other incompetent person must be paid by the person's guardian or other person authorized or permitted by law to act for the person;

(3) the tax due from the estate of a decedent must be paid by the estate's personal representative;

(4) the tax due from a trust, including those within the definition of a corporation, as defined in section 290.01, subdivision 4, must be paid by a trustee; and

(5) the tax due from a taxpayer whose business or property is in charge of a receiver, trustee in bankruptcy, assignee, or other conservator, must be paid by the person in charge of the business or property so far as the tax is due to the income from the business or property.

(b) Entertainment taxes are the joint and several liability of the entertainer and the entertainment entity. The payor is liable to the state for the payment of the tax required to be deducted and withheld under section 290.9201, subdivision 7, and is not liable to the entertainer for the amount of the payment.

(c) The taxes imposed under sections 289A.35, paragraph (b), 289A.383, subdivision 3, and 290.0922 on partnerships are the joint and several liability of the partnership and the general partners.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2017, except that for partnerships that make an election under Code of Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively and applies to the same tax periods to which the election relates.

Sec. 3. Minnesota Statutes 2018, section 289A.37, subdivision 2, is amended to read:

Subd. 2. **Erroneous refunds.** (a) Except as provided in paragraph (b), an erroneous refund occurs when the commissioner issues a payment to a person that exceeds the amount the person is entitled to receive under law. An erroneous refund is considered an underpayment of tax on the date issued.

(b) To the extent that the amount paid does not exceed the amount claimed by the taxpayer, an erroneous refund does not include the following:

(1) any amount of a refund or credit paid pursuant to a claim for refund filed by a taxpayer, including but not limited to refunds of claims made under section 290.06, subdivision 23; 290.067; 290.0671; 290.0672; 290.0674; 290.0675; 290.0677; 290.068; 290.0681; or 290.0692; or chapter 290A; or

(2) any amount paid pursuant to a claim for refund of an overpayment of tax filed by a taxpayer.

(c) The commissioner may make an assessment to recover an erroneous refund at any time within two years from the issuance of the erroneous refund. If all or part of the erroneous refund was induced by fraud or misrepresentation of a material fact, the assessment may be made at any time.

(d) Assessments of amounts that are not erroneous refunds under paragraph (b) must be conducted under ~~section~~ sections 289A.38 to 289A.384.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2017, except that for partnerships that make an election under Code of Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively and applies to the same tax periods to which the election relates.

Sec. 4. Minnesota Statutes 2018, section 289A.38, subdivision 10, is amended to read:

Subd. 10. **Incorrect determination of federal adjusted gross income.** Notwithstanding any other provision of this chapter, if a taxpayer whose net income is determined under section 290.01, subdivision 19, omits from income an amount that will under the Internal Revenue Code extend the statute of limitations for the assessment of federal income taxes,

or otherwise incorrectly determines the taxpayer's federal adjusted gross income resulting in adjustments by the Internal Revenue Service, then the period of assessment and determination of tax will be that under the Internal Revenue Code. When a change is made to federal income during the extended time provided under this subdivision, the provisions under ~~subdivisions 7 to 9~~ sections 289A.381 to 289A.384 regarding additional extensions apply.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2017, except that for partnerships that make an election under Code of Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively and applies to the same tax periods to which the election relates.

Sec. 5. **[289A.381] DEFINITIONS; PARTNERSHIPS; FEDERAL ADJUSTMENTS.**

Subdivision 1. Definitions relating to federal adjustments. Unless otherwise specified, the definitions in this section apply for the purposes of sections 289A.381 to 289A.385.

Subd. 2. Administrative adjustment request. "Administrative adjustment request" means an administrative adjustment request filed by a partnership under section 6227 of the Internal Revenue Code.

Subd. 3. Audited partnership. "Audited partnership" means a partnership subject to a federal adjustment resulting from a partnership-level audit.

Subd. 4. Corporate partner. "Corporate partner" means a partner that is subject to tax under section 290.02.

Subd. 5. Direct partner. "Direct partner" means a partner that holds an immediate legal ownership interest in a partnership or pass-through entity.

Subd. 6. Exempt partner. "Exempt partner" means a partner that is exempt from taxes on its net income under section 290.05, subdivision 1.

Subd. 7. Federal adjustment. "Federal adjustment" means any change in an amount calculated under the Internal Revenue Code, whether to income, gross estate, a credit, an item of preference, or any other item that is used by a taxpayer to compute a tax administered under this chapter for the reviewed year whether that change results from action by the Internal Revenue Service or other competent authority, including a partnership-level audit, or from the filing of an amended federal return, federal refund claim, or an administrative adjustment request by the taxpayer.

7.1 Subd. 8. **Federal adjustments report.** "Federal adjustments report" includes a method
7.2 or form prescribed by the commissioner for use by a taxpayer to report federal adjustments,
7.3 including an amended Minnesota tax return or a uniform multistate report.

7.4 Subd. 9. **Federal partnership representative.** "Federal partnership representative"
7.5 means the person the partnership designates for the taxable year as the partnership's
7.6 representative, or the person the Internal Revenue Service has appointed to act as the
7.7 partnership representative, pursuant to section 6223(a) of the Internal Revenue Code.

7.8 Subd. 10. **Final determination date.** "Final determination date" means:

7.9 (1) for a federal adjustment arising from an audit by the Internal Revenue Service or
7.10 other competent authority, the first day on which no federal adjustment arising from that
7.11 audit remains to be finally determined, whether by agreement, or, if appealed or contested,
7.12 by a final decision with respect to which all rights of appeal have been waived or exhausted;

7.13 (2) for a federal adjustment arising from an audit or other action by the Internal Revenue
7.14 Service or other competent authority, if the taxpayer filed as a member of a combined report
7.15 under section 290.17, subdivision 4, the first day on which no related federal adjustments
7.16 arising from that audit remain to be finally determined as described in clause (1) for the
7.17 entire combined group;

7.18 (3) for a federal adjustment arising from the filing of an amended federal return, a federal
7.19 refund claim, or the filing by a partnership of an administrative adjustment request, the date
7.20 on which the amended return, refund claim, or administrative adjustment request was filed;
7.21 or

7.22 (4) for agreements required to be signed by the Internal Revenue Service and the taxpayer,
7.23 the date on which the last party signed the agreement.

7.24 Subd. 11. **Final federal adjustment.** "Final federal adjustment" means a federal
7.25 adjustment after the final determination date for that federal adjustment has passed.

7.26 Subd. 12. **Indirect partner.** "Indirect partner" means either:

7.27 (1) a partner in a partnership or pass-through entity that itself holds an immediate legal
7.28 ownership interest in another partnership or pass-through entity; or

7.29 (2) a partner in a partnership or pass-through entity that holds an indirect interest in
7.30 another partnership or pass-through entity through another indirect partner.

7.31 Subd. 13. **Partner.** "Partner" means a person that holds an interest directly or indirectly
7.32 in a partnership or other pass-through entity.

8.1 Subd. 14. **Partnership.** "Partnership" has the meaning provided under section 7701(a)(2)
8.2 of the Internal Revenue Code.

8.3 Subd. 15. **Partnership-level audit.** "Partnership-level audit" means an examination by
8.4 the Internal Revenue Service at the partnership level pursuant to subtitle F, chapter 63,
8.5 subchapter C, of the Internal Revenue Code, which results in federal adjustments and
8.6 adjustments to partnership-related items.

8.7 Subd. 16. **Pass-through entity.** "Pass-through entity" means an entity, other than a
8.8 partnership, that is not subject to the tax imposed under section 290.02. The term pass-through
8.9 entity includes but is not limited to S corporations, estates, and trusts other than grantor
8.10 trusts.

8.11 Subd. 17. **Resident partner.** "Resident partner" means an individual, trust, or estate
8.12 partner who is a resident of Minnesota under section 290.01, subdivision 7, 7a, or 7b, for
8.13 the relevant tax period.

8.14 Subd. 18. **Reviewed year.** "Reviewed year" means the taxable year of a partnership that
8.15 is subject to a partnership-level audit from which federal adjustments arise.

8.16 Subd. 19. **Tiered partner.** "Tiered partner" means any partner that is a partnership or
8.17 pass-through entity.

8.18 Subd. 20. **Unrelated business taxable income.** "Unrelated business taxable income"
8.19 has the meaning provided under section 512 of the Internal Revenue Code.

8.20 **EFFECTIVE DATE.** This section is effective retroactively for taxable years beginning
8.21 after December 31, 2017, except that for partnerships that make an election under Code of
8.22 Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively
8.23 and applies to the same tax periods to which the election relates.

8.24 Sec. 6. **[289A.382] REPORTING FEDERAL ADJUSTMENTS; GENERAL RULE.**

8.25 (a) Within 180 days of a final determination date, a taxpayer must file a federal
8.26 adjustments report with the commissioner reporting all final federal adjustments by the
8.27 Internal Revenue Service or other competent authority.

8.28 (b) Within 180 days of a final determination date, a taxpayer must file a federal
8.29 adjustments report with the commissioner reporting any federal adjustments reported by
8.30 the taxpayer to the Internal Revenue Service including but not limited to:

8.31 (1) federal refund claims;

8.32 (2) a change reported on a timely filed amended federal income tax return; and

(3) a change reported on an amended return filed pursuant to section 6225(c) of the Internal Revenue Code.

(c) In the case of a final federal adjustment arising from a partnership-level audit or an administrative adjustment request filed by a partnership under section 6227 of the Internal Revenue Code, a taxpayer must report adjustments as provided for under section 289A.383 and not this section.

EFFECTIVE DATE. This section is effective for federal adjustments that have a final determination date after June 30, 2020.

Sec. 7. [289A.383] REPORTING AND PAYMENT REQUIREMENTS.

Subdivision 1. **State partnership representative.** (a) With respect to an action required or permitted to be taken by a partnership under this section, or in a proceeding under section 270C.35 or 271.06, the state partnership representative for the reviewed year shall have the sole authority to act on behalf of the partnership, and its direct partners and indirect partners shall be bound by those actions.

(b) The state partnership representative for the reviewed year is the partnership's federal partnership representative unless the partnership, in a form and manner prescribed by the commissioner, designates another person as its state partnership representative.

Subd. 2. **Reporting and payment requirements for partnerships and tiered partners.** (a) Unless an audited partnership makes the election in subdivision 3, or for adjustments required to be reported for federal purposes pursuant to section 6225(a)(2) of the Internal Revenue Code, then, for all final federal adjustments the audited partnership must comply with paragraph (b) and each direct partner of the audited partnership, other than a tiered partner, must comply with paragraph (c).

(b) No later than 90 days after the final determination date, the audited partnership must:

(1) file a completed federal adjustments report, including all partner-level information required under section 289A.12, subdivision 3, with the commissioner;

(2) notify each of its direct partners of their distributive share of the final federal adjustments;

(3) file an amended composite report for all direct partners who were included in a composite return under section 289A.08, subdivision 7, in the reviewed year, and pay the additional amount that would have been due had the federal adjustments been reported properly as required; and

(4) file amended withholding reports for all direct partners who were or should have been subject to nonresident withholding under section 290.92, subdivision 4b, in the reviewed year, and pay the additional amount that would have been due had the federal adjustments been reported properly as required.

(c) No later than 180 days after the final determination date, each direct partner, other than a tiered partner, that is subject to a tax administered under this chapter, other than the sales tax, must:

(1) file a federal adjustments report reporting their distributive share of the adjustments reported to them under paragraph (b), clause (2); and

(2) pay any additional amount of tax due as if the final federal adjustment had been properly reported, plus any penalty and interest due under this chapter, and less any credit for related amounts paid or withheld and remitted on behalf of the direct partner under paragraph (b), clauses (3) and (4).

Subd. 3. **Election; partnership or tiered partners pay.** (a) An audited partnership may make an election under this subdivision to pay its assessment at the entity level. If an audited partnership makes an election to pay its assessment at the entity level it must:

(1) no later than 90 days after the final determination date, file a completed federal adjustments report, including the residency information for all individual, trust, and estate direct partners, and information pertaining to all other direct partners as prescribed by the commissioner, and notify the commissioner that it is making the election under this subdivision; and

(2) no later than 180 days after the final determination date, pay an amount, determined as follows, in lieu of taxes on partners:

(i) exclude from final federal adjustments the distributive share of these adjustments made to a direct exempt partner that is not unrelated business taxable income;

(ii) exclude from final federal adjustments the distributive share of these adjustments made to a direct partner that has filed a federal adjustments report and paid the applicable tax, as required under subdivision 2, for the distributive share of adjustments reported on a federal return under section 6225(c) of the Internal Revenue Code;

(iii) assign and apportion at the partnership level using sections 290.17 to 290.20 the total distributive share of the remaining final federal adjustments for the reviewed year attributed to direct corporate partners and direct exempt partners, multiply the total by the

11.1 highest tax rate in section 290.06, subdivision 1, for the reviewed year, and calculate interest
11.2 and penalties as applicable under this chapter;

11.3 (iv) allocate at the partnership level using section 290.17, subdivision 1, the total
11.4 distributive share of all final federal adjustments attributable to individual resident direct
11.5 partners for the reviewed year; multiply the total by the highest tax rate in section 290.06,
11.6 subdivision 2c, for the reviewed year; and calculate interest and penalties as applicable
11.7 under this chapter;

11.8 (v) assign and apportion at the partnership level using sections 290.17 to 290.20 the total
11.9 distributive share of the remaining final federal adjustments attributable to nonresident
11.10 individual direct partners and direct partners who are an estate or a trust for the reviewed
11.11 year; multiply the total by the highest tax rate in section 290.06, subdivision 2c, for the
11.12 reviewed year; and calculate interest and penalties as applicable under this chapter;

11.13 (vi) for the total distributive share of the remaining final federal adjustments reported
11.14 to tiered partners:

11.15 (A) determine the amount of the adjustments that would be assigned using section 290.17,
11.16 subdivision 2, paragraphs (a) to (d), excluding income or gains from intangible personal
11.17 property not employed in the business of the recipient of the income or gains if the recipient
11.18 of the income or gains is a resident of this state or is a resident trust or estate under section
11.19 290.17, subdivision 2, paragraph (c), or apportioned using sections 290.17, subdivision 3,
11.20 290.191, and 290.20, and then determine the portion of this amount that would be allocated
11.21 to this state;

11.22 (B) determine the amount of the adjustments which are of a type which are fully sourced
11.23 to the taxpayer's state of residency under section 290.17, subdivision 2, paragraph (e), and
11.24 income or gains from intangible personal property not employed in the business of the
11.25 recipient of the income or gains if the recipient of the income or gains is a resident of this
11.26 state or is a resident trust or estate under section 290.17, subdivision 2, paragraph (c);

11.27 (C) determine the portion of the amount determined in subitem (B) that can be established
11.28 to be properly allocable to nonresident indirect partners or other partners not subject to tax
11.29 on the adjustments; and

11.30 (D) multiply the total of the amounts determined in subitems (A) and (B) reduced by
11.31 the amount determined in subitem (C) by the highest tax rate in section 290.06, subdivision
11.32 2c, for the reviewed year, and calculate interest and penalties as applicable under this chapter;
11.33 and

12.1 (vii) add the amounts determined in items (iii) to (vi), and pay all applicable taxes,
12.2 penalties, and interest to the commissioner.

12.3 (b) An audited partnership may not make an election under this subdivision to report:

12.4 (1) a federal adjustment that results in unitary business income to a corporate partner
12.5 required to file as a member of a combined report under section 290.17, subdivision 4; or

12.6 (2) any final federal adjustments resulting from an administrative adjustment request.

12.7 (c) An audited partnership not otherwise subject to any reporting or payment obligation
12.8 to this state may not make an election under this subdivision.

12.9 Subd. 4. **Tiered partners and indirect partners.** The direct and indirect partners of an
12.10 audited partnership that are tiered partners, and all of the partners of those tiered partners
12.11 that are subject to tax under chapter 290 are subject to the reporting and payment
12.12 requirements contained in subdivision 2 and the tiered partners are entitled to make the
12.13 elections provided in subdivisions 3 and 7. The tiered partners or their partners shall make
12.14 required reports and payments no later than 90 days after the time for filing and furnishing
12.15 of statements to tiered partners and their partners as established under section 6226 of the
12.16 Internal Revenue Code. If the commissioner determines by a preponderance of the evidence
12.17 that the primary purpose of a tiered partnership was that it was structured to allow an indirect
12.18 individual partner, who is a Minnesota resident, to avoid paying Minnesota income tax
12.19 resulting from a partnership-level audit as a Minnesota resident, the partnership is not
12.20 permitted to make the election under subdivision 3 and is instead subject to the reporting
12.21 and payment requirements under subdivision 2. The commissioner must notify the partnership
12.22 when this determination is made. The date of the notice issued by the commissioner shall
12.23 be deemed to be the final determination date for purposes of determining the due date for
12.24 the reporting provisions in subdivision 2.

12.25 Subd. 5. **Effects of election by partnership or tiered partner and payment of amount**
12.26 **due.** (a) Unless the commissioner determines otherwise, an election under subdivision 3 or
12.27 7 is irrevocable.

12.28 (b) If an audited partnership or tiered partner properly reports and pays an amount
12.29 determined in subdivision 3 or 7, the amount will be treated as paid in lieu of taxes owed
12.30 by the partnership's direct partners and indirect partners, to the extent applicable, on the
12.31 same final federal adjustments. The direct partners or indirect partners of the partnership
12.32 who are not resident partners may not take any deduction or credit for this amount or claim
12.33 a refund of the amount in this state.

(c) Nothing in this subdivision precludes resident direct partners from claiming a credit against taxes paid under section 290.06 on any amounts paid by the audited partnership or tiered partners on the resident partner's behalf to another state or local tax jurisdiction.

Subd. 6. **Failure of partnership or tiered partner to report or pay.** Nothing in this section prevents the commissioner from assessing direct partners or indirect partners for taxes they owe, using the best information available, in the event that, for any reason, a partnership or tiered partner fails to timely make any report or payment required by this section.

Subd. 7. **Modified reporting and payment method.** An audited partnership or tiered partner may enter into an agreement with the commissioner to utilize an alternative reporting and payment method, including applicable time requirements or any other provision of this section. The audited partnership or tiered partner must demonstrate that the requested method will reasonably provide for the reporting and payment of taxes, penalties, and interest due under the provisions of this section. Application for approval of an alternative reporting and payment method must be made by the audited partnership or tiered partner within the time for making an election as provided in subdivision 3 or 4, as appropriate.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2017, except that for partnerships that make an election under Code of Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively and applies to the same tax periods to which the election relates.

Sec. 8. **[289A.384] ASSESSMENT OF TAX, INTEREST, PENALTIES, AND ADDITIONAL AMOUNTS.**

Subdivision 1. **Assessment of additional tax, interest, and penalties.** The commissioner may assess, in accordance with subdivisions 2 and 3, additional tax, interest, and penalties following a final federal adjustment:

(1) arising from an audit by the Internal Revenue Service, including a partnership-level audit;

(2) reported by the taxpayer on an amended federal tax return; or

(3) as part of an administrative adjustment request on or before the dates provided in this section.

Subd. 2. **Timely and untimely reported federal adjustments.** If a taxpayer files a federal adjustments report, within or after the periods prescribed in section 289A.382 or

14.1 289A.383, the commissioner may assess additional Minnesota amounts related to the federal
14.2 adjustments including in-lieu-of amounts, taxes, interest, and penalties at the later of:

14.3 (1) the expiration of the period of limitations in section 289A.38; or

14.4 (2) the expiration of the one-year period following the date of the filing with the
14.5 commissioner of the federal adjustments report.

14.6 Subd. 3. **Unreported reported federal adjustments.** If the taxpayer fails to file a federal
14.7 adjustments report, the commissioner may assess additional amounts related to the federal
14.8 adjustments including in-lieu-of amounts, taxes, penalties, and interest, at the later of:

14.9 (1) the expiration of the period of limitations in section 289A.38; or

14.10 (2) the expiration of the six-year period following the final determination date.

14.11 Subd. 4. **Estimated tax payments during the course of a federal audit.** A taxpayer
14.12 may make estimated payments to the commissioner of the tax expected to result from a
14.13 pending audit by the Internal Revenue Service. The taxpayer may make estimated payments
14.14 prior to the due date of the federal adjustments report without the taxpayer having to file
14.15 the report with the commissioner. The commissioner must credit the estimated tax payments
14.16 against any tax liability of the taxpayer ultimately found to be due to the commissioner.
14.17 The estimated payments limit the accrual of further statutory interest on that amount. If the
14.18 estimated tax payments exceed the final tax liability and statutory interest ultimately
14.19 determined to be due, the taxpayer is entitled to a refund or credit for the excess, provided
14.20 the taxpayer files a federal adjustments report or claim for refund or credit of tax pursuant
14.21 to section 289A.385, no later than one year following the final determination date.

14.22 **EFFECTIVE DATE.** Subdivisions 1, 2, and 3 are effective for federal adjustments that
14.23 have a final determination date after June 30, 2020. Subdivision 4 is effective the day
14.24 following final enactment.

14.25 Sec. 9. **[289A.385] CLAIMS FOR REFUND OR CREDITS OF STATE TAX**
14.26 **ARISING FROM FINAL FEDERAL ADJUSTMENTS MADE BY THE INTERNAL**
14.27 **REVENUE SERVICE.**

14.28 Notwithstanding the general period of limitations on claims for refund in section 289A.40,
14.29 taxpayers subject to the reporting requirements of sections 289A.382 and 289A.383 may
14.30 file claims for refund related to federal adjustments made by the Internal Revenue Service
14.31 on or before the last day for the assessment of tax under section 289A.384.

15.1 **EFFECTIVE DATE.** This section is effective for federal adjustments that have a final
15.2 determination date after June 30, 2020.

15.3 Sec. 10. Minnesota Statutes 2018, section 289A.42, is amended to read:

15.4 **289A.42 CONSENT TO EXTEND STATUTE.**

15.5 Subdivision 1. **Extension agreement.** If before the expiration of time prescribed in
15.6 sections 289A.38 to 289A.384 and 289A.40 for the assessment of tax or the filing of a claim
15.7 for refund, both the commissioner and the taxpayer have consented in writing to the
15.8 assessment or filing of a claim for refund after that time, the tax may be assessed or the
15.9 claim for refund filed at any time before the expiration of the agreed-upon period. The
15.10 period may be extended by later agreements in writing before the expiration of the period
15.11 previously agreed upon. The taxpayer and the commissioner may also agree to extend the
15.12 period for collection of the tax. The time periods provided in sections 289A.382 and
15.13 289A.383 may be extended automatically, upon written notice to the commissioner, by 60
15.14 days for an audited partnership or tiered partner which has 10,000 or more direct partners.

15.15 Subd. 2. **Federal extensions.** When a taxpayer consents to an extension of time for the
15.16 assessment of federal withholding or income taxes, the period in which the commissioner
15.17 may recompute the tax is also extended, notwithstanding any period of limitations to the
15.18 contrary, as follows:

15.19 (1) for the periods adjustments provided in section 289A.38, ~~subdivisions 8 and 9;~~
15.20 289A.384, subdivisions 2 and 3.

15.21 (2) ~~for six months following the expiration of the extended federal period of limitations~~
15.22 ~~when no change is made by the federal authority. If no change is made by the federal~~
15.23 ~~authority, and, but for this subdivision, the commissioner's time period to adjust the tax has~~
15.24 ~~expired, and if the commissioner has completed a field audit of the taxpayer, no additional~~
15.25 ~~changes resulting in additional tax due or a refund may be made. For purposes of this~~
15.26 ~~subdivision, "field audit" has the meaning given it in section 289A.38, subdivision 9.~~

15.27 **EFFECTIVE DATE.** This section is effective for federal adjustments that have a final
15.28 determination date after June 30, 2020.

15.29 Sec. 11. Minnesota Statutes 2018, section 289A.60, subdivision 24, is amended to read:

15.30 Subd. 24. **Penalty for failure to notify of federal change.** If a person fails to report to
15.31 the commissioner a change or correction of the person's federal return in the manner and
15.32 time prescribed in ~~section 289A.38, subdivision 7~~ sections 289A.382 and 289A.383, there

must be added to the tax an amount equal to ten percent of the amount of any underpayment of Minnesota tax attributable to the federal change.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2017, except that for partnerships that make an election under Code of Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively and applies to the same tax periods to which the election relates.

Sec. 12. Minnesota Statutes 2018, section 290.31, subdivision 1, is amended to read:

Subdivision 1. **Partners, not partnership, subject to tax.** Except as provided under ~~section~~ sections 289A.35, paragraph (b), and 289A.383, subdivision 3, a partnership as such shall not be subject to the income tax imposed by this chapter, but is subject to the tax imposed under section 290.0922. Persons carrying on business as partners shall be liable for income tax only in their separate or individual capacities.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2017, except that for partnerships that make an election under Code of Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively and applies to the same tax periods to which the election relates.

Sec. 13. Minnesota Statutes 2018, section 297F.17, subdivision 6, is amended to read:

Subd. 6. **Time limit for bad debt refund.** Claims for refund must be filed with the commissioner during the one-year period beginning with the timely filing of the taxpayer's federal income tax return containing the bad debt deduction that is being claimed. Claimants under this subdivision are subject to the notice requirements of ~~section 289A.38, subdivision 7~~ sections 289A.382 and 289A.384.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2017, except that for partnerships that make an election under Code of Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively and applies to the same tax periods to which the election relates.

Sec. 14. Minnesota Statutes 2018, section 297G.16, subdivision 7, is amended to read:

Subd. 7. **Time limit for a bad debt deduction.** Claims for refund must be filed with the commissioner within one year of the filing of the taxpayer's income tax return containing the bad debt deduction that is being claimed. Claimants under this subdivision are subject to the notice requirements of ~~section 289A.38, subdivision 7~~ sections 289A.38 to 289A.384.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2017, except that for partnerships that make an election under Code of Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively and applies to the same tax periods to which the election relates.

Sec. 15. Minnesota Statutes 2018, section 469.319, subdivision 4, is amended to read:

Subd. 4. Repayment procedures. (a) For the repayment of taxes imposed under chapter 290 or 297A or local taxes collected pursuant to section 297A.99, a business must file an amended return with the commissioner of revenue and pay any taxes required to be repaid within 30 days after becoming subject to repayment under this section. The amount required to be repaid is determined by calculating the tax for the period or periods for which repayment is required without regard to the exemptions and credits allowed under section 469.315.

(b) For the repayment of taxes imposed under chapter 297B, a business must pay any taxes required to be repaid to the motor vehicle registrar, as agent for the commissioner of revenue, within 30 days after becoming subject to repayment under this section.

(c) For the repayment of property taxes, the county auditor shall prepare a tax statement for the business, applying the applicable tax extension rates for each payable year and provide a copy to the business and to the taxpayer of record. The business must pay the taxes to the county treasurer within 30 days after receipt of the tax statement. The business or the taxpayer of record may appeal the valuation and determination of the property tax to the Tax Court within 30 days after receipt of the tax statement.

(d) The provisions of chapters 270C and 289A relating to the commissioner's authority to audit, assess, and collect the tax and to hear appeals are applicable to the repayment required under paragraphs (a) and (b). The commissioner may impose civil penalties as provided in chapter 289A, and the additional tax and penalties are subject to interest at the rate provided in section 270C.40. The additional tax shall bear interest from 30 days after becoming subject to repayment under this section until the date the tax is paid. Any penalty imposed pursuant to this section shall bear interest from the date provided in section 270C.40, subdivision 3, to the date of payment of the penalty.

(e) If a property tax is not repaid under paragraph (c), the county treasurer shall add the amount required to be repaid to the property taxes assessed against the property for payment in the year following the year in which the auditor provided the statement under paragraph (c).

(f) For determining the tax required to be repaid, a reduction of a state or local sales or use tax is deemed to have been received on the date that the good or service was purchased or first put to a taxable use. In the case of an income tax or franchise tax, including the credit payable under section 469.318, a reduction of tax is deemed to have been received for the two most recent tax years that have ended prior to the date that the business became subject to repayment under this section. In the case of a property tax, a reduction of tax is deemed to have been received for the taxes payable in the year that the business became subject to repayment under this section and for the taxes payable in the prior year.

(g) The commissioner may assess the repayment of taxes under paragraph (d) any time within two years after the business becomes subject to repayment under subdivision 1, or within any period of limitations for the assessment of tax under ~~section~~ sections 289A.38 to 289A.384, whichever period is later. The county auditor may send the statement under paragraph (c) any time within three years after the business becomes subject to repayment under subdivision 1.

(h) A business is not entitled to any income tax or franchise tax benefits, including refundable credits, for any part of the year in which the business becomes subject to repayment under this section nor for any year thereafter. Property is not exempt from tax under section 272.02, subdivision 64, for any taxes payable in the year following the year in which the property became subject to repayment under this section nor for any year thereafter. A business is not eligible for any sales tax benefits beginning with goods or services purchased or first put to a taxable use on the day that the business becomes subject to repayment under this section.

EFFECTIVE DATE. This section is effective retroactively for taxable years beginning after December 31, 2017, except that for partnerships that make an election under Code of Federal Regulations, title 26, section 301.9100-22T, this section is effective retroactively and applies to the same tax periods to which the election relates.

Sec. 16. **REPEALER.**

(a) Minnesota Statutes 2018, section 289A.38, subdivisions 8 and 9, are repealed.

(b) Minnesota Statutes 2019 Supplement, section 289A.38, subdivision 7, is repealed.

EFFECTIVE DATE. This section is effective for federal adjustments that have a final determination date after June 30, 2020.

289A.38 LIMITATIONS ON TIME FOR ASSESSMENT OF TAX.

Subd. 7. **Federal tax changes.** (a) If the amount of income, items of tax preference, deductions, or credits for any year of a taxpayer, or the wages paid by a taxpayer for any period, as reported to the Internal Revenue Service is changed or corrected by the commissioner of Internal Revenue or other officer of the United States or other competent authority, or where a renegotiation of a contract or subcontract with the United States results in a change in income, items of tax preference, deductions, credits, or withholding tax, or, in the case of estate tax, where there are adjustments to the taxable estate, the taxpayer shall report the change or correction or renegotiation results in writing to the commissioner. The report must be submitted within 180 days after the final determination and must be in the form of either an amended Minnesota estate, withholding tax, corporate franchise tax, or income tax return conceding the accuracy of the federal determination or a letter detailing how the federal determination is incorrect or does not change the Minnesota tax. An amended Minnesota income tax return must be accompanied by an amended property tax refund return, if necessary. A taxpayer filing an amended federal tax return must also file a copy of the amended return with the commissioner of revenue within 180 days after filing the amended return.

(b) For the purposes of paragraph (a), a change or correction includes any case where a taxpayer reaches a closing agreement or compromise with the Internal Revenue Service under section 7121 or 7122 of the Internal Revenue Code.

Subd. 8. **Failure to report change or correction of federal return.** If a taxpayer fails to make a report as required by subdivision 7, the commissioner may recompute the tax, including a refund, based on information available to the commissioner. The tax may be recomputed within six years after the report should have been filed, notwithstanding any period of limitations to the contrary.

Subd. 9. **Report made of change or correction of federal return.** If a taxpayer is required to make a report under subdivision 7, and does report the change or files a copy of the amended return, the commissioner may recompute and reassess the tax due, including a refund (1) within one year after the report or amended return is filed with the commissioner, notwithstanding any period of limitations to the contrary, or (2) within any other applicable period stated in this section, whichever period is longer. The period provided for the carryback of any amount of loss or credit is also extended as provided in this subdivision, notwithstanding any law to the contrary. If the commissioner has completed a field audit of the taxpayer, and, but for this subdivision, the commissioner's time period to adjust the tax has expired, the additional tax due or refund is limited to only those changes that are required to be made to the return which relate to the changes made on the federal return. This subdivision does not apply to sales and use tax.

For purposes of this subdivision and section 289A.42, subdivision 2, a "field audit" is the physical presence of examiners in the taxpayer's or taxpayer's representative's office conducting an examination of the taxpayer with the intention of issuing an assessment or notice of change in tax or which results in the issuing of an assessment or notice of change in tax. The examination may include inspecting a taxpayer's place of business, tangible personal property, equipment, computer systems and facilities, pertinent books, records, papers, vouchers, computer printouts, accounts, and documents.