

**CHAPTER 8031**  
**DEPARTMENT OF REVENUE**  
**INCOME TAX DIVISION**  
**PARTNERSHIPS**

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OF PARTNER.

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**8031.0100 INCOME AND CREDITS OF PARTNER.**

Subpart 1. **General rule.** Each partner is required to take into account separately in his return his distributive share, whether or not distributed, of each class or item of partnership income, gain, loss, deduction, or credit described in items A to F. For the taxable year in which a partner includes his distributive share of partnership taxable income, see Minnesota Statutes, section 290.31, subdivision 6, and 2031 (6). Such distributive share shall be determined as provided in Minnesota Statutes, section 290.31, subdivision 4, and 2031 (4). Accordingly, in determining his income tax:

A. Each partner shall take into account, as part of his gains and losses from sales or exchanges of capital assets held for not more than six months, his distributive share of the combined net amount of such gains and losses of the partnership.

B. Each partner shall take into account, as part of his gains and losses from sales or exchanges of capital assets held for more than six months, his distributive share of the combined net amount of such gains and losses of the partnership.

C. Each partner shall take into account, as part of his gains and losses from sales or exchanges of property described in Minnesota Statutes, section 290.16, subdivision 9 (relating to property used in the trade or business and involuntary conversions), his distributive share of the combined net amount of such gains and losses of the partnership. The partnership shall not combine such items with items set forth in item A or B.

D. Each partner shall take into account, as part of the charitable contributions paid by him, his distributive share of each class of charitable contributions paid by the partnership within the partnership's taxable year. Minnesota Statutes, section 290.21, clause (2), determines the extent to which such amount may be allowed as a credit to the partner.

E. Each partner shall take into account separately, as part of any class of income, gain, loss, deduction, or credit, his distributive share of the following items: recoveries of bad debts (Minnesota Statutes, section 290.071, subdivision 5); recoveries of prior taxes; gains and losses from wagering transactions; soil and water conservation expenditures (Minnesota Statutes, section 290.09, subdivision 21); medical, dental, etc., expenses (Minnesota Statutes, section 290.09, subdivision 10); alimony, etc., payments (Minnesota Statutes, section 290.09, subdivision 14); amounts representing taxes and interest paid to cooperative apartment corporations (Minnesota Statutes, section 290.09, subdivision 17); income, gain, or loss to the partnership under Minnesota Statutes, section 290.31, subdivision 21, clause (2); and any items of income, gain, loss deduction, or credit subject to a special allocation under the partnership agreement which differs from the allocation of partnership taxable income or loss generally.

Each partner must also take into account separately his distributive share of any partnership item which if separately taken into account by any partner

would result in an income tax liability for that partner different from that which would result if that partner did not take the item into account separately.

Each partner shall aggregate the amount of his separate deductions, credits, and exclusions and his distributive share of partnership deductions, credits, and exclusions separately stated in determining the amount allowable to him of any deduction, credit, or exclusion under Minnesota Statutes, chapter 290 as to which a limitation is imposed.

F. Each partner shall also take into account separately his distributive share of the taxable income or loss of the partnership, exclusive of items requiring separate computations under items A to E. For limitation on allowance of a partner's distributive share of partnership losses, see Minnesota Statutes, section 290.31, subdivision 4, clause (4), and 2031 (4)(d).

**Subp. 2. Character of items constituting distributive share.** The character in the hands of a partner of any item of income, gain, loss, deduction, or credit described in Minnesota Statutes, section 290.31, subdivision 2, clause (1), (a) to (f), shall be determined as if such item were realized directly from the source from which realized by the partnership or incurred in the same manner as incurred by the partnership. For example, a partner's distributive share of gain from the sale of depreciable property used in the trade or business of the partnership shall be considered as gain from the sale of such depreciable property in the hands of the partner. Similarly, a partner's distributive share of partnership charitable contributions to churches, educational organizations, or hospitals (Minnesota Statutes, section 290.21, clause (2)) retains such character in the hands of the partner.

**Subp. 3. Gross income of a partner.** Where it is necessary to determine the amount or character of the gross income of a partner, his gross income shall include the partner's distributive share of the partnership, that is, the amount of gross income of the partnership from which was derived the partner's distributive share of partnership taxable income or loss (including items described in Minnesota Statutes, section 290.31, subdivision 2, clause (1), (a) to (f)). For example, a partner is required to include his distributive share of partnership gross income:

A. in computing his gross income for the purpose of determining the necessity of filing a return (Minnesota Statutes, section 290.37);

B. in determining the application of the provision permitting the spreading of income for services rendered over a 36-month period (Minnesota Statutes, section 290.071, subdivision 2); and

C. in determining a partner's "gross income from farming" (Minnesota Statutes, section 290.09, subdivision 21).

In determining the applicability of the 6-1/2 year period of limitation on assessment and collection provided in Minnesota Statutes, section 290.49, subdivision 3 (relating to omission of more than 25 percent of gross income), a partner's gross income includes his distributive share of partnership gross income. In this respect, the amount of partnership gross income from which was derived the partner's distributive share of any item of partnership income, gain, loss, deduction, or credit (as included or disclosed in the partner's return) is considered as an amount of gross income stated in the partner's return for the purposes of Minnesota Statutes, section 290.49, subdivision 3. For example, A, who is entitled to one-fourth of the profits of the ABCD partnership, which has \$10,000 gross income and \$2,000 taxable income, reports only \$300 as his distributive share of partnership profits. A should have shown \$500 as his distributive share of profits, which amount was derived from \$2,500 of partnership gross income. However, since A included only \$300 on his return without explaining in the return the difference of \$200, he is regarded as having

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stated in his return only \$1,500 (\$300/\$500 of \$2,500) as gross income from the partnership.

**Statutory Authority:** *MS s 290.52*

**NOTE:** Regulations 2031 (6), 2031 (4) and 2031 (4)(d) have been repealed.

**8031.0200 NET OPERATING LOSS DEDUCTION OF PARTNER.**

For the purpose of determining a net operating loss deduction under Minnesota Statutes, section 290.095, a partner shall take into account his distributive share of items of income, gain, loss, deduction, or credit of the partnership. The character of any such item shall be determined as if such item were realized directly from the source from which realized by the partnership or incurred in the same manner as incurred by the partnership. See Minnesota Statutes, section 290.31, subdivision 2, clause (2) and part 8031.0100, subpart 2. To the extent necessary to determine the allowance under Minnesota Statutes, section 290.095, subdivision 4, paragraph (a) of the nonbusiness deductions of a partner (arising from both partnership and nonpartnership sources), the partner shall separately take into account his distributive share of the deductions of the partnership which are not attributable to a trade or business and combine such amount with his nonbusiness deductions from nonpartnership sources. Such partner shall also separately take into account his distributive share of the gross income of the partnership not derived from a trade or business and combine such amount with his nonbusiness income from nonpartnership sources. See Minnesota Statutes, section 290.095 and the rules thereunder.

**Statutory Authority:** *MS s 290.52*

**8031.0300 PARTNERSHIP COMPUTATIONS.**

**Subpart 1. Income and deductions.** The taxable income of a partnership shall be computed in the same manner as the taxable income of an individual, except as otherwise provided in this part. A partnership is required to state separately in its return the items described in Minnesota Statutes, section 290.31, subdivision 2, clause (1), (a) to (e) and, in addition, to attach to its return a statement setting forth separately those items described in Minnesota Statutes, section 290.31, subdivision 2, clause (1)(f) which the partner is required to take into account separately in determining his income tax. See part 8031.0100, subpart 1, item E. The partnership is further required to compute and to state separately in its return:

A. as taxable income under Minnesota Statutes, section 290.31, subdivision 2, clause (1)(g), the total of all other items of gross income (not separately stated) over the total of all other allowable deductions (not separately stated); or

B. as loss under Minnesota Statutes, section 290.31, subdivision 2, clause (1)(g), the total of all other allowable deductions (not separately stated) over the total of all other items of gross income (not separately stated).

The taxable income or loss so computed shall be accounted for by the partners in accordance with their partnership agreement.

**Subp. 2. Disallowed deductions.** The partnership is not allowed the following deductions:

A. The standard deduction provided in Minnesota Statutes, section 290.09, subdivision 15.

B. The net operating loss deduction provided in Minnesota Statutes, section 290.095. See part 8031.0200.

C. The additional itemized deductions for individuals provided in Minnesota Statutes, section 290.09, as follows: medical, dental, etc., expenses (Minnesota Statutes, section 290.09, subdivision 10); alimony, etc., payments (Minnesota Statutes, section 290.09, subdivision 14); and amounts representing taxes and interest paid to a cooperative apartment corporation (Minnesota

Statutes, section 290.09, subdivision 17). However, see part 8031.0100, subpart 1, item E, first paragraph.

D. The deduction for capital loss carry-over provided by Minnesota Statutes, section 290.16, subdivision 6.

Subp. 3. **Disallowed credits.** The partnership is not allowed the following credits:

A. The credit for charitable contributions provided in Minnesota Statutes, section 290.21, clause (2).

B. The personal credits provided in Minnesota Statutes, section 290.06, subdivision 3.

Subp. 4. **Reporting capital gains and losses.** The partnership must report capital gains and losses in full. It is not permitted to report such gains and losses according to the method set forth in Minnesota Statutes, section 290.16, subdivision 5.

Subp. 5. **Elections of the partnership.** Any elections affecting the computation of income derived from a partnership shall be made by the partnership. For example, elections of methods of accounting, of computing depreciation, and of treating soil and water conservation expenditures shall be made by the partnership and not by the partners separately. All partnership elections are applicable to all partners equally, but any election made by a partnership shall not apply to any partner's nonpartnership interests.

**Statutory Authority:** *MS s 290.52*

#### **8031.0400 DETERMINATION OF BASIS OF PARTNER'S INTEREST.**

Subpart 1. **General rule.** General rule:

A. Minnesota Statutes, section 290.31, subdivision 5, and this part provide rules for determining the adjusted basis of a partner's interest in a partnership. A partner is required to determine the adjusted basis of his interest in a partnership only when necessary for the determination of his tax liability or that of any other person. The determination of the adjusted basis of a partnership interest is ordinarily made as of the end of a partnership taxable year. Thus, for example, such year-end determination is necessary in ascertaining the extent to which a partner's distributive share of partnership losses may be allowed. See Minnesota Statutes, section 290.31, subdivision 4, clause (4). However, where there has been a sale or exchange of all or a part of a partnership interest or a liquidation of a partner's entire interest in a partnership, the adjusted basis of the partner's interest should be determined as of the date of sale or exchange or liquidation. The adjusted basis of a partner's interest in a partnership is determined without regard to any amount shown in the partnership books as the partner's "capital," "equity," or similar account. For example, A contributes property with an adjusted basis to him of \$400 (and a value of \$1,000) to a partnership. B contributes \$1,000 cash. While under their agreement each may have a "capital account" in the partnership of \$1,000, the adjusted basis of A's interest is only \$400 and B's interest, \$1,000.

B. The original basis of a partner's interest in a partnership shall be determined under Minnesota Statutes, section 290.31, subdivision 10 (relating to contributions to a partnership), or Minnesota Statutes, section 290.31, subdivision 19 (relating to transfers of partnership interests). Such basis shall be increased under Minnesota Statutes, section 290.31, subdivision 10, by any further contributions to the partnership and by the sum of the partner's distributive share for the taxable year and prior taxable years of:

(1) taxable income of the partnership as determined under Minnesota Statutes, section 290.31, subdivision 3;

(2) tax-exempt receipts of the partnership; and

(3) the excess of the deductions for depletion over the basis of the depletable property.

C. The basis shall be decreased (but not below zero) by distributions from the partnership as provided in Minnesota Statutes, section 290.31, subdivision 14 and by the sum of the partner's distributive share for the taxable year and prior taxable years of:

- (1) partnership losses (including capital losses); and
- (2) partnership expenditures which are not deductible in computing partnership taxable income or loss and which are not capital expenditures.

D. For the effect of liabilities in determining the amount of contributions made by a partner to a partnership or the amount of distributions made by a partnership to a partner, see Minnesota Statutes, section 290.31, subdivision 22, and 2031 (22), relating to the treatment of certain liabilities. In determining the basis of a partnership interest on the effective date of Minnesota Statutes, section 290.31, or any of the sections thereof, the partner's share of partnership liabilities on that date shall be included.

Subp. 2. **Alternative rule.** In certain cases, the adjusted basis of a partner's interest in a partnership may be determined by reference to the partner's share of the adjusted basis of partnership property which would be distributable upon termination of the partnership. The alternative rule may be used to determine the adjusted basis of a partner's interest where circumstances are such that the partner cannot practicably apply the general rule set forth in subpart 1 and Minnesota Statutes, section 290.331, subdivision 5, or where, from a consideration of all the facts, it is, in the opinion of the commissioner, reasonable to conclude that the result produced will not vary substantially from the result obtainable under the general rule. Where the alternative rule is used, adjustments may be necessary in determining the adjusted basis of a partner's interest in a partnership. Adjustments would be required, for example, in order to reflect in a partner's share of the adjusted basis of partnership property any significant discrepancies arising as a result of contributed property, transfers of partnership interest, or distributions of property to the partners. The operation of the alternative rules may be illustrated by the following examples:

**Example 1.** The ABC partnership, in which A, B, and C are equal partners, owns various properties with a total adjusted basis of \$1,500 and has earned and retained an additional \$1,500. The total adjusted basis of partnership property is thus \$3,000. Each partner's share in the adjusted basis of partnership property is one-third of this amount, or \$1,000. Under the alternative rule, this amount represents each partner's adjusted basis for his partnership interest.

**Example 2.** Assume that partner A in example 1 sells his partnership interest to D for \$1,250 at a time when the partnership property with an adjusted basis of \$1,500 had appreciated in value to \$3,000, and when the partnership also had \$750 in cash. The total adjusted basis of all partnership property is \$2,250 and the value of such property is \$3,750. D's basis for his partnership interest is his cost, \$1,250. However, his one-third share of the adjusted basis of partnership property is only \$750. Therefore, for the purposes of the alternative rule, D has an adjustment of \$500 in determining the basis of his interest. This amount represents the difference between the cost of his partnership interest and his share of partnership basis at the time of his purchase. If the partnership subsequently earns and retains an additional \$1,500, its property will have an adjusted basis of \$3,750. D's adjusted basis for his interest under the alternative rule is \$1,750, determined by adding \$500, his basis adjustment, to \$1,250 (his one-third share of the \$3,750 adjusted basis of partnership property). If the partnership distributes \$250 to each partner in a current distribution, D's adjusted basis for his interest will be \$1,500 (\$1,000, his one-third share of the remaining basis of partnership property, \$3,000, plus his basis adjustment of \$500.)

**Example 3.** Assume the BCD partnership in example 2 continues to operate. In 1960, D proposes to sell his partnership interest and wishes to

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evaluate the tax consequences of such sale. It is necessary, therefore, to determine the adjusted basis of his interest in the partnership. Assume further that D cannot determine the adjusted basis of his interest under the general rule. The balance sheet of the BCD partnership is as follows:

Assets	Adjusted Basis Per Books	Market Values
Cash	\$ 3,000	\$ 3,000
Receivables	4,000	4,000
Depreciable property	5,000	5,000
Land held for investment	18,000	30,000
<b>Total</b>	<b>\$30,000</b>	<b>\$42,000</b>
<b>Liabilities and Capital</b>	<b>Per Books</b>	
Liabilities	\$ 6,000	
Capital Accounts: B	4,500	
C	4,500	
D	15,000	
<b>Total</b>	<b>\$30,000</b>	

The \$15,000 representing the amount of D's capital account does not reflect the \$500 basis adjustment arising from D's purchase of his interest. See example 2 of this subpart. The adjusted basis of D's partnership interest determined under the alternative rule is as follows:

D's share of the adjusted basis of partnership property (reduced by the amount of liabilities) at time of proposed sale	\$15,000
D's share of partnership liabilities under the partnership agreement liabilities are shared equally	2,000
D's basis adjustment from example 2	500
<b>Adjusted basis of D's interest at the time of proposed sale, as determined under alternative rule</b>	<b>\$17,500</b>

**Statutory Authority:** *MS s 290.52*

**NOTE:** Regulation 2031 (22) has been repealed.