

CHAPTER 8031
DEPARTMENT OF REVENUE
INCOME AND FRANCHISE TAXES
PARTNERSHIPS

8031.0100 INCOME AND CREDITS OF PARTNER.

8031.0300 PARTNERSHIP COMPUTATIONS

8031.0100 INCOME AND CREDITS OF PARTNER.

Subpart 1. **General rule.** Each partner is required to take into account separately in a return the partner's 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 the partner's 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 income tax:

A. Each partner shall take into account, as part of the partner's gains and losses from sales or exchanges of capital assets held for not more than six months, the partner's 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 the partner's gains and losses from sales or exchanges of capital assets held for more than six months, the partner's 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 the partner's 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), the partner's 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 the partner, the partner's 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, the partner's 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 the partner's 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 that partner's separate deductions, credits, and exclusions and the partner's distributive share of partnership deductions, credits, and exclusions separately stated in determining the amount allowable to the partner 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 the partner's 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, 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 the partner's distributive share of partnership gross income:

A. in computing 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 the partner's 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 A's distributive share of partnership profits. A should have shown \$500 as A's distributive share of profits, which amount was derived from \$2,500 of partnership gross income. However, since A included only \$300 on the return without explaining in the return the difference of \$200, A is regarded as having stated in the return only \$1,500 (\$300/\$500 of \$2,500) as gross income from the partnership.

Statutory Authority: *MS s 290.52*

History: 17 SR 1279

8031.0200 [Repealed, L 1987 c 268 art 1 s 128]

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 the partner's 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 carryover 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*

History: *17 SR 1279*

8031.0400 [Repealed, L 1987 c 268 art 1 s 128]