

8002.0200 MINNESOTA GROSS INCOME FOR INDIVIDUALS WHO ARE PART-YEAR RESIDENTS OR NONRESIDENTS OF MINNESOTA (FEDERAL ADJUSTED GROSS INCOME).

Subpart 1. [Repealed, 25 SR 806]

Subp. 2. [Repealed, 27 SR 1664]

Subp. 3. **Distributive shares.** Income received by a nonresident, which is the distributive share of partnership income from personal or professional services which are performed in Minnesota, is assignable to Minnesota in the same proportion as the partnership income is assignable to Minnesota even though the nonresident partner performed no personal or professional services in Minnesota during that year.

Subp. 4. [Repealed, 46 SR 175]

Subp. 5. [Repealed, 27 SR 1664]

Subp. 6. **Reciprocity exclusion.** Minnesota gross income does not include personal or professional service income earned in Minnesota by a resident of Wisconsin, North Dakota, or Michigan. A resident of North Dakota or Michigan can use this provision only if the resident customarily returns at least once a month to their residence in that state. Wisconsin, North Dakota, and Michigan are the only three states that have reciprocity exclusion agreements with the state of Minnesota. The income subject to reciprocity exclusion is compensation for the performance of personal or professional services which the taxpayer personally renders. It is not enough to employ others to render these services.

A. The reciprocity exclusion does not apply where the personal or professional service income is earned as part of a business operated by the taxpayer which has employees that do more than incidental duties for the business or where there is the sale or delivery of goods which are more than an incidental part of the business. The reciprocity exclusion does apply to all the personal or professional income earned in the business where the sale of goods and the services of the employees are incidental. Where a partner is a member of a partnership where the selling of goods or the services of employees is more than incidental to the partnership business, reciprocity exclusion would apply only to the partner's salary (personal or professional service income) but not to the distributive shares of the partnership business. Salaries would be subject to a reasonableness test and a provision for salaries must be part of the partnership agreement. If there is no written partnership agreement, or if in the written agreement no salary or salary formula is specifically provided, the payment to the partners is a partnership distribution and is not subject to reciprocity exclusion. Partnership draw does not constitute a salary; it is a convenience to the partners in withdrawing a share of their business equity. If all partners are performing personal services and the sale of goods and the services of the employees are incidental, the reciprocity exclusion applies to the partner's salary and to the partner's distributive share. The imputed income of a shareholder of an electing small business corporation (Subchapter S) is not subject to reciprocity exclusion as this income is in the form of a partnership distribution.

B. The word "incidental" means the sale of goods or the services of employees which are only a minor or secondary contribution to the personal service income of the individual or partnership for whom performed. The sale of goods or the services of employees is incidental if for the sale of goods the gross profit (gross receipts less cost of goods sold) or for the services of employees the total compensation paid the employees is less than \$20,000 or ten percent of the gross profit of the business, whichever is greater. The total compensation paid the employees and the gross profit from the sale of goods must be totaled when determining if the goods and employees are incidental.

C. If an individual's total income assignable to Minnesota is subject to reciprocity exclusion, that individual need not file a Minnesota income tax return. However, if that individual has Minnesota income, some of which is subject to reciprocity exclusion and some of which is not subject to reciprocity exclusion and if the income which is not subject to reciprocity exclusion exceeds the filing requirements for filing a Minnesota income tax return, that individual must file a Minnesota income tax return. That individual should use the appropriate federal adjusted gross income for the taxable year. A subtraction would be allowed at a subsequent point on the return to remove income which is subject to reciprocity exclusion.

In order to claim the reciprocity exclusion, individuals should file form M-115, which is an affidavit claim for exemption of compensation received for services performed under the reciprocity exclusion. Although the exact form may change, the following information will be required:

- (1) name, address, and social security number of the individual;
- (2) year for which the affidavit is being submitted;
- (3) amount of income received for services performed in Minnesota subject to reciprocity exclusion;
- (4) a statement whether or not Minnesota income tax was withheld on that income;
- (5) the name and address of the employer;
- (6) type of services performed in Minnesota;
- (7) state in which the individual maintains residence;
- (8) the year in which the individual became a resident of the state;
- (9) a statement disclosing whether or not the individual customarily returns to the individual's residence in the other state at least once a month;
- (10) a statement whether or not the individual filed an income tax return with that state and whether the income subject to reciprocity exclusion was declared on that return; and
- (11) a statement declaring if the individual ever was a resident of Minnesota and, if so, when was the date of last residence.

An individual whose income is subject to reciprocity exclusion may also want to complete a withholding exemption certificate, form MW-6.

Subp. 7. **Assignable income.** The following items of income received by a nonresident are assignable to Minnesota regardless of the time or place received by the taxpayer if the underlying services giving rise to the payment were performed in Minnesota:

- A. a bonus;
- B. commissions; and
- C. vacation pay.

However, certain qualified pension payments are not assignable to Minnesota if they are received by a nonresident, even though the payments are attributable to services previously performed in Minnesota.

Subp. 8. [Repealed, L 2014 c 308 art 9 s 94]

Statutory Authority: *MS s 14.386; 14.388; 14.3895; 270.06; 270C.06; 290.081; 290.52*

History: *8 SR 2412; 17 SR 1279; 25 SR 806; 27 SR 1664; L 2005 c 151 art 1 s 114; L 2014 c 308 art 9 s 94; 46 SR 175*

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