

# 2013 Partnership Form M3 Instructions

## What's New for 2013

### Minimum Fee Amounts and Brackets have Changed

The Minimum Fee amounts and brackets have been adjusted for inflation. Please see page 2 of Form M3 for more details.

### Factor Percentages have Changed

The property, payroll and sales factors on Schedule M3A have changed. Property and payroll factors have changed from 3.5% to 2%. The sales factor has changed from 93% to 96%. This is effective for tax year 2013 only.

### Minnesota has Added a New Individual Tax Bracket

Partnerships electing composite tax or required to withhold for nonresident partners will now have to do so at the state's new top income tax bracket of 9.85%. The previous top income tax bracket was 7.85%.

**UPDATE as of March 2014, a bill signed into law on March 21, 2014 conforms Minnesota law to federal law for federal taxable income. See page 9 for additional details.**

### Research and Development Credit

The Research and Development Credit is no longer refundable. It has changed to a nonrefundable credit.

## Partnership Information

### Website

www.revenue.state.mn.us

### Phone

651-556-3075

### Email

businessincome.tax@state.mn.us

*We provide our publications in other formats upon request to persons with disabilities.*

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## Filing Requirements

All entities required to file a federal Form 1065, *U.S. Return of Partnership Income*, or Form 1065-B, *U.S. Return of Income for Electing Large Partnerships*, and have Minnesota gross income must file Form M3, *Partnership Return*. The entire share of an entity's income is taxed to the partner/member, whether or not it is actually distributed. Each partner/member must include their share of income on their tax return. However, the minimum fee is paid by the entity.

An S corporation must use Form M8, *S Corporation Return*.

If you are a one-member LLC, the form you must use depends on what kind of entity your business is for federal tax purposes.

### Minimum Fee

A partnership is subject to a minimum fee if the sum of its Minnesota source property, payroll and sales or receipts is at least \$930,000. However, the partnership is exempt from the minimum fee if more than 80 percent of its income is from farming, or the partnership is a qualified business participating in a Job Opportunity Building Zone (JOBZ) in Minnesota and all of its property and payroll are within the zone.

The minimum fee is determined on M3A, which is page 2 of Form M3.

### Large Partnerships

If you are a large partnership and, as a result of a federal audit, tax is assessed on additional income, you may elect to pay the federal tax on behalf of your partners. Even if you make the election, your partners remain responsible for paying Minnesota tax on the additional income.

If you made the election and paid federal tax as a result of a federal audit in a tax year after 1998, you must pass through the additional income to your partners.

## File Electronically

Options are available to electronically prepare and file your partnership tax return. Electronic filing is a secure, fast and easy way to file. For more information, go to our website at [www.revenue.state.mn.us](http://www.revenue.state.mn.us).

## Before You File

### Complete Your Federal Return

Before you complete Form M3, complete federal Form 1065—or Form 1065-B if you are a large partnership—and supporting schedules. You will need to reference them.

**If you are filing federal Form 1065-B, include the amount from:**

Schedule K-1 (1065-B),	on Schedule KPI,
box 1	line 22
box 2	line 22
box 3	line 27
box 4a	line 29 or 30
box 4b	line 29 or 30

### Minnesota Tax ID Number

Your Minnesota tax ID is the seven-digit number you're assigned when you register with the department. Generally, it is the same as your sales and use tax or Minnesota employer's withholding tax number.

It's important to include your Minnesota tax ID on your return so that any payments you make are properly credited to your account.

If you don't have a Minnesota tax ID, you must apply for one. To apply, go to our website at [www.revenue.state.mn.us](http://www.revenue.state.mn.us), or call 651-282-5225 or 1-800-657-3605.

## Due Dates and Extensions

### Due Date for Filing and Paying is April 15, 2014

File your return and pay the taxes payable as soon as possible after the end of the tax year, but no later than the following dates:

- Calendar year returns: April 15, 2014.
- Fiscal year returns: the 15th day of the fourth month after the end of the tax year.

# General Information (continued)

If the due date lands on a weekend or legal holiday, returns and payments electronically made or postmarked the next business day are considered timely.

## Extension of Time to File

All partnerships are granted an automatic six-month extension to file Form M3, if the tax payable for the year is paid by the regular due date.

However, if the IRS grants an extension of time to file your federal return that is longer than the Minnesota automatic six-month extension, your state filing due date is extended to the federal due date.

This is a filing extension only. To avoid penalties, you must make an extension tax payment by the regular due date. See *Extension Payment* on this page for details.

## Payments

There are four types of partnership tax payments—extension, estimated tax, tax return and amended return payments. You can pay electronically, by credit card or by check. (See Payment Options above.)

**Note:** If you're currently paying electronically using the ACH credit method, continue to call your bank as usual. If you wish to make payments using the ACH credit method, instructions are available on our website at [www.revenue.state.mn.us](http://www.revenue.state.mn.us).

## Extension Payment

Your tax is due by the regular due date, even if you are filing under an extension. Any tax not paid by the regular due date is subject to penalties and interest (see lines 13 and 14 on pages 4 and 5).

If you're filing after the regular due date, you can avoid penalties and interest by making an extension payment by the regular due date. See *Payment Options* above. If you're paying by check, complete and send Form PV83 with your payment.

## Estimated Tax Payments

A partnership must make quarterly estimated tax payments if the sum of its estimated minimum fee, nonresident withholding and composite income tax for all nonresident partners electing to participate in composite income tax, less any credits, is \$500 or more.

Payments are due by the 15th day of the fourth, sixth and ninth months of the tax year and the first month following the end of the tax year. If the due date lands on a weekend or legal holiday, payments electronically made or postmarked the next business day are considered timely.

## Payment Options

If you're required to pay any Minnesota business tax electronically, you must pay all taxes electronically. A 5 percent penalty will be assessed if you fail to do so when required.

### ■ Pay Electronically using e-Services

- To pay online—go to [www.revenue.state.mn.us](http://www.revenue.state.mn.us) and log in to e-Services; or
- To pay by phone—call **1-800-570-3329**.

Both options are free. To be timely, complete your transaction and receive a confirmation number on or before the due date for that payment. When paying electronically, you must use an account not associated with any foreign banks.

### ■ Pay by Credit or Debit Card

- Go to [payMNTax.com](http://payMNTax.com); or
- Call 1-855-9-IPAY-MN.

You will be charged a fee to use this service, which goes directly to Value Payment Systems (a national company that partners with federal, state and local governments to provide credit/debit card payment services).

The Department of Revenue does not receive any portion of fees charged by Value Payment Systems.

### ■ Pay by Check

**When making the following payments by check: you must attach Form:**

Tax return payment (taxes payable on M3) . . . . .	PV44
Extension payment . . . . .	PV83
Estimated tax payments . . . . .	M71
Amended return payment (taxes payable on M3X) . . . . .	PV68

Payment instructions can be found on the corresponding voucher (PV44, PV83, M71 or PV68). Your check authorizes us to make a one-time electronic funds transfer from your account. You may not receive your canceled check.

Forms are available from our website at [www.revenue.state.mn.us](http://www.revenue.state.mn.us).

If estimated tax is required for the minimum fee, composite income tax and/or nonresident withholding, include all on the same quarterly payments.

To make an estimated payment, see *Payment Options* above. If you're paying by check, send a completed Form M71 with your payment.

For additional information, see *Partnership Estimated Tax Instructions*.

## Tax Return Payment

If line 16 of Form M3 shows an amount due, you must make a tax return payment (see *Payment Options* above). If you're paying by check, send a completed Form PV44 along with your payment.

## Penalties and Interest

**Late Payment.** A late payment penalty is assessed on any tax not paid by the regular due date. The penalty is 6 percent of the unpaid tax.

If you file your return after the regular due date with a balance due, an additional 5 percent penalty will be assessed on the unpaid tax.

**Late Filing.** There is also a penalty if you file after the extended due date and owe tax. The late filing penalty is 5 percent of any tax not paid by the regular due date.

**Interest.** You must also pay interest on the penalty and tax you are sending in late. The interest rate for 2014 is 3 percent.

**Other Penalties.** There are also civil and criminal penalties for intentionally failing to file a Minnesota return, evading tax and for filing a frivolous, false or fraudulent return.

# General Information (continued)

## Filing Reminders

### Accounting Period

You must use the same accounting period for Minnesota as you use for your federal return. If you change your federal accounting period, attach a copy of federal Form 1128, *Application to Adopt, Change or Retain a Tax Year*, to your short-period Minnesota return.

### Composite Income Tax

A partnership may pay composite Minnesota income tax on behalf of its nonresident individual partners or grantor trusts who elect to be included in lieu of each partner filing his or her own Minnesota return. The electing individuals must not have any Minnesota source income other than the income from this partnership and other entities electing composite filing.

If you are paying composite income tax for your electing partners, check the box for composite income tax on the front of Form M3 and see the line 2 instructions on page 4.

Nonresidents included in composite income tax are not subject to the nonresident withholding requirements (see the next section).

### Nonresident Withholding

Partnerships are required to withhold and remit Minnesota income tax for a nonresident individual partner if the partner:

- has a legal residence that is not Minnesota;

- is not included in composite income tax;
- has Minnesota distributive income of \$1,000 or more from this partnership; and
- has income that was *not* generated by a transaction related to the termination or liquidation of the partnership in which no cash or property was distributed in the current or prior taxable year.

Also, income recognized because of discharge of indebtedness or from the gain on the sale of property subject to a mortgage is excluded from withholding to the extent that no cash is received or the cash is required to pay the indebtedness or mortgage.

If you're required to pay nonresident withholding, see the line 3 instructions on page 4.

*Note:* Nonresident individual partners include grantor trusts that file or can file under IRC section 1.671-4(b) and single-member LLCs when the single member is an individual.

**Exempt Partnerships:** If the partnership's ownership interests are traded on a public exchange, the partnership is not required to withhold and remit Minnesota taxes for its nonresident partners.

**Nonresident Entertainers:** Compensation paid to a nonresident entertainment entity for performances in Minnesota is not subject to Minnesota income tax. Instead, the compensation is subject to a 2 percent withholding tax on the gross compensation the entertainment entity receives for performances in Minnesota.

A partnership is an entertainment entity if it is paid compensation for entertainment provided by entertainers who are partners. An entertainer includes, for example, a musician, singer, dancer, comedian, thespian, athlete or public speaker. If you are defined by law as an entertainment entity, file Form ETR, *Nonresident Entertainer Tax Return*, by April 15 of the following year the income was reported. For additional information, see Withholding Fact Sheet 11, *Nonresident Entertainer Tax*.

If you are an entertainment entity that received compensation for performances in Minnesota and have no other type of Minnesota income, you are not required to file Form M3.

### Use of Information

All information on this form is private, except for your Minnesota tax ID number, which is public. Private information cannot be given to others except as provided by state law.

The identity and income information of the partners are required under state law so the department can determine the partner's correct Minnesota taxable income and verify if the partner has filed a return and paid the tax. The Social Security numbers of the individual partners are required under M.S. 289A.12, subd. 13.

## Assembling Paper Tax Forms

Arrange your Minnesota schedules in the order they were completed and place them behind your Form M3. Then place your federal return and its schedules behind the Minnesota material. **Do not staple or tape any enclosures to your return.**

## Where to File Paper Returns

Mail Form M3 and all completed Minnesota and federal forms and schedules using a mailing label (see page 12).

If you choose not to use the label, mail your forms to: Minnesota Partnership Tax, Mail Station 1760, St. Paul, MN 55145-1760.

Partnerships with more than 200 partners are asked to submit federal K-1 schedules and Minnesota KPI and KPC schedules (if applicable) on CDs. The department will continue to accept the filing of paper copies if this is not possible.

## Reporting Federal Changes

If the Internal Revenue Service (IRS) changes or audits your federal return or you amend your federal return, you must amend your Minnesota return. File your Form M3X within 180 days after you were notified by the IRS or after you filed your federal amended return. Enclose a copy of the IRS report or your amended federal return with your amended Minnesota return.

If you fail to report as required, a 10 percent penalty will be assessed on any additional tax.

*Before you complete Form M3, you must complete the following; you will need to reference them:*

- *Federal Form 1065—or Form 1065-B if you are a large partnership—and supporting schedules;*
- *Schedule KPI for each nonresident partner and to any Minnesota partner who has adjustments to income (see page 8); and*
- *Schedule KPC for each corporate or partnership partner (see page 11).*

## Annual Reporting of All JOBZ Tax Benefits

Each qualified business participating in a JOBZ zone is required to annually file two forms with the Department of Revenue that are in addition to and separate from the qualified business's tax return.

1. By Oct. 15, 2014, each qualified business must file Form M500, *JOBZ Tax Benefit Report*, to report the amount of taxes the business would have paid in 2013 had it not been in a JOBZ zone.
2. By Oct. 15, 2014, each qualified business must file Form JOBZ1, *Certification of JOBZ Compliance with Business Subsidy Agreement*, to certify to the department that it is in compliance with the terms of its business subsidy agreement.

Failure to submit either of these reports will result in the business being removed from the JOBZ program.

# Completing Form M3

## Check Boxes

**Initial Return.** If this is the partnership's first return filed in Minnesota, check the box on the front of the form.

**Composite Income Tax.** If you are paying composite income tax for your electing partners, check the box for composite income tax on the front of Form M3 and see the instructions for line 2.

**Farm Partnerships.** If more than 80 percent of your income is from farming, you are not required to pay a minimum fee. Check the box on the front of Form M3.

**Qualified Business Participating in a JOBZ Zone.** If you are a qualified business participating in a JOBZ zone in Minnesota and all of your property and payroll are within the zone, you are not required to pay a minimum fee. Check the box on the front of Form M3.

**Limited Liability Company (LLC).** A limited liability company that is considered to be a partnership for federal income tax purposes is considered a partnership for Minnesota purposes, and the members are considered to be partners. If you are a limited liability company and are filing a partnership return, check the LLC box on the front of Form M3.

**Out of Business (final return).** If the partnership is out of business and/or is not required to file Form M3 in future years, check the "Out of Business" box on the front of the form.

If you checked the "technical termination" box on your federal Form 1065, you must attach a copy of your federal return to your Form M3.

## Line Instructions

Round amounts to whole dollars. Decrease amounts less than 50 cents and increase amounts 50 cents or more to the next higher dollar.

**Partnership Partners:** When completing Form M3 and Schedules KPI and KPC, be sure to include any amounts reported on the Schedule KPC you received as a partner of a partnership (include Schedule KPC with your return).

### Line 1—Minimum Fee

Complete M3A of Form M3 to determine the minimum fee to enter on line 1. See the M3A instructions beginning on page 6.

You are exempt from the minimum fee if:

- more than 80 percent of your income is from farming; or

- you are a qualified business participating in a JOBZ zone in Minnesota and all of your property and payroll are within the zone.

### Line 2—Composite Income Tax

To determine line 2, you must first figure the amount of composite tax attributed to each electing partner. See the partnership instructions for lines 35 and 36 of Schedule KPI on page 10.

Add the composite income tax attributed to all electing partners (the total of lines 36 from all KPI schedules), and enter the result on line 2 of Form M3.

### Line 3—Nonresident Withholding

To determine line 3, you must first figure the amount to withhold for each nonresident individual partner. See the partnership instructions for line 37 of Schedule KPI on page 11.

Add the withholding required for all nonresident partners (the total of lines 37 from all KPI schedules), and enter the result on line 3 of Form M3.

If you received a signed and dated Form AWC, *Alternative Withholding Certificate*, from one or more partners, check the box provided on line 3 of Form M3. You must include the certificate(s) when you file your return.

### Line 5—Employer Transit Pass Credit

If you provided transit passes at a reduced cost to your employees for use in Minnesota, complete and enclose Schedule ETP, *Employer Transit Pass Credit*, to determine your credit.

Enter the amount of the credit that is being claimed directly by the partnership and not passed through to the partners. Line 5 cannot exceed the minimum fee on line 1.

### Line 7—Enterprise Zone Credit

If your business has been certified and approved by the Department of Employment and Economic Development (DEED) as employment property in an enterprise zone, enter the credit that is being claimed directly by the partnership and not passed through to the partners. Enclose Schedule EPC.

For details about the zones, go to the DEED website at [www.positivelyminnesota.com](http://www.positivelyminnesota.com).

### Line 8—JOBZ Jobs Credits

A refundable jobs credit, based on higher-paying jobs, is available to qualified businesses operating in a Job Opportunity

Building Zone (JOBZ). A qualified business must have signed a Business Subsidy Agreement with the zone administrator. Complete and enclose Schedule JOBZ, *JOBZ Tax Benefits*.

Also include any credit you may have received as a partner of a partnership (include Schedule KPC with your return).

Enter the total jobs credit that is being claimed directly by the partnership and not passed through to the partners.

For details about the zones, go to the DEED website at [www.positivelyminnesota.com](http://www.positivelyminnesota.com).

### Line 9—Cattle Tuberculosis Testing Credit

If you own cattle in Minnesota and you incurred expenses during the year to test your cattle for tuberculosis, you may qualify for a credit of 50 percent of your total expenses. To determine line 9, follow the steps below:

- 1 Expenses you incurred to conduct tuberculosis testing on your cattle in Minnesota . . . \_\_\_\_\_
- 2 The credit is limited to 50% (.50) of your expenses . . . . . .50
- 3 Multiply step 1 by step 2 . . . . . \_\_\_\_\_

Enter the result from step 3 on line 9 of Form M3. You cannot pass this credit to your partners.

If you were not federally required to test for tuberculosis, then you do not qualify for this credit.

### Line 10—Estimated Tax and Extension Payments

Enter your total prepayments, including:

- your total 2013 estimated tax payments made in 2013 and 2014, paid either electronically or with Form M71;
- any 2013 extension payment, paid electronically or with Form PV83, that was made by the due date when filing under an extension; or
- the portion of your 2012 refund applied to your 2013 estimated tax.

### Line 13—Penalty

Penalties are collected as part of the tax and are in addition to any additional charge for underpaying estimated tax. If you are paying your tax after the regular due date, include the appropriate penalties on line 13.

**Late Payment.** If the tax is not paid by the regular due date, a penalty is due of 6 percent of the unpaid tax on line 12.

*Continued*

# M3 (continued)

**Late Filing.** If you are filing your return after the extended due date and owe tax, you must pay a late filing penalty. The late filing penalty is 5 percent of the unpaid tax on line 12.

**Balance Not Paid.** If you file your return after the regular due date and have a balance due, an additional penalty is assessed. The additional penalty is 5 percent of the unpaid tax on line 12.

**Payment Method.** If you are required to pay electronically and do not, an additional 5 percent penalty applies to payments not made electronically, even if your paper check is sent on time.

## Line 14—Interest

You must pay interest on the unpaid tax and penalty from the regular due date until the total is paid. The interest rate for calendar year 2014 is 3 percent.

To figure how much interest you owe, use the following formula with the appropriate interest rate:

$$\text{Interest} = (\text{tax} + \text{penalty}) \times \# \text{ of days late} \times \text{interest rate} \div 365$$

## Line 15—Additional Charge for Underpayment of Estimated Tax

If you did not pay the correct amount of estimated tax by the due dates, you may have to pay an additional charge for underpaying or not paying estimated tax.

You may also owe an additional charge if the sum of line 1 (less any credits on lines 7 through 10), composite income tax on line 2 or nonresident withholding on line 3, is more than \$500.

Complete Schedule EST, *Underpayment of Estimated Income Tax*, to determine the additional charge for underpaying estimated tax.

Enter the total charge, if any, on line 15. Enclose the schedule with your return.

## Line 16—Amount Due

Add lines 12 through 15. This is the amount of tax you owe. Be sure to check the appropriate box on line 16 to indicate your method of payment. See *Payment options* on page 2.

## Line 17—Overpayment

If line 11 is less than the sum of lines 6 and 15, subtract line 11 from the sum of lines 6 and 15. Enter the result on line 16 and enter zero on line 17.

If you have an overpayment on line 17, you may choose to have it direct deposited into your bank account. You may also choose to apply all or a portion of your overpayment toward your 2013 estimated tax account.

## Line 18—2014 Estimated Tax

Skip this line if you owe additional tax.

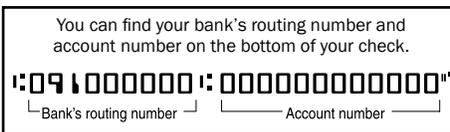
If you are paying 2014 estimated tax, you may apply all or a portion of your refund to your 2014 estimated tax. Enter the portion of line 17 you want to apply toward your 2014 estimated tax.

## Line 19—Refund

If you want to request your refund to be direct deposited into your bank account, complete line 20. Your bank statement will indicate when your refund was deposited to your account. Otherwise, skip line 20 and your refund will be sent to you in the mail.

## Line 20—Direct Deposit of Refund

If you want your refund to be directly deposited into your checking or savings account, enter the routing and account numbers. You must use an account not associated with any foreign banks.



The **routing number** must have nine digits.

The **account number** may contain up to 17 digits (both numbers and letters). Enter the number and leave out any hyphens, spaces and symbols.

If the routing or account number is incorrect or is not accepted by your financial institution, your refund will be sent to you in the form of a paper check.

By completing line 20, you are authorizing the department and your financial institution to initiate electronic credit entries, and if necessary, debit entries and adjustments for any credits made in error.

## Signature

The return must be signed by a general partner of the firm.

If you paid someone to prepare your return, the preparer must also sign. The preparer's ID number and phone number should also be included.

You may check the box in the signature area to give us your permission to discuss your return with the paid preparer. This authorization remains in effect until you notify the department in writing (either by mail or fax) that the authorization is revoked.

Checking the box does not give your preparer the authority to sign any tax documents on your behalf or to represent you at any audit or appeals conference. For these types of authorities, you must file a power of attorney or Form REV184 with the department.

## Email Address

If the department has questions regarding your return and you want to receive correspondence electronically, indicate the email address below your signature. Check a box to indicate if the email address belongs to an employee of the partnership, the paid preparer or other contact person.

By providing an email address, you are authorizing the department to correspond with you or the designated person over the Internet and you understand that the entity's nonpublic tax data may be transmitted over the Internet.

You also accept the risk that the data may be accessed by someone other than the intended recipient. The department is not liable for any damages that the entity may incur as a result of an interception.

# Completing M3A

Complete M3A to determine your Minnesota source income and minimum fee.

**Note:** If you conduct all your business in Minnesota, check the box above line 1. Complete columns A and B, and enter 1.00000 on line 6, even if any or all amounts in column B, lines 3, 4 or 5 are zero.

## Three-Factor Formula

Minnesota uses a weighted three-factor formula comprised of property, payroll and sales (which includes gross earnings, receipts and rents received) during the tax year to determine the apportionment factor.

For tax year 2013, the factor weights are 0.02 for property, 0.02 for payroll and 0.96 for sales (receipts).

To determine the Minnesota apportionment factor, first determine your property, payroll and sales factors.

If column B of line 3, 4 or 5 of M3A is zero, you are not able to use the three-factor apportionment formula prescribed by law. Rather, use the factor weights provided below:

- If the only missing factor is either property or payroll, change the sales factor weight in column D from 0.96 to 0.97959, and the weight of the remaining factor from 0.02 to 0.02041.
- If the only missing factor is sales, change the weight of both the property and payroll factors in column D from 0.02 to 0.5.
- If you are missing two factors, change the weight of the remaining factor in column D to 1.00.

## Petitioning to Use Another Method of Allocation

State law (M.S. 290.20, subd. 1a and Minnesota Rules 8020.0100, subp. 3) allows entities to request permission from the department to allocate all, or any part of, taxable net income in a manner other than the three-factor formula or by applying the methodology contained in Revenue Notice 08-04.

To request permission, complete Form ALT, *Petition to Use Alternative Method of Allocation* (see Revenue Notice 04-07).

Permission will be granted only if you can show that the three-factor formula does not properly and fairly reflect your Minnesota income, and that the alternative formula you have chosen does.

## Property Factor

If you are not required to complete federal Schedule L (Form 1065), you may want to do so to determine the property factor. Enclose the completed federal Schedule L (Form 1065) or a copy of the partnership's balance sheet with your Form M3.

The property factor consists of tangible property which includes land, buildings, machinery, equipment, inventories and other tangible personal property valued at original cost.

Original cost is your cost or original basis when you acquired the property. Depreciation and fair market value are not considered.

### M3A, lines 1a–1c

**Line 1a.** Add the beginning and the ending year inventories, divide by 2 and enter the result on line 1a. This is your average value of inventory.

**Line 1b.** Add the beginning and ending year values of the buildings, machinery, equipment and other tangible property and divide by 2. Enter the result on line 1b.

**Line 1c.** Add the land's beginning and ending year values and divide by 2. Enter the result on line 1c.

### M3A, line 2

Capitalized rents are rents paid by you for land, buildings, equipment, etc., during the tax year.

Multiply the rents you paid for property located or used in Minnesota by 8 and enter the result in column A. In column B, multiply the total rents you paid by 8 and enter the result.

The rents you receive are included in the sales factor.

### M3A, line 3

Add lines 1 and 2. Divide column A, line 3, by column B, line 3, and carry the result to five decimal places. Enter the result in column C. This is your property factor.

## Payroll Factor

### M3A, line 4

In column A, enter your total payroll paid (including guaranteed payments to partners for salary) or incurred in Minnesota, or paid for labor performed in Minnesota in connection with the trade or business during the tax year. In column B, enter total

payroll paid (including guaranteed payments to partners for salary) or incurred in connection with your entire trade or business. Divide column A by column B, and carry the result to five decimal places. Enter the result in column C. This is your payroll factor.

## Sales Factor

### M3A, line 5

In column A, enter the amount of sales in Minnesota. In column B, enter total sales. Divide column A by column B and carry the result to five decimal places. Enter the result in column C. This is your sales factor.

The sales factor includes all sales, rents, gross earnings or receipts received in the ordinary course of your business, except:

- interest;
- dividends;
- sales of capital assets under IRC section 1221;
- sales of property used in the trade or business, except sales of leased property that is regularly sold as well as leased; and
- sales of stock or sales of debt instruments under IRC section 1275(a)(1).

## Determining Minnesota Sales

### Real Property

Sales, rents, royalties and other income from real property are attributed to the state in which the property is located.

### Tangible Personal Property

Sales of tangible personal property are attributed to Minnesota if the property is received by the purchaser within Minnesota and the taxpayer is taxed in this state, regardless of the f.o.b. point, other conditions of the sale, or the ultimate destination of the property.

Tangible personal property delivered to a common or contract carrier or foreign vessel for delivery to a purchaser in another state or nation is a sale in that state or nation, regardless of f.o.b. point or other conditions of the sale.

Property is received by a purchaser in Minnesota if the recipient is located in this state, even if the property is ordered from outside Minnesota.

*Continued*

# M3A (continued)

**Sales of tobacco products, beer, wine and other alcoholic beverages** to someone licensed to resell the products only within the state of ultimate destination is a sale in the destination state.

**Receipts from leasing or renting tangible personal property**, including finance leases and true leases, are attributed to the state in which the property is located. Receipts from the lease or rental of moving property are attributed to Minnesota to the extent the moving property is used in Minnesota.

The extent of use is determined as follows:

- A motor vehicle is used wholly in the state in which it is registered.
- Receipts from rolling stock are assigned to Minnesota in the ratio of miles traveled in Minnesota to total miles traveled.
- Receipts from aircraft are assigned to Minnesota in the ratio of landings in Minnesota to total landings.
- Receipts from vessels, mobile equipment and other mobile property are assigned to Minnesota in the ratio of days the property is in Minnesota to the total days of the tax year.

## Intangible Property

Sales of intangible property are attributed to the state in which the property is used by the purchaser.

**Royalties, fees and similar income** not qualifying for the foreign royalty subtraction, received for the use of or the privilege of using intangible property (such as patents, copyrights, trade names, franchises or similar items) are attributed to the state in which the property is used by the purchaser.

Intangible property is attributed to Minnesota if the purchaser uses the property, or rights in the property, to conduct business within this state, regardless of the location of the purchaser's customers.

If the property is used in more than one state, then the sales or royalties must be apportioned to Minnesota pro rata based on the portion of use within this state. If you cannot determine the portion of use in Minnesota, then exclude the sales or royalties from both the numerator and the denominator of the sales factor.

## Personal Services

Receipts from the performance of personal services are attributed to the state in which the services are received.

Receipts from services provided to a corporation, partnership or trust may only be attributed to a state in which it has a fixed place of doing business.

If you can't determine where the service was received, or if it was received in a state where the corporation, partnership or trust doesn't have a fixed place of business, use the location of the office of the customer from which the service was ordered.

If you can't determine the ordering office, use the office location to which the service was billed.

## M3A, column E, lines 3–5

Multiply column C by the weighted factor in column D, and enter the result in column E.

## M3A, lines 7–10—Minimum Fee

Partnerships are subject to the minimum fee if the sum of its Minnesota source property, payroll and sales or receipts is at least \$930,000.

However, you are exempt from the minimum fee if:

- more than 80 percent of your income is from farming; or
- you are a qualified business participating in a JOBZ zone in Minnesota and all of your property and payroll are within the zone.

If you are exempt from the minimum fee, enter zero on line 10 of M3A and on line 1 of Form M3. Also, be sure to check the appropriate box in the heading at the top of your return to indicate you are a farm partnership or qualified business.

## M3A, line 8—Adjustments

The minimum fee is determined by your total Minnesota property, payroll and sales.

In some cases the property, payroll and sales used for computing the minimum fee will be different than those used for apportionment. The following adjustments should be made to your Minnesota factors on line 8.

**Add:** All tangible property owned or rented that is not included on line 3 of M3A. Some examples include construction in progress, idle property, any nonbusiness property or rent expense. The amounts should be determined in the same manner as the amounts on lines 1 and 2.

### Subtract:

- JOBZ zone minimum fee adjustment from Schedule JOBZ (enclose a copy of Schedule JOBZ).
- Any amounts included on lines 3, 4 or 5 that represent your share of the factors passed through from other partnerships.
- If the tax year is a short tax year, subtract the amount of the average value of tangible property that is excluded because of prorating for a short tax year. The amount excluded for a short tax year is determined by multiplying M3A, column A, line 1 by a fraction: the numerator is 365 minus the number of days in the tax year; the denominator is 365.

Enclose a schedule showing the computation and pass-through information of any adjustments listed on M3A, line 8.

# Completing Schedule KPI

Complete and provide Schedule KPI to each nonresident **individual, estate or trust partner** and any Minnesota individual, estate or trust partner who has adjustments to income.

Enter the information associated with this partnership and partner. If the partner is a one-member LLC, a grantor or substantial owner of a grantor trust, also enter the federal ID or Social Security number of the partner who is ultimately taxed for Minnesota purposes.

## Purpose

A partnership must provide each nonresident partner and any Minnesota partner with enough information regarding adjustments to income in order for the partner to complete a Minnesota income tax return and determine their correct Minnesota tax.

Use Schedule KPI to provide the necessary information to the partner. The schedule shows each partner their specific share of the partnership's income, credits and modifications. Be sure to provide the partner a copy of both the front and back of the completed Schedule KPI and the instructions.

If there are no modifications or credits, and there are no nonresident partners, you do not have to provide Schedule KPI.

Enclose copies of the Schedules KPI and attachments issued to partners with your Form M3. Also enclose copies of your federal Schedules K and K-1.

If you are required to amend your federal partnership return or you have been audited by the IRS, you must file an amended Minnesota return using Form M3X, *Amended Partnership Return*, and Schedules KPI and KPC, if appropriate, regardless if the partnership originally filed federal Form 1065-B.

## Partner Ultimately Taxed

Enter the identifying number of the partner ultimately taxed. For example, if the partner is a trust and has one beneficiary, enter the beneficiary's Social Security number.

A \$50 penalty will be assessed for each incorrect tax ID number used for a partner after being notified by the department that the number is incorrect.

## Line Instructions

**JOBZ ID Number.** If the partnership is a qualified business participating in a JOBZ zone, you **must** provide on each partner's Schedule KPI the assigned 10-digit JOBZ ID number through which the tax benefits are claimed. If you don't know the JOBZ ID number, call the department at 651-556-6836.

Calculate lines 1–20 the same for all resident and nonresident partners. Calculate lines 21–37 for nonresident partners only.

**Partnership Partners:** When completing Schedules KPI, be sure to include any amounts reported on the Schedule KPC you received as a partner of a partnership (include Schedule KPC with your return).

### KPI, line 1

Determine the interest the partnership received from non-Minnesota state and municipal bonds. **Include** the Minnesota portion of exempt-interest dividends if less than 95 percent of the exempt-interest dividends are from Minnesota state and municipal bonds. Enter the partner's distributive share of this amount on line 1.

### KPI, line 2

Determine the state income taxes deducted in arriving at ordinary income or net rental income of the partnership. Do not include the minimum fee in this amount. Enter the partner's distributive share of this amount on line 2.

### KPI, line 3

Expenses or interest deducted on your federal return that relate to income not taxed by Minnesota must be added back to the partners' Minnesota income.

Enter the partner's share of any federal deductions that are attributable to income not taxed by Minnesota, other than U.S. government bond interest or other federal obligations.

If you had expenses attributable to interest or mutual fund dividends from U.S. bonds, see line 9 of Schedule KPI. Do not include these expenses on line 3.

### KPI, line 4

If, during the year, your total investment in qualifying property was more than \$200,000 or if you elected more than \$25,000 in section 179 expensing, your partners must add back to Minnesota 80 percent of the difference between the expensing allowed for federal and for state tax purposes. Your

partners will be allowed to subtract their share of the addition in equal parts over the next five years when they file their state tax returns.

If you completed federal Form 4562 to claim the section 179 expensing for federal tax purposes, you must also complete lines 1 through 12 on a separate federal Form 4562 (referred to as your Minnesota Form 4562 below), to determine the amount to add back for Minnesota purposes.

Recalculate line 12 of your Minnesota Form 4562 using the same information from your federal Form 4562 and the following modifications:

- Subtract \$475,000 from line 1 of your federal Form 4562, and enter the result on line 1 of your Minnesota Form 4562.
- Enter line 2 of federal Form 4562 on line 2 of your Minnesota Form 4562.
- Subtract \$1,800,000 from line 3 of your federal Form 4562, and enter the result on line 3 of your Minnesota Form 4562.
- Enter the information from lines 6 and 7 of federal Form 4562 on lines 6 and 7 of your Minnesota Form 4562. However, if you have section 179 expensing from a flow through entity, use the amount from line 10 of Schedule KPC instead of the amount from line 12 of federal Schedule K-1.
- Enter line 10 of federal Form 4562 on line 10 of your Minnesota Form 4562.
- Recalculate lines 4, 5, 8, 9, 11 and 12 of your Minnesota Form 4562. The result on line 12 of Minnesota Form 4562 cannot be more than line 1 of that form.

Enter the partner's distributive share of the amount on line 12 of the Minnesota Form 4562 on line 4 of Schedule KPI.

### KPI, line 5

If you chose on your federal return the special depreciation allowance for certain qualified property, your partners must add back 80 percent of the bonus depreciation to Minnesota.

Follow the steps below to determine the partner's share to enter on line 5:

- 1 Add line 14 and line 25 of your federal Form 4562 . . . . . \_\_\_\_\_
- 2 Total of any bonus depreciation amounts passed through to the partnership as a partner of another partnership (from line 8 of Schedule KPC). . . . . \_\_\_\_\_

Continued

# KPI (continued)

- 3 Add steps 1 and 2 . . . . . \_\_\_\_\_  
 4 Multiply step 3 by the partner's percentage of ownership interest . . . \_\_\_\_\_

Enter the result from step 4 on line 5 of the partner's Schedule KPI.

**Federal bonus depreciation subtraction.**

For five years following the addback year, your partners may be able to subtract one-fifth of the addback on their Minnesota income tax return. See the instructions for Form M1 or Form M2 for details.

**KPI, line 6**

This line is intentionally left blank.

**KPI, line 7**

Enter the partner's distributive share of any fines, fees and penalties that were deducted as business expenses paid to a government entity or nongovernment regulatory body as a result of a violation of law, or the investigation of any potential violation of law. This does not include amounts identified in a court order or settlement agreement as restitution or as an amount paid to come into compliance with the law.

**UPDATE as of March 2014, The need for line 8 has been eliminated. A bill signed into law on March 21, 2014 conforms Minnesota law to federal law when determining federal taxable income. Line 8 should be left blank.** which contain a number of provisions affecting the 2013 tax year. Minnesota has not adopted all of the federal changes. You must provide your partners with this information in order for them to correctly and accurately complete their form M1 and Schedule M1NC for nonconformity issues.

The following codes each reference a single nonconformity issue which requires an adjustment to Minnesota income. Place the code in the first available box on line 8 and the amount on the corresponding line. If you need additional lines because you have more than three nonconformity issues please attach additional KPI schedules. **Please enclose an explanation or statement showing your computation for each nonconformity issue with your Minnesota M3 return.**

**Code Description of Issue**

10 If you claimed depreciation for business property on an Indian reservation on federal schedule 4562 using the alternative depreciation class life, you must use this code in the first available box on line 8. Enter "10" in the first available box and enter the difference between

the depreciation allowed federally at the alternative class life and the recomputed amount using the regular class life on the corresponding line. Individual taxpayers enter this amount on line 9 of schedule M1NC.

- 11 If you claimed the modified treatment of qualified television productions on federal form 4562, you must use this code in the first available box on line 8. Enter "11" in the first available box and enter the difference between the modified amount reported federally and the recomputed amount using the conventional method on the corresponding line. Individual taxpayers enter this amount on line 10 of schedule M1NC.
- 12 If in 2013, you placed into service any qualified leasehold improvement, restaurant or retail improvement property, you must use this code in the first available box on line 8. Enter "12" in the first available box and enter the difference between the depreciation allowed federally over 15 years, (amount on the federal 4562) and the recomputed amount allowed under a 39 year life on the corresponding line. Individual taxpayers enter this amount on line 11 of schedule M1NC.
- 13 If you utilized the 7 year recovery period for property used for land improvements and support facilities for motor sports entertainment, you must use this code in the first available box on line 8. Enter "13" in the first available box and enter the difference between the amount of the special 7 year cost recovery period and the amount of depreciation using a 15 or 39 year life (as appropriate) on the corresponding line. Individual taxpayers enter this amount on line 12 of schedule M1NC.
- 14 If you elected to expense 50% of the cost of qualified mine safety equipment placed in service in 2012, you must use this code in the first available box on line 8. Enter "14" in the first available box and enter the difference between the total amount expensed federally and recomputed amount of depreciation using the conventional method on the corresponding line. Individual taxpayers enter this amount on line 13 of schedule M1NC.

40 Other Additions

Continue to check our website for updates.

**KPI, line 9**

Interest earned on certain direct federal obligations is taxable on the federal return, but is not taxable on the state return.

Determine the net interest you received from primary obligations issued by the U.S. government, such as savings bonds and treasury notes, that are held directly by the partnership. Do not include obligations where the U.S. government is only a guarantor. Be sure to subtract any investment interest and other expenses you deducted on the federal return that relate to this income.

Enter the partner's distributive share of this amount on line 9.

**KPI, line 10**

Enter the partner's distributive share of the amounts from lines 17 and 30 of Schedule JOBZ.

**UPDATE as of March 2014, the need for line 11 has been eliminated.**

50 Other general subtractions

Continue to check our website for updates.

**KPI, line 12**

Enter the partner's share, if any, of the Employer Transit Pass Credit that is passed through to the partners.

**KPI, line 13**

Enter the partner's share, if any, of the Enterprise Zone Credit that is passed through to the partners.

**KPI, line 14**

Enter the partner's distributive share of the 2013 credit for increasing research activities. If the business qualifies, the credit cannot be claimed by the partnership and the full credit must be passed through to the partners.

**KPI, line 15**

Enter the partner's distributive share, if any, of the Historic Structure Rehabilitation Credit based on the partner's share of the partnership's assets, or as specifically allocated in the partnership's organizational documents, as of the last day of the taxable year.

You must also include the NPS project number, which is provided on the credit certificate you received from the State Historic Preservation Office of the Minne-

Continued

# KPI (continued)

sota Historical Society when the project was completed and placed into service.

## KPI, line 16

Enter the partner's distributive share, if any, of the JOBZ Jobs Credit that is passed through to the partners.

## KPI, line 17

If, for regular tax purposes, you elected the optional 60-month write-off under IRC section 59(e) for all property in this category, skip lines 17–20. No adjustments are necessary.

Intangible drilling costs (IDCs) from oil, gas and geothermal wells are a tax preference item to the extent that the excess IDCs exceed 65 percent of the net income from the wells. The tax preference item is computed separately for oil and gas properties and for geothermal properties.

Enter the partner's distributive share of the following: IDCs allowed for regular tax purposes under section 263(c), (but not including any section 263(c) deduction for nonproductive wells) less the amount that would be allowed had the IDCs been amortized over a 120-month period starting with the month the well was placed in production.

## KPI, line 18

Gross income from oil, gas and geothermal properties are used in determining if the excess IDCs exceed 65 percent of the net income from the wells.

Enter the partner's distributive share of the aggregate amount of gross income [within the meaning of section 613(a)] from all oil, gas and geothermal properties that was received or accrued during the tax year.

## KPI, line 19

Deductions allocable to oil, gas and geothermal properties are used in determining if the excess IDCs exceed 65 percent of the net income from the wells.

Enter the partner's distributive share of any deductions allocable to oil, gas and geothermal properties. Do not include deductions for nonproductive wells.

## KPI, line 20

In the case of oil wells and other wells of nonintegrated oil companies, enter the partner's distributive share of the amount by which the depletion deduction exceeds the adjusted basis of the property at the end of the tax year.

In computing the year-end adjusted basis, use the rules of section 1016. However, do not reduce the adjusted basis by the current year's depletion. Figure the excess amount separately for each property. If the depletion deduction for any property does not exceed the adjusted basis at year-end, do not include a tax preference amount for that property.

## Nonresident Individual, Estate or Trust Partners — Lines 21-37

### KPI, line 21

The Minnesota source gross income is used to determine whether a nonresident partner is required to file a Minnesota income tax return or has the option to elect composite income tax.

Enter the partner's distributive share of the partnership's Minnesota source gross income. The Minnesota source gross income is the total of the amounts apportioned to Minnesota that are included on lines 1c, 4, 6 and 7 (other than losses) of federal Form 1065; lines 18a and 19 and 20 (other than losses) of Form 8825; line 9 of Schedule F (1040); line 3a, 5, 6a, 7, 8, 9a, 10 and 11 of Schedule K (1065, not reported elsewhere) plus Minnesota source gross income amounts from all partnerships in which the partnership is a partner.

### KPI, lines 22-33

From the nonresident partner's federal Schedule K-1 (1065), enter the Minnesota portion of amounts on lines 22 through 33.

On line 32, include the Minnesota portion of any items from the Schedule K-1 that are not specifically labeled on lines 22-31 and 33.

Line 33 refers to the Minnesota apportioned amount of federal section 179 expense, not the amount calculated on line 4 for the Minnesota addition.

All income of a Minnesota individual resident is taxed by Minnesota, regardless of the source.

### KPI, line 25

Guaranteed payments for services provided in Minnesota are allocated to Minnesota. Additionally, if guaranteed payments are for other than services, such as the use of capital, determine the Minnesota portion by applying the partner's Minnesota apportionment ratio to the partner's share of that type of guaranteed payment.

## Nonresident Individual Partners Only

### KPI, line 35

When determining the partner's share of the partnership's Minnesota source distributive income, you must make adjustments for any items you passed through to the partner on lines 1 through 11 of the partner's Schedule KPI.

Follow the steps below to determine line 35:

- 1 The difference between the partner's federal section 179 deduction from box 12 of federal Schedule K-1 (1065) and line 4 of the partner's Schedule KPI ..... \_\_\_\_\_
- 2 Federal bonus depreciation amount from line 5 of the partner's Schedule KPI ..... \_\_\_\_\_
- 3 Add step 1 and step 2 ..... \_\_\_\_\_
- 4 Multiply step 3 by 80% (.80) . \_\_\_\_\_
- 5 ~~“This line should be left blank”~~ line 8 of the partner's Schedule KPI .. \_\_\_\_\_
- 6 Add step 4 and step 5 ..... \_\_\_\_\_
- 7 Multiply step 6 by apportionment factor from line 34 of the partner's Schedule KPI .. \_\_\_\_\_
- 8 Combine lines 22–32 of the partner's Schedule KPI ..... \_\_\_\_\_
- 9 Add step 7 and step 8 ..... \_\_\_\_\_
- 10 ~~“This line should be left blank”~~ on line 11 of the partner's Schedule KPI ..... \_\_\_\_\_
- 11 To the extent allowed by law, enter one-fifth of the partner's share of the federal bonus depreciation that was added back in a year the partner elected to be included in composite income tax ..... \_\_\_\_\_
- 12 To the extent allowed by law, enter one-fifth of the partner's share of the section 179 expensing that was added back in a year the partner elected to be included in composite income tax. .... \_\_\_\_\_
- 13 Add steps 10, 11 and 12 ..... \_\_\_\_\_
- 14 Multiply step 13 by the apportionment factor from line 34 of the partner's Schedule KPI ..... \_\_\_\_\_
- 15 Enter the amount from line 10 of the partner's Schedule KPI ..... \_\_\_\_\_

Continued

# KPI (continued)

16 Enter the amount from line 33 of the partner's Schedule KPI . . . . . \_\_\_\_\_

17 Add steps 14, 15, and 16 . . . . . \_\_\_\_\_

18 Subtract step 17 from step 9 . . . . . \_\_\_\_\_

Enter the result from step 18 on line 35 of the partner's Schedule KPI. This amount is the partner's adjusted Minnesota source distributive income.

## KPI, line 36 Composite Income Tax

Nonresident individual partners must pay tax if their Minnesota gross income is more than the minimum filing requirement for the year (\$10,000 for 2013).

Skip this line if the nonresident partner *did not* elect the partnership to pay composite income tax on his or her behalf.

To determine the amount of composite income tax to pay on behalf of each electing partner, follow the steps below:

- 1 Multiply line 35 of Schedule KPI by 9.85% (.0985) . . . . . \_\_\_\_\_
- 2 Add lines 12, 13, 15, and 16 of Schedule KPI . . . . . \_\_\_\_\_
- 3 Subtract step 2 from step 1 . . . . . \_\_\_\_\_

The result in step 3 is the amount you are required to pay on behalf of the electing individual partner. Enter this amount on line 36 of the partner's Schedule KPI and check the box to indicate the partner's election to be included.

If the individual elects to be included in composite income tax but has zero tax due, enter zero on line 36. Even though the amount may be zero, be sure to check the box to indicate the election.

Once you have completed all the KPI schedules for your electing nonresident individual partners, add the amounts on line 36 of all the schedules and enter the total on line 2 of Form M3. This is the amount of composite income tax you are required to pay on behalf of your electing partners.

## KPI, line 37—Nonresident Withholding

Nonresident individual partners who are not included in the composite income tax may be subject to withholding. See *Nonresident Withholding* on page 3 to determine if your nonresident partners are subject to Minnesota withholding.

To determine the amount of tax to withhold for each nonresident partner, follow the steps below:

- 1 Multiply line 35 of Schedule KPI by 9.85% (.0985) . . . . . \_\_\_\_\_
- 2 Add lines 12, 13, 15, and 16 of Schedule KPI . . . . . \_\_\_\_\_
- 3 Subtract step 2 from step 1 . . . . . \_\_\_\_\_

The result in step 3 is the amount you are required to withhold from the nonresident partner, unless the individual submits Form AWC, *Alternative Withholding Certificate*.

If the individual submits Form AWC, withhold the amount from line 6 of the certificate. Check the box provided on line 37 of the partner's Schedule KPI and also on line 3 of Form M3. Be sure to enclose a copy of the certificate when you file your return.

If the individual submits a false or fraudulent Form AWC, the department may require you to withhold the maximum percentage from that individual in the future, even if an exemption certificate is submitted.

Be sure to inform your partners that they must include their Schedule KPI when they file their Form M1 to claim the Minnesota withholding. If the schedule is not included, the department will disallow the withholding and assess the tax or reduce their refund.

# Completing Schedule KPC

Complete and provide Schedule KPC to each **corporate or partnership partner**.

Enter the information associated with this partnership and partner. If the partner is a one-member LLC, also enter the federal ID or Social Security number of the partner who is ultimately taxed for Minnesota purposes.

## Purpose

A partnership must provide each partner with enough information for them to complete a Minnesota income tax return and determine their correct Minnesota tax. Schedule KPC is used to show each corporate and partnership partner their specific share of the partnership's credits, modifications and apportionment factors. The pro rata share of the apportionment factors are used in two different ways (depending on if the relationship between partner and partnership is unitary) in computing the corporate or partnership partner's Minnesota income.

There may be other items that a corporate partner would need to know in order to complete its Form M4, *Corporation Franchise Tax Return*. If applicable, you should pass that information through to the corporate partners. For more information, see the instructions for Form M4.

Be sure to provide the partner a copy of both the front and the back of the completed Schedule KPC and the instructions.

Enclose copies of the Schedules KPC and attachments issued to partners with your Form M3. Also enclose copies of federal Schedules K and K-1 with your partnership return.

## Partner Ultimately Taxed

Enter the identifying number of the partner ultimately taxed. For example, if the partner is an LLC and its one member is a C corporation, enter the C corporation's FEIN.

A \$50 penalty will be assessed for each incorrect tax ID number used for a partner after being notified by the department that the number is incorrect.

## Line Instructions

**JOBZ ID Number.** If the partnership is a qualified business participating in a JOBZ zone, you **must** provide on each partner's Schedule KPC the assigned 10-digit JOBZ ID number through which the tax benefits are claimed. If you don't know the JOBZ ID number, call the department at 651-556-6836.

**Partnership Partners:** When completing Schedules KPC, be sure to include any amounts reported on the Schedule KPC you received as a partner of a partnership (include Schedule KPC with your return).

### KPC, lines 1 and 2

Generally, all of the income of a partnership is apportionable. If you have nonapportionable income, the corporate and partnership partners need to know their share of the nonapportionable income. Provide the partner with a schedule describing the type of income.

Enter the partner's share of Minnesota source nonapportionable income on line 1. On line 2, enter the partner's share of total nonapportionable income.

### KPC, line 3

Skip this line for all C corporation partners.

Enter the partner's distributive share of the business exemption from line 17 of Schedule JOBZ.

### KPC, line 4

Enter the partnership partner's distributive share of the JOBZ investment income from line 30 of Schedule JOBZ. Line 4 does not apply to corporate partners.

### KPC, line 5

Enter the partner's distributive share of the minimum fee from line 1 of the partnership's Form M3.

### KPC, line 6

Enter the partner's distributive share of any state income tax (other than the minimum fee) the partnership deducted in arriving at the partnership's net income.

### KPC, line 7

Enter the partner's distributive share of the partnership's interest income exempt from federal tax. Provide the partner with a schedule listing how much is from Minnesota municipal bonds.

### KPC, line 8

If you chose on your federal return the special depreciation allowance for certain qualified property, your partners must add back 80 percent of the bonus depreciation to Minnesota.

Follow the steps below to determine the partner's share to enter on line 8:

- 1 Add line 14 and line 25 of your federal Form 4562 . . . . . \_\_\_\_\_
- 2 Total of any bonus depreciation amounts passed through to the partnership as a partner of another partnership (from line 8 of Schedule KPC). . . . . \_\_\_\_\_
- 3 Add steps 1 and 2 . . . . . \_\_\_\_\_
- 4 Multiply step 3 by the partner's percentage of ownership interest . . . . . \_\_\_\_\_

Enter the result from step 4 on line 8 of the partner's Schedule KPC.

Federal bonus depreciation subtraction. For five years following the addback year, your partners may be able to subtract one-fifth of the addback on their Minnesota income tax return. See the instructions for Form M3, M4 or M8 for details.

### KPC, line 9

The line intentionally left blank.

### KPC, line 10

If, during the year, your total investment in qualifying property was more than \$200,000 or if you elected more than \$25,000 in section 179 expensing, your partners must add back to Minnesota 80 percent of the difference between the expensing allowed for federal and for state tax purposes. Your partners will be allowed to subtract their share of the addition in equal parts over the next five years when they file their state tax returns.

If you completed federal Form 4562 to claim the section 179 expensing for federal tax purposes, you must also complete lines 1 through 12 on a *separate* federal Form 4562 (referred to as your Minnesota Form 4562 below) to determine the amount you need to add back for Minnesota purposes.

Recalculate line 12 of your Minnesota Form 4562 using the same information from your federal Form 4562 and the following modifications:

# KPC (continued)

- Subtract \$475,000 from line 1 of your federal Form 4562, and enter the result on line 1 of your Minnesota Form 4562.
- Enter line 2 of federal Form 4562 on line 2 of your Minnesota Form 4562.
- Subtract \$1,800,000 from line 3 of your federal Form 4562, and enter the result on line 3 of your Minnesota Form 4562.
- Enter the information from lines 6 and 7 of federal Form 4562 on lines 6 and 7 of your Minnesota Form 4562. However, if you have section 179 expensing from a flow through entity, use the amount from line 10 of Schedule KPC instead of the amount from line 12 of federal Schedule K-1.
- Enter line 10 of federal Form 4562 on line 10 of your Minnesota Form 4562.
- Recalculate lines 4, 5, 8, 9, 11 and 12 of your Minnesota Form 4562. The result on line 12 of Minnesota Form 4562 cannot be more than line 1 of that form.

Enter the partner's distributive share of the amount on line 12 of the Minnesota Form 4562 on line 10 of Schedule KPC.

## KPC, line 11

Enter the partner's distributive share of any fines, fees and penalties that were deducted as business expenses paid to a government entity or nongovernment regulatory body as a result of a violation of law, or the investigation of any potential violation of law. This does not include amounts identified in a court order or settlement agreement as restitution or as an amount paid to come into compliance with the law.

## KPC, line 12

Skip this line for all corporate partners.

Expenses or interest deducted on your federal return that relate to income not taxed by Minnesota must be added back to the individual partners' Minnesota income.

Enter the partner's share of any federal deductions that are attributable to income not taxed by Minnesota, other than U.S. government bond interest or other federal obligations.

If you had expenses attributable to interest or mutual fund dividends from U.S. bonds, see line 15 of Schedule KPC. Do not include these expenses on line 12.

**UPDATE:** as of March 2014, the need for line 13 has been eliminated. See Page 9 of instructions for additional details.

Minnesota has not adopted all of the federal changes affecting the 2013 tax year. The following codes each reference a single nonconformity issue which will require an adjustment to Minnesota income. Place the code number in the first box on line 13 and the amount on the corresponding line. **If you need additional lines because you have more than three nonconformity issues please attach additional KPC schedules.**

Code	Description of Issue
------	----------------------

- |    |   |
|----|---|
| 10 | If you claimed depreciation for business property on an Indian reservation on federal schedule 4562 using the alternative depreciation class life, you must use this code in the first available box on line 8. Enter "10" in the first available box and enter the difference between the depreciation allowed federally at the alternative class life and the recomputed amount using the regular class life on the corresponding line. |
| 11 | If you claimed the modified treatment of qualified television productions on federal form 4562, you must use this code in the first available box on line 8. Enter "11" in the first available box and enter the difference between the modified amount reported federally and the recomputed amount using the conventional method on the corresponding line.   |
| 12 | If in 2013, you placed into service any qualified leasehold improvement, restaurant or retail improvement property, you must use this code in the first available box on line 8. Enter "12" in the first available box and enter the difference between the depreciation allowed federally over 15 years, (amount on the federal 4562) and the recomputed amount allowed under a 39 year life on the corresponding line.                  |

13 If you utilized the 7 year recovery period for property used for land improvements and support facilities for motor sports entertainment, you must use this code in the first available box on line 8. Enter "13" in the first available box and enter the difference between the amount of the special 7 year cost recovery period and the amount of depreciation using a 15 or 39 year life (as appropriate) on the corresponding line.

14 If you elected to expense 50% of the cost of qualified mine safety equipment placed in service in 2012, you must use this code in the first available box on line 8. Enter "14" in the first available box and enter the difference between the total amount expensed federally and recomputed amount of depreciation using the conventional method on the corresponding line.

## 40 Other Additions

*C corporations:* Include this amount in the instruction's worksheet for line 2o, on Form M4I, and enclose a statement showing your computation for each nonconformity issue along with a copy of this schedule with your Minnesota return.

*S corporations:* Pass this information through, pro rata, to shareholders on Schedule KS, line 8 and enclose a statement showing your computation for each nonconformity issue along with a copy of this schedule with your Minnesota return.

*Partnerships:* Pass this information through, pro rata, to partners as an addition on Schedule KPI, line 8 or Schedule KPC line 13 and enclose with your Minnesota return a statement showing your computation for each nonconformity issue along with a copy of the schedule KPC.

Continue to check our website for updates.

## KPC, line 14

Enter the partner's distributive share of the extraterritorial income.

# KPC (continued)

## KPC, line 15

Skip this line for all corporate partners.

Interest earned on certain direct federal obligations is taxable on the federal return, but is not taxable on the state return.

Determine the net interest you received from primary obligations issued by the U.S. government, such as savings bonds and treasury notes, that are held directly by the partnership. Do not include obligations where the U.S. government is only a guarantor. Be sure to subtract any investment interest and other expenses you deducted on the federal return that relate to this income.

Enter the partnership partner's distributive share of this amount on line 15.

**“UPDATE as of March 2014, the need for line 16 has been eliminated. See Page 9 of instructions for additional details.”**

Use the respective code in the first available box on line 16 and the amount in the corresponding line.

Code	Description of Issue
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50	Other general subtractions
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*C corporations:* Include this amount on Form M4I, line 5p, and enclose any statements or worksheets and a copy of this schedule with your return.

*S corporations:* Pass this information through, pro rata, to shareholders on schedule KS, line 11 and include any statements or worksheets with your return.

*Partnerships:* Pass this information through, pro rata, to partners on Schedule KPI, line 11 or KPC, line 16 and include any statements or worksheets with your return.

Continue to check our website for updates.

## KPC, line 17

Enter the partner's distributive share of the Employer Transit Pass Credit being passed through to partners.

## KPC, line 18

Enter the partner's distributive share of the 2013 credit for increasing research activities. If the business qualifies, the credit cannot be claimed by the partnership and the full credit must be passed through to the partners.

## KPC, line 19

Enter the partner's distributive share, if any, of the Historic Structure Rehabilitation Credit based on the partner's share of the partnership's assets, or as specifically allocated in the partnership's organizational documents, as of the last day of the taxable year.

You must also include the NPS project number, which is provided on the credit certificate you received from the State Historic Preservation Office of the Minnesota Historical Society when the project was completed and placed into service.

## KPC, line 20

Enter the partner's distributive share of the Enterprise Zone Credit being passed through to partners.

## KPC, line 21

Enter the partner's distributive share of the JOBZ Jobs Credit being passed through to partners.

## KPC, lines 22 and 23

Enter the partner's pro rata share of the partnership's apportionment factors determined on M3A.

### Use a mailing label if filing a paper return

Use this mailing label on your own envelope to mail Form M3 and copies of your federal return and schedules. (Cut and tape to your envelope.)



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