

# Corporate Officers

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## Withholding Fact Sheet 6

Fact Sheet

This fact sheet explains Minnesota income tax withholding responsibilities as they relate to officers of a corporation. If you have questions or need to obtain forms mentioned in this fact sheet, see “Information and Assistance” on page 2.

Corporate officers who provide services for a corporation (whether an S corporation or C corporation) are considered employees of the corporation. As with any other employee, the officer should be paid a reasonable wage for services performed. A reasonable wage is an amount you would expect to pay someone else to provide services similar to those provided by the officer. You must withhold Minnesota income tax from any compensation given to officers including cash, goods or services in exchange for working. Examples of goods include novelty items, clothing, items from your inventory, reductions in tuition at educational institutions, etc. Examples of services include accounting, cleaning, remodeling, repair work, etc.

Wages must be paid to corporate officers separately from any payments of dividends and/or distributions. Any loans between an officer and a corporation should be well documented and bear interest. There must be a valid debtor-creditor relationship. Contact the Internal Revenue Service (IRS) at 1-800-829-1040 for guidance on interest rates for loans.

Withhold tax from anyone who works in Minnesota. However, do not withhold Minnesota tax from nonresidents who will earn less in Minnesota wages than the minimum income required to file a Minnesota individual income tax return. The minimum filing requirement changes each year. For 2019, this amount is \$10,900.

**Employees Who are Residents of Michigan or North Dakota.** Minnesota has income tax reciprocity agreements with Michigan and North Dakota. Generally, under these agreements, only the home state will tax personal service income earned by the resident while working in a reciprocity state. Therefore, if an employee who is a resident of a reciprocity state gives you a completed Form MWR, *Reciprocity Exemption/Affidavit of Residency*, you are not required to withhold Minnesota income tax from his or her wages. It is your responsibility, as an employer, to submit the completed form to the Department of Revenue.

## Register for Withholding Tax

Before you start withholding Minnesota income tax from your employees' wages, you must have a Minnesota tax ID number and be registered for withholding tax. You may be assessed a \$100 penalty if you fail to do so.

If you are a new employer, see Withholding Fact Sheet 10, *New Employer Guide*, for important information. If you do not have a Minnesota tax ID number, apply online at [www.revenue.state.mn.us](http://www.revenue.state.mn.us) or by calling our Business Registration Office at 651-282-5225 or 1-800-657-3605.

If you already have a Minnesota tax ID number for other taxes for the same business, you can use the same number for withholding tax. To update your account, go to [www.revenue.state.mn.us](http://www.revenue.state.mn.us) and log in to e-Services.

## Withholding Tax From Wages

**Federal Withholding Allowances.** You must have all new employees complete federal Form W-4, *Employee's Withholding Allowance Certificate*, (available at [www.irs.gov](http://www.irs.gov)) when they begin employment to determine the number of federal withholding allowances to claim. If a new employee does not give you a completed Form W-4 before the first wage payment, withhold tax as if he or she is single with zero withholding allowances.

**Minnesota Withholding Allowances.** Your employees may complete Form W-4MN, *Minnesota Employee Withholding Allowance/Exemption Certificate*, to calculate their Minnesota withholding allowances separate from their federal withholding allowances. If an employee does not complete Form W-4MN, you may use the allowances from a federal Form W-4 the employee completed.

However, an employee **must** provide you with a completed Form W-4MN if they do any of the following:

- Choose to claim fewer Minnesota withholding allowances than federal withholding allowances
- Choose to claim more than 10 Minnesota allowances
- Request additional Minnesota withholding be deducted each pay period
- Claim to be exempt from Minnesota income tax withholding

For complete information, see Withholding Fact Sheet 9, *Definition of Wages*, Fact Sheet 10, *New Employer Guide*, and Form W-4MN.

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## **How to Pay**

For payment options, go to [www.revenue.state.mn.us](http://www.revenue.state.mn.us) and click **Make a Payment** under **For Businesses**.

You're required to pay electronically if any of the following are true:

- You withheld more than \$10,000 during the last 12-month period ending June 30
- You are required to electronically pay any other Minnesota business tax
- You use a payroll service company

If you're required to pay business taxes electronically for one year, you must continue to do so for all future years.

## **How to File**

All Minnesota withholding tax returns, including past-due and amended returns, must be filed electronically using one of the department's filing and paying systems:

- Go to [www.revenue.state.mn.us](http://www.revenue.state.mn.us) and log in to e-Services; or
- Call 1-800-570-3329.

## **Information and Assistance**

### **Minnesota Department of Revenue**

Additional forms and information, including fact sheets and frequently asked questions, are available on our website.

Website: [www.revenue.state.mn.us](http://www.revenue.state.mn.us)

Email: [withholding.tax@state.mn.us](mailto:withholding.tax@state.mn.us)

Phone: 651-282-9999 or 1-800-657-3594

This information is available in alternate formats.

### **Internal Revenue Service**

Website: [www.irs.gov](http://www.irs.gov)

Phone: 1-800-829-1040