Department of Revenue

Revenue Notice # 11-01: Corporate Franchise Tax – Job Opportunity Building Zones – Corporate Member of a Pass-Through Entity

Introduction

This revenue notice addresses whether a corporation may exempt from the corporate franchise tax under *Minnesota Statutes,* section 469.317 its allocable share of a pass-through entity's net income from the operation a qualified business in a job opportunity building zone (JOB zone).

Minnesota Statutes, section 469.316, subdivision 3, and *Minnesota Statutes,* section 469.317, exempt the net income from the operation a "qualified business" from the individual income and corporate franchise taxes. A "qualified business" is a person that operates a trade or business in a JOB zone and has executed a business subsidy agreement with the appropriate local unit of government.

Minnesota Statutes, section 469.316, subdivision 3 applies to individuals, estates, and trusts: they may exempt the net income they receive from the operation of a qualified business. *Minnesota Statutes,* section 469.317 applies to corporations: corporations may exempt the net income from the operation of a qualified business if the corporation is the qualified business that earned the income.

Department Position

A corporation may not exempt its allocable share of a pass-through entity's net income from the operation of a qualified business in a JOB zone. The pass-through entity – not the corporation – is the qualified business.

In contrast, individuals, estates, and trusts may exempt their allocable share of a pass-through entity's net income from the operation of a qualified business in JOB zone. The pass-through entity is a qualified business, and federal and Minnesota tax laws presume that the owners of a pass-through entity operate the business.

Examples

1. X, a corporation, is a member of a limited liability company (LLC) that is a qualified business. Y and Z are individuals and also members of the LLC. For the taxable year the LLC has $300,000 in net income attributable to operations in a JOB zone, and allocates $100,000 each to X, Y, and Z.

X may not exempt its allocable share of the LLC's net income. X neither is a qualified business, nor an individual, estate, or trust. Alternatively, Y and Z may exempt their allocable share of the LLC's net income. Y and Z are individuals, and their allocable share is attributable to a qualified business's operations in a JOB zone.

2. X, a corporation, is a qualified business. X uses an LLC as an operating subsidiary. Y and Z, both individuals, are also members of the LLC. The LLC did not execute a business subsidy agreement, thus, is not a qualified business. For the taxable year the LLC has $300,000 in net income attributable to operations in a JOB zone, and allocates $100,000 each to X, Y, and Z.

X is a qualified business and may exempt its allocable share of the LLC's net income. Alternatively, Y and Z may not exempt their allocable share of the LLC's net income. Because the LLC is not a qualified business, Y and Z's allocable share of the LLC's net income is not attributable to a qualified business's operations in a JOB zone.

3. The facts are the same as in example two, except the LLC also has executed a BSA and is a qualified business.

X is a qualified business and may exempt its allocable share of the LLC's net income. Furthermore, Y and Z may exempt their allocable share of the LLC's net income. Because the LLC is a qualified business, Y and Z's allocable share of the LLC's net income is attributable to a qualified business's operations in a JOB zone.

Publication Date: APR 11 2011

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