

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX Publicly Traded Partnerships Exempt from Withholding Requirement

March 8, 2004

	<b>Yes</b>	<b>No</b>
Separate Official Fiscal Note Requested		
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings		

Department of Revenue  
Analysis of H.F. 2299 (Abrams) / S.F. 2431 (Rest)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
General Fund	\$0	\$0	\$0	\$0

Effective beginning with tax year 2004.

### EXPLANATION OF THE BILL

**Current Law:** Current law provides that a partnership is required to deduct and withhold tax for nonresident individual partners based on their distributive shares of partnership income for a taxable year of the partnership. A partnership is not required to deduct and withhold tax for a nonresident partner if any of the following exceptions apply:

- 1) the partner elects to have the tax due paid as part of the partnership's composite return;
- 2) the partner has a Minnesota assignable federal adjusted gross income from the partnership of less than \$1,000;
- 3) the partnership is liquidated or terminated, the income was generated by a transaction related to the liquidation or termination, and no cash or other property was distributed in the taxable year; or
- 4) the distribution shares of partnership income are attributable to:
  - i) income required to be recognized because of discharge of indebtedness,
  - ii) income recognized because of a sale, exchange, or other disposition of real estate or depreciable property,
  - iii) income recognized on the sale, exchange, or other disposition of any property that has been the subject of a basis reduction.

**Proposed Law:** The proposal would add another exception to the nonresident withholding requirement: publicly traded partnerships would not be required to withhold tax for nonresident individual partners.

## **REVENUE ANALYSIS DETAIL**

- If the amount of tax paid by the affected nonresident partners is equal to the amounts withheld by the partnerships (net of any refunds), there would be a small shift in revenue collections. Withholding payments are currently filed with the partnership return due March 15<sup>th</sup>. Under the proposal, payments would likely shift one month later to the individual return filing date of April 15<sup>th</sup>.
- It is not known what effect this proposal would have on compliance.

**Number of Taxpayers:** Unknown.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)