

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Publicly Traded Partnerships Exempt from Withholding Requirements

April 11, 2005

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 364 (Rest) / H.F. 486 (Abrams)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
General Fund	\$0	\$0	\$0	\$0

Effective beginning with tax year 2005.

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, as specified.

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

- Withholding payments are currently filed with the partnership return due April 15th. Under the proposal, nonresident partners would pay the tax at or before the time they file their individual income tax return due April 15th. Therefore, there would be little or no fiscal year shift in the payments.
- 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