Department of Revenue

Revenue Notice # 13-01: Income and Corporate Franchise Tax – Qualified Subchapter S Subsidiaries (QSSS) – Revocation and Replacement of Revenue Notice # 98-09

Introduction

This Revenue Notice revokes and replaces Revenue Notice # 98-09.

Pursuant to Internal Revenue Code, section 1361(b)(3)(B), a qualified Subchapter S subsidiary (QSSS) is a domestic corporation that is otherwise eligible to be an S corporation and is 100% owned by an S corporation that elects to treat the subsidiary as a QSSS. For federal tax purposes, a QSSS is not treated as a separate corporation and all its assets, liabilities, income, deductions, and credits are treated as assets, liabilities, income, deductions, and credits of the S corporation parent. Minnesota conforms to this federal treatment as described in this revenue notice.

S corporation return

If a QSSS is disregarded for federal tax purposes, then the S corporation parent must file a single Minnesota S corporation return (M8), reporting all assets, liabilities, income, deductions, and credits of the disregarded QSSS as assets, liabilities, income, deductions, and credits of the S corporation parent.

The M8 return requires computation of an apportionment factor pursuant to *Minnesota Statutes*, section 290.191. In computing the apportionment factor, all property, payrolls, and sales of the disregarded QSSS must be treated as property, payrolls, and sales of the S corporation parent.

Further, to complete the M8 return, the S corporation parent must compute a single minimum fee pursuant to *Minnesota Statutes*, section 290.0922. In computing the minimum fee, all property, payrolls, and sales of the disregarded QSSS must be treated as property, payrolls, and sales of the S corporation parent.

Shareholders

A shareholder who is not a resident of Minnesota but who is required to file a Minnesota income tax return will be taxed by Minnesota on the Minnesota distributive income of the S corporation. Distributive income of a disregarded QSSS is reported as the distributive income of the S corporation parent. Minnesota distributive income is determined using the apportionment factor discussed above.

The entire income of Minnesota residents is subject to Minnesota income tax.

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