

# Partnership Form M3 Instructions 2010

## What's new for 2010?

### Factor percentages have changed

The property and payroll factors on Schedule M3A have changed from 8 percent to 6.5 percent each, and the sales factor has changed from 84 percent to 87 percent. *Effective for tax year 2010.*

### Two new refundable credits

Effective beginning with tax year 2010, two new refundable credits (increasing research activities and historic structure rehabilitation credits) are available to your partners. Any credits received must be passed through to your partners and cannot be claimed directly by the partnership.

### Credit for increasing research activities.

If you paid qualified research and development expenses in Minnesota, and those expenses exceed a base amount, you may be entitled to this credit.

For additional information, see Schedule RD, *Credit for Increasing Research Activities*, and the instructions for completing Schedule KPI, line 15, or Schedule KPC, line 20. If you qualify for the credit, you must include Schedule RD with your return.

### Credit for historic structure rehabilitation.

If you are eligible for the Federal Historic Rehabilitation Credit for improving a certified historic structure located in Minnesota, you may be eligible for the Minnesota historic structure rehabilitation credit. To qualify for the state credit, the project developer must apply for approval from the State Historic Preservation Office (SHPO) of the Minnesota Historical Society before any rehabilitation of the structure begins.

For eligibility requirements and details on how to apply for approval, go to the SHPO website at [www.mnhs.org/shpo](http://www.mnhs.org/shpo).

If you received a credit certificate from the SHPO, see the instructions for Schedule KPI, line 16 and Schedule KPC, line 21.

### Electronic payments

When paying electronically using our e-File Minnesota system (both the Internet and phone methods), you must use an account that is not associated with any foreign banks.

### Federal changes not adopted by Minnesota

#### Update as of March 2011

**A bill signed into law on March 21, 2011, conforms Minnesota law to federal law when determining your Minnesota tax for tax year 2010.**

**As a result, partnerships are no longer required to recompute their federal tax return for Minnesota tax purposes. Lines 9 and 12 of KPI, lines 15 and 18 of KPC, and page 13 of these instructions have been removed.**

### Filing requirements

All entities required to file a federal Form 1065, *U.S. Return of Partnership Income*, or Form 1065-B, *U.S. Return of Income for Electing Large Partnerships*, and have Minnesota gross income must file Form M3, *Partnership Return*. The entire share of an entity's income is taxed to the partner/member, whether or not it is actually distributed. Each partner/member must include their share of income on their tax return. However, the minimum fee is paid by the entity.

An S corporation must use Form M8, *S Corporation Return*.

If you are a one-member LLC, the form you must use depends on what kind of entity your business is for federal tax purposes.

### Minimum fee

A partnership is subject to a minimum fee if the sum of its Minnesota source property, payroll and sales or receipts is at least \$500,000. However, the partnership is exempt from the minimum fee if more than 80 percent of its income is from farming, or the partnership is a qualified business participating in a Job Opportunity Building Zone (JOBZ) in Minnesota and all of its property and payroll are within the zone.

The minimum fee is determined on M3A, which is page 2 of Form M3.

### Large partnerships

If you are a large partnership and, as a result of a federal audit, tax is assessed on additional income, you may elect to pay the federal tax on behalf of your partners. Even if you make the election, your partners remain responsible for paying Minnesota tax on the additional income.

If you made the election and paid federal tax as a result of a federal audit in a tax year after 1998, you must pass through the additional income to your partners on Schedules KPI and KPC.

### File electronically

Options are available to electronically prepare and file your partnership tax return. Electronic filing is a secure, fast and easy way to file. For more information, go to our website at [www.taxes.state.mn.us](http://www.taxes.state.mn.us).

### Before you file

#### Complete your federal return

Before you complete Form M3, complete federal Form 1065—or Form 1065-B if you are a large partnership—and supporting schedules. You will need to reference them.

#### If you are filing federal Form 1065-B, include the amount from:

Schedule K-1 (1065-B),	on Schedule KPI,
box 1	line 23
box 2	line 23
box 3	line 28
box 4a	line 30 or 31
box 4b	line 30 or 31

*Continued*

### Partnership information

#### Website

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

#### Phone

651-556-3075

(TTY: 711 Minnesota Relay)

#### E-mail

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

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# General information (continued)

## Minnesota tax ID number

Your Minnesota tax ID is the seven-digit number you're assigned when you register with the department. Generally, it is the same as your sales and use tax or Minnesota employer's withholding tax number.

It's important to include your Minnesota tax ID on your return so that any payments you make are properly credited to your account.

If you don't have a Minnesota tax ID, you must apply for one. To apply, go to [www.taxes.state.mn.us](http://www.taxes.state.mn.us) and click on "Register for a Minnesota tax ID number" from the e-Services menu, or call 651-282-5225 or 1-800-657-3605.

## Due dates and extensions

### Due date for filing and paying is April 18, 2011

File your return and pay the taxes payable as soon as possible after the end of the tax year, but no later than the following dates:

- Calendar year returns: April 18, 2011.
- Fiscal year returns: the 15th day of the fourth month after the end of the tax year.

If the due date lands on a weekend or legal holiday, returns and payments electronically made or postmarked the next business day are considered timely.

### Extension of time to file

All partnerships are granted an automatic six-month extension to file Form M3, if the tax payable for the year is paid by the regular due date.

However, if the IRS grants an extension of time to file your federal return that is longer than the Minnesota automatic six-month extension, your state filing due date is extended to the federal due date.

This is a filing extension only. To avoid penalties, you must make an extension tax payment by the regular due date. See *Extension payment* on this page for details.

## Payments

There are four types of partnership tax payments—extension, estimated tax, tax return and amended return payments. You can pay electronically, by credit card or by check. (See *Payment options* above.)

**Note:** If you're currently paying electronically using the ACH credit method, continue to call

## Payment options

If you're required to pay any Minnesota business tax electronically, you must pay all taxes electronically. A 5 percent penalty will be assessed if you fail to do so when required.

### ■ Pay electronically using e-File Minnesota

- To pay over the Internet—go to [www.taxes.state.mn.us](http://www.taxes.state.mn.us) and click "Login to e-File Minnesota" from the e-Services menu, or
- To pay by phone—call **1-800-570-3329**.

Both options are free. To be timely, complete your transaction and receive a confirmation number on or before the due date for that payment. When paying electronically, you must use an account not associated with any foreign banks.

If you're using the system for the first time and need a temporary password, call 651-282-5225 or 1-800-657-3605.

### ■ Pay by credit card

For a fee, you may charge your payments to your Visa, MasterCard, American Express or Discover/Novus credit card. To do so, have your credit card ready and go to [www.officialpayments.com](http://www.officialpayments.com) or call 1-800-272-9829.

### ■ Pay by check

**When making the following payments by check: you must attach Form:**

Tax return payment (taxes payable on M3) . . . . .	PV44
Extension payment . . . . .	PV83
Estimated tax payments . . . . .	M71
Amended return payment (taxes payable on M3X) . . . . .	PV68

Your check authorizes us to make a one-time electronic funds transfer from your account. You may not receive your canceled check.

Forms are available from our website at [www.taxes.state.mn.us](http://www.taxes.state.mn.us).

*your bank as usual. If you wish to make payments using the ACH credit method, instructions are available at [www.taxes.state.mn.us](http://www.taxes.state.mn.us).*

### Extension payment

Your tax is due by the regular due date, even if you are filing under an extension. Any tax not paid by the regular due date is subject to penalties and interest (see lines 13 and 14 on page 5).

If you're filing after the regular due date, you can avoid penalties and interest by making an extension payment by the regular due date. See *Payment options* above. If you're paying by check, complete and send Form PV83 with your payment.

### Estimated tax payments

A partnership must make quarterly estimated tax payments if it has:

- an estimated minimum fee of \$1,000 or more,
- any nonresident individual partners with \$500 or more of estimated composite income tax, or

- any nonresident individual partners with \$500 or more of estimated Minnesota withholding.

Payments are due by the 15th day of the fourth, sixth and ninth months of the tax year and the first month following the end of the tax year. If estimated tax is required for the minimum fee, composite income tax and/or nonresident withholding, include all on the same quarterly payments.

To make an estimated payment, see *Payment options* above. If you're paying by check, send a completed Form M71 with your payment.

For additional information, see *Partnership Estimated Tax instructions*.

### Tax return payment

If line 16 of Form M3 shows an amount due, you must make a tax return payment (see *Payment options* above). If you're paying by check, send a completed Form PV44 along with your payment.

# General information (continued)

## Penalties and interest

**Late payment.** A late payment penalty is assessed on any tax not paid by the regular due date. The penalty is 6 percent of the unpaid tax.

If you file your return after the regular due date with a balance due, an additional 5 percent penalty will be assessed on the unpaid tax.

**Late filing.** There is also a penalty if you file after the extended due date and owe tax. The late filing penalty is 5 percent of any tax not paid by the regular due date.

**Interest.** You must also pay interest on the penalty and tax you are sending in late. The interest rate for 2011 is 3 percent.

**Other penalties.** There are also civil and criminal penalties for intentionally failing to file a Minnesota return, evading tax and for filing a frivolous, false or fraudulent return.

## Filing reminders

### Accounting period

You must use the same accounting period for Minnesota as you use for your federal return. If you change your federal accounting period, attach a copy of federal Form 1128,

### Annual reporting of all JOBZ tax benefits

Each qualified business participating in a JOBZ zone is required to annually file two forms with the Department of Revenue that are in addition to and separate from the qualified business's tax return.

1. By October 15, 2011, each qualified business must file Form M500, *Reporting of JOBZ Tax Benefits*, to report the amount of taxes the business would have paid in 2010 had it not been in a JOBZ zone.
2. By October 15, 2011, each qualified business must certify to the Department of Revenue that it is in compliance with the terms of its business subsidy agreement.

**Note:** The due date has changed from December 1 to October 15, effective for certifications required to be made in 2010 and thereafter.

Failure to submit either of these reports will result in the business being removed from the JOBZ program.

*Application to Adopt, Change or Retain a Tax Year*, to your short-period Minnesota return.

## Composite income tax

A partnership may pay composite Minnesota income tax on behalf of its nonresident individual partners [or grantor trusts that can file under IRC Section 1.671-4(b)] who elect to be included in lieu of each partner filing his or her own Minnesota return.

The electing individuals must not have any Minnesota source income other than the income from this partnership and other entities electing composite filing.

If you are paying composite income tax for your electing partners, check the box for composite income tax on the front of Form M3 and see the line 2 instructions on page 4.

Nonresidents included in the composite income tax are not subject to the nonresident withholding requirements (see the next section).

## Nonresident withholding

Partnerships are required to withhold and remit Minnesota income tax for a nonresident individual partner if the partner:

- has a legal residence that is not Minnesota,
- is not included in composite income tax,
- has Minnesota distributive income of \$1,000 or more from this partnership, and
- has income that was *not* generated by a transaction related to the termination or liquidation of the partnership in which no cash or property was distributed in the current or prior taxable year.

Also, income recognized because of discharge of indebtedness or from the gain on the sale of property subject to a mortgage is excluded from withholding to the extent that no cash is received or the cash is required to pay the indebtedness or mortgage.

If you're required to pay nonresident withholding, see the line 3 instructions on page 4.

**Exempt partnerships:** If the partnership's ownership interests are traded on a public exchange, the partnership is not required to withhold and remit Minnesota taxes for its nonresident partners.

## Domestic production activities deduction

If you are claiming a portion of the domestic production activities deduction on the partnership's federal return, call the department for instructions on how to complete your Minnesota return.

## Use of information

All information on this form is private, except for your Minnesota tax ID number, which is public. Private information cannot be given to others except as provided by state law.

The identity and income information of the partners are required under state law so the department can determine the partner's correct Minnesota taxable income and verify if the partner has filed a return and paid the tax. The Social Security numbers of the individual partners are required under M.S. 289A.12, subd. 13.

## Assembling paper tax forms

Arrange your Minnesota schedules in the order they were completed and place them behind your Form M3. Then place your federal return and its schedules behind the Minnesota material. **Do not staple or tape any enclosures to your return.**

## Where to file paper returns

Mail Form M3 and all completed Minnesota and federal forms and schedules using a mailing label (see page 12).

If you choose not to use the label, mail your forms to: Minnesota Partnership Tax, Mail Station 1760, St. Paul, MN 55145-1760.

Partnerships with more than 200 partners are asked to submit federal K-1 schedules and Minnesota KPI and KPC schedules (if applicable) on CDs. The department will continue to accept the filing of paper copies if this is not possible.

## Reporting federal changes

If the Internal Revenue Service (IRS) changes or audits your federal return or you amend your federal return and it affects your Minnesota return or the federal Schedules K-1, you must amend your Minnesota return. File your Form M3X within 180 days after you were notified by the IRS or after you filed your federal amended return. Enclose a copy of the IRS report or your amended federal return with your amended Minnesota return.

If the changes do not affect your Minnesota return, you have 180 days to send a letter of explanation to the department. Send your letter and a complete copy of your amended federal return or the correction notice to: Minnesota Partnership Tax, Mail Station 5170, St. Paul, MN 55146-5170.

If you fail to report as required, a 10 percent penalty will be assessed on any additional tax.

# Completing Form M3

Before you complete Form M3, you must complete the following; you will need to reference them:

- federal Form 1065—or Form 1065-B if you are a large partnership—and supporting schedules,
- Schedule KPI for each nonresident partner and to any Minnesota partner who has adjustments to income (see page 8), and
- Schedule KPC for each corporate or partnership partner (see page 11).

## Check boxes

**Final return.** If the partnership is out of business and is not required to file Form M3 in future years, check the “final return” box on the front of the form.

**Composite income tax.** If you are paying composite income tax for your electing partners, check the box for composite income tax on the front of Form M3 and see the instructions for line 2.

**Farm partnerships.** If more than 80 percent of your income is from farming, you are not required to pay a minimum fee. Check the box on the front of Form M3.

**Qualified business participating in a JOBZ zone.** If you are a qualified business participating in a JOBZ zone in Minnesota and all of your property and payroll are within the zone, you are not required to pay a minimum fee. Check the box on the front of Form M3.

**Limited liability company (LLC).** A limited liability company that is considered to be a partnership for federal income tax purposes is considered a partnership for Minnesota purposes, and the members are considered to be partners. If you are a limited liability company and are filing a partnership return, check the LLC box on the front of Form M3.

**Initial return.** If this is the partnership’s first return filed in Minnesota, check the box on the front of the form.

## Line instructions

Round amounts to whole dollars. Decrease amounts less than 50 cents and increase amounts 50 cents or more to the next higher dollar.

**Partnership partners:** When completing Form M3 and Schedules KPI and KPC, be sure to include any amounts reported on the Schedule KPC you received as a partner of a partnership (include Schedule KPC with your return).

### Line 1—Minimum fee

Complete M3A of Form M3 to determine the minimum fee to enter on line 1. See the M3A instructions beginning on page 6.

You are exempt from the minimum fee if:

- more than 80 percent of your income is from farming, or
- you are a qualified business participating in a JOBZ zone in Minnesota and all of your property and payroll are within the zone.

### Line 2—Composite income tax

To determine line 2, you must first figure the amount of composite tax attributed to each electing partner. See the partnership instructions for lines 36 and 37 of Schedule KPI on page 10.

Add the composite income tax attributed to all electing partners (the total of lines 37 from all KPI schedules), and enter the result on line 2 of Form M3.

### Line 3—Nonresident withholding

To determine line 3, you must first figure the amount to withhold for each nonresident individual partner. See the partnership instructions for line 38 of Schedule KPI on page 10.

Add the withholding required for all nonresident partners (the total of lines 38 from all KPI schedules), and enter the result on line 3 of Form M3.

If you received a signed and dated Form AWC, *Alternative Withholding Certificate*, from one or more partners, check the box provided on line 3 of Form M3. You must include the certificate(s) when you file your return.

### Line 5—Employer transit pass credit

If you provided transit passes at a reduced cost to your employees for use in Minnesota, complete and enclose Schedule ETP, *Employer Transit Pass Credit*, to determine your credit.

Enter the amount of the credit that is being claimed directly by the partnership and not passed through to the partners. Line 5 cannot exceed the minimum fee on line 1.

### Line 7—Enterprise zone credit

If your business has been certified and approved by the Department of Employment and Economic Development (DEED) as employment property in an enterprise zone, enter the credit that is being claimed directly by the partnership and not passed through to the partners. Enclose Schedule EPC.

For details about the zones, go to the DEED website at [www.positivelyminnesota.com](http://www.positivelyminnesota.com).

### Line 8—JOBZ jobs credits

A refundable jobs credit, based on higher-paying jobs, is available to qualified businesses operating in a Job Opportunity Building Zone (JOBZ). A qualified business must have signed a Business Subsidy Agreement with the zone administrator. Complete and enclose Schedule JOBZ, *JOBZ Tax Benefits*.

Also include any credit you may have received as a partner of a partnership (include Schedule KPC with your return).

Enter the total jobs credit that is being claimed directly by the partnership and not passed through to the partners.

For details about the zones, go to the DEED website at [www.positivelyminnesota.com](http://www.positivelyminnesota.com).

### Line 9—Cattle tuberculosis testing credit

If you own cattle in Minnesota and you incurred expenses during the year to test your cattle for tuberculosis, you may qualify for a credit of 50 percent of your total expenses. To determine line 9, follow the steps below:

- 1 Expenses you incurred to conduct tuberculosis testing on your cattle in Minnesota . . . \_\_\_\_\_
- 2 The credit is limited to 50% (.50) of your expenses . . . . . .50
- 3 Multiply step 1 by step 2 . . . . . \_\_\_\_\_

Enter the result from step 3 on line 9 of Form M3. You cannot pass this credit to your partners.

Expenses incurred in a calendar year in which tuberculosis testing of cattle in Minnesota is not federally required are not allowed in claiming the credit.

### Line 10—Estimated tax and extension payments

Enter your total prepayments, including:

- your total 2010 estimated tax payments made in 2010 and 2011, paid either electronically or with Form M71,

*Continued*

# M3 (continued)

- any 2010 extension payment, paid electronically or with Form PV83, that was made by the due date when filing under an extension, or
- the portion of your 2009 refund applied to your 2010 estimated tax.

## Line 13—Penalty

Penalties are collected as part of the tax and are in addition to any additional charge for underpaying estimated tax. If you are paying your tax after the regular due date, include the appropriate penalties on line 13.

**Late payment.** If the tax is not paid by the regular due date, a penalty is due of 6 percent of the unpaid tax on line 12.

**Late filing.** If you are filing your return after the extended due date and owe tax, you must pay a late filing penalty. The late filing penalty is 5 percent of the unpaid tax on line 12.

**Balance not paid.** If you file your return after the regular due date and owe tax, an additional penalty is due. The additional penalty is 5 percent of the unpaid tax on line 12.

**Payment method.** If you are required to pay electronically and do not, an additional 5 percent penalty applies to payments not made electronically, even if your paper check is sent on time.

## Line 14—Interest

You must pay interest on the unpaid tax and penalty from the regular due date until the total is paid. The interest rate for calendar year 2011 is 3 percent.

To figure how much interest you owe, use the following formula with the appropriate interest rate:

$$\text{Interest} = (\text{tax} + \text{penalty}) \times \# \text{ of days late} \times \text{interest rate} \div 365$$

## Line 15—Additional charge for underpayment of estimated tax

If you did not pay the correct amount of estimated tax by the due dates, you may have to pay an additional charge for underpaying or not paying estimated tax.

You may also owe an additional charge if:

- line 1, less any credits on lines 7 through 10, is \$500 or more, or
- any nonresident individual partner's share of the composite income tax on line 2 is \$500 or more, or
- any nonresident individual partner's share of Minnesota withholding tax on line 3 is \$500 or more.

Complete Schedule M15, *Underpayment of Estimated Income Tax*, to determine the additional charge for underpaying estimated tax. Compute the underpayment charge separately for the minimum fee and for each nonresident partner who has \$500 or more of either composite income or nonresident withholding tax.

Enter the total charge, if any, on line 15. Enclose the schedule with your return.

## Line 16—Amount owed

Add lines 12 through 15. This is the amount of tax you owe. Be sure to check the appropriate box on line 16 to indicate your method of payment. See *Payment options* on page 2.

## Line 17—Overpayment

If line 11 is less than the sum of lines 6 and 15, subtract line 11 from the sum of lines 6 and 15. Enter the result on line 16 and enter zero on line 17.

If you have an overpayment on line 17, you may choose to have it direct deposited into your bank account. You may also choose to apply all or a portion of your overpayment toward your 2011 estimated tax account.

## Line 18—2011 estimated tax

Skip this line if you owe additional tax.

If you are paying 2011 estimated tax, you may apply all or a portion of your refund to your 2011 estimated tax. Enter the portion of line 17 you want to apply toward your 2011 estimated tax.

## Line 19—Refund

If you want to request your refund to be direct deposited into your bank account, complete line 20. Your bank statement will indicate when your refund was deposited to your account. Otherwise, skip line 20 and your refund will be sent to you in the mail.

## Line 20—Direct deposit of refund

If you want your refund to be directly deposited into your checking or savings account, enter the routing and account numbers. You must use an account not associated with any foreign banks.

You can find your bank's routing number and account number on the bottom of your check.

:09	10000000	:0000000000000000"
└─ Bank's routing number ─┘	└─ Account number ─┘	

The **routing number** must have nine digits.

The **account number** may contain up to 17 digits (both numbers and letters). Enter the number and leave out any hyphens, spaces and symbols.

If the routing or account number is incorrect or is not accepted by your financial institution, your refund will be sent to you in the form of a paper check.

By completing line 20, you are authorizing the department and your financial institution to initiate electronic credit entries, and if necessary, debit entries and adjustments for any credits made in error.

## Signature

The return must be signed by a general partner of the firm.

If you paid someone to prepare your return, the preparer must also sign. The preparer's ID number and phone number should also be included.

You may check the box in the signature area to give us your permission to discuss your return with the paid preparer. This authorization remains in effect until you notify the department in writing (either by mail or fax) that the authorization is revoked.

Checking the box does not give your preparer the authority to sign any tax documents on your behalf or to represent you at any audit or appeals conference. For these types of authorities, you must file a power of attorney or Form REV184 with the department.

## E-mail address

If the department has questions regarding your return and you want to receive correspondence electronically, indicate the e-mail address below your signature. Check a box to indicate if the e-mail address belongs to an employee of the partnership, the paid preparer or other contact person.

By providing an e-mail address, you are authorizing the department to correspond with you or the designated person over the Internet and you understand that the entity's nonpublic tax data may be transmitted over the Internet.

You also accept the risk that the data may be accessed by someone other than the intended recipient. The department is not liable for any damages that the entity may incur as a result of an interception.

# Completing M3A

Complete M3A to determine your Minnesota source income and minimum fee. If you conducted all your business in Minnesota during the tax year, complete only column A and enter 1.00000 (for 100 percent) on line 6.

## Three-factor formula

Minnesota uses a weighted three-factor formula comprised of property, payroll and sales (which includes gross earnings, receipts and rents received) during the tax year to determine the apportionment factor.

For tax year 2010, the factor weights are 0.065 for property, 0.065 for payroll and 0.87 for sales (receipts).

To determine the Minnesota apportionment factor, first determine your property, payroll and sales factors.

**If column B of line 3, 4 or 5 of M3A is zero**, you are not able to use the three-factor apportionment formula prescribed by law. Rather, use the factor weights provided below:

- If the only missing factor is either property or payroll, change the sales factor weight in column D from 0.87 to 0.93, and the weight of the remaining factor from 0.065 to 0.07.
- If the only missing factor is sales, change the weight of both the property and payroll factors in column D from 0.065 to 0.50.
- If you are missing two factors, change the weight of the remaining factor in column D to 1.00.

## Petitioning to use another method of allocation

State law (M.S. 290.20, subd. 1a and Minnesota Rules 8020.0100, subp. 3) allows entities to request permission from the department to allocate all, or any part of, taxable net income in a manner other than the three-factor formula or by applying the methodology contained in Revenue Notice 08-04.

To request permission, complete Form ALT, *Petition to Use Alternative Method of Allocation* (see Revenue Notice 04-07).

Permission will be granted only if you can show that the three-factor formula does not properly and fairly reflect your Minnesota income, and that the alternative formula you have chosen does.

## Property factor

If you are not required to complete federal Schedule L (Form 1065), you may want to do so to determine the property factor. Enclose the completed federal Schedule L (Form 1065) or a copy of the partnership's balance sheet with your Form M3.

The property factor consists of tangible property which includes land, buildings, machinery, equipment, inventories and other tangible personal property valued at original cost.

Original cost is your cost or original basis when you acquired the property. Depreciation and fair market value are not considered.

### M3A, lines 1a–1c

**Line 1a.** Add the beginning and the ending year inventories, divide by 2 and enter the result on line 1a. This is your average value of inventory.

**Line 1b.** Add the beginning and ending year values of the buildings, machinery, equipment and other tangible property and divide by 2. Enter the result on line 1b.

**Line 1c.** Add the land's beginning and ending year values and divide by 2. Enter the result on line 1c.

### M3A, line 2

Capitalized rents are rents paid by you for land, buildings, equipment, etc., during the tax year.

Multiply the rents you paid for property located or used in Minnesota by 8 and enter the result in column A. In column B, multiply the total rents you paid by 8 and enter the result.

The rents you receive are included in the sales factor.

### M3A, line 3

Add lines 1 and 2. Divide column A, line 3, by column B, line 3, and carry the result to five decimal places. Enter the result in column C. This is your property factor.

## Payroll factor

### M3A, line 4

In column A, enter your total payroll paid (including guaranteed payments to partners for salary) or incurred in Minnesota, or paid for labor performed in Minnesota in connection with the trade or business during the tax year. In column B, enter total

payroll paid (including guaranteed payments to partners for salary) or incurred in connection with your entire trade or business. Divide column A by column B, and carry the result to five decimal places. Enter the result in column C. This is your payroll factor.

## Sales factor

### M3A, line 5

In column A, enter the amount of sales in Minnesota. In column B, enter total sales. Divide column A by column B and carry the result to five decimal places. Enter the result in column C. This is your sales factor.

The sales factor includes all sales, rents, gross earnings or receipts received in the ordinary course of your business, except:

- interest
- dividends
- sales of capital assets under IRC section 1221
- sales of property used in the trade or business, except sales of leased property that is regularly sold as well as leased, and
- sales of stock or sales of debt instruments under IRC section 1275(a)(1).

## Determining Minnesota sales

### Real property

Sales, rents, royalties and other income from real property are attributed to the state in which the property is located.

### Tangible personal property

Sales of tangible personal property are attributed to Minnesota if the property is received by the purchaser within Minnesota and the taxpayer is taxed in this state, regardless of the f.o.b. point, other conditions of the sale, or the ultimate destination of the property.

Tangible personal property delivered to a common or contract carrier or foreign vessel for delivery to a purchaser in another state or nation is a sale in that state or nation, regardless of f.o.b. point or other conditions of the sale.

Property is received by a purchaser in Minnesota if the recipient is located in this state, even if the property is ordered from outside Minnesota.

*Continued*

# M3A (continued)

**Sales of tobacco products, beer, wine and other alcoholic beverages** to someone licensed to resell the products only within the state of ultimate destination is a sale in the destination state.

**Receipts from leasing or renting** tangible personal property, including finance leases and true leases, are attributed to the state in which the property is located. Receipts from the lease or rental of moving property are attributed to Minnesota to the extent the moving property is used in Minnesota.

The extent of use is determined as follows:

- A motor vehicle is used wholly in the state in which it is registered.
- Receipts from rolling stock are assigned to Minnesota in the ratio of miles traveled in Minnesota to total miles traveled.
- Receipts from aircraft are assigned to Minnesota in the ratio of landings in Minnesota to total landings.
- Receipts from vessels, mobile equipment and other mobile property are assigned to Minnesota in the ratio of days the property is in Minnesota to the total days of the tax year.

## Intangible property

Sales of intangible property are attributed to the state in which the property is used by the purchaser.

**Royalties, fees and similar income** not qualifying for the foreign royalty subtraction, received for the use of or the privilege of using intangible property (such as patents, copyrights, trade names, franchises or similar items) are attributed to the state in which the property is used by the purchaser.

Intangible property is attributed to Minnesota if the purchaser uses the property, or rights in the property, to conduct business within this state, regardless of the location of the purchaser's customers.

If the property is used in more than one state, then the sales or royalties must be apportioned to Minnesota pro rata based on the portion of use within this state. If you cannot determine the portion of use in Minnesota, then exclude the sales or royalties from both the numerator and the denominator of the sales factor.

## Personal services

Receipts from the performance of personal services are attributed to the state in which the services are received.

Receipts from services provided to a corporation, partnership or trust may only be attributed to a state in which it has a fixed place of doing business.

If you can't determine where the service was received, or if it was received in a state where the corporation, partnership or trust doesn't have a fixed place of business, use the location of the office of the customer from which the service was ordered.

If you can't determine the ordering office, use the office location to which the service was billed.

## M3A, column E, lines 3–5

Multiply column C by the weighted factor in column D, and enter the result in column E.

## M3A, lines 7–10—Minimum fee

Partnerships are subject to the minimum fee if the sum of its Minnesota source property, payroll and sales or receipts is at least \$500,000.

However, you are exempt from the minimum fee if:

- more than 80 percent of your income is from farming, or
- you are a qualified business participating in a JOBZ zone in Minnesota and all of your property and payroll are within the zone.

If you are exempt from the minimum fee, enter zero on line 10 of M3A and on line 1 of Form M3. Also, be sure to check the appropriate box in the heading at the top of your return to indicate you are a farm partnership or qualified business.

## M3A, line 8—Adjustments

The minimum fee is determined by your total Minnesota property, payroll and sales.

In some cases the property, payroll and sales used for computing the minimum fee will be different than those used for apportionment. The following adjustments should be made to your Minnesota factors on line 8.

**Add:** All tangible property owned or rented that is not included on line 3 of M3A. Some examples include construction in progress, idle property, any nonbusiness property or rent expense. The amounts should be determined in the same manner as the amounts on lines 1 and 2.

## Subtract:

- JOBZ zone minimum fee adjustment from Schedule JOBZ (enclose a copy of Schedule JOBZ)
- Any amounts included on lines 3, 4 or 5 that represent your share of the factors passed through from other partnerships.
- If the tax year is a short tax year, subtract the amount of the average value of tangible property that is excluded because of prorating for a short tax year. The amount excluded for a short tax year is determined by multiplying M3A, column A, line 1 by a fraction: the numerator is 365 minus the number of days in the tax year; the denominator is 365.

Enclose a schedule showing the computation and pass-through information of any adjustments listed on M3A, line 8.

# Completing Schedule KPI

Complete and provide Schedule KPI to each nonresident **individual, estate or trust partner** and any Minnesota individual, estate or trust partner who has adjustments to income.

Enter the information associated with this partnership and partner. If the partner is a one-member LLC, a grantor or substantial owner of a grantor trust, also enter the federal ID or Social Security number of the partner who is ultimately taxed for Minnesota purposes.

## Purpose

A partnership must provide each nonresident partner and any Minnesota partner with adjustments to income with enough information for the partner to complete a Minnesota income tax return and determine their correct Minnesota tax.

Use Schedule KPI to provide the necessary information to the partner. The schedule shows each partner their specific share of the partnership's income, credits and modifications. Be sure to provide the partner a copy of both the front and back of the completed Schedule KPI and the instructions.

If there are no modifications or credits, and there are no nonresident partners, you do not have to provide Schedule KPI.

Enclose copies of the Schedules KPI and attachments issued to partners with your Form M3. Also enclose copies of your federal Schedules K and K-1.

If you are required to amend your federal partnership return or you have been audited by the IRS, you must file an amended Minnesota return using Form M3X, *Amended Partnership Return*, and Schedules KPI and KPC, if appropriate, regardless if the partnership originally filed federal Form 1065-B.

## Partner ultimately taxed

Enter the identifying number of the partner ultimately taxed. For example, if the partner is a trust and has one beneficiary, enter the beneficiary's Social Security number.

A \$50 penalty will be assessed for each incorrect tax ID number used for a partner after being notified by the department that the number is incorrect.

## Line instructions

**JOBZ ID number.** If the partnership is a qualified business participating in a JOBZ zone, you **must** provide on each partner's Schedule KPI the assigned 10-digit JOBZ ID number through which the tax benefits are claimed. If you don't know the JOBZ ID number, call the department at 651-556-6836.

Calculate lines 1–21 the same for all resident and nonresident partners. Calculate lines 22–38 for nonresident partners only.

**Partnership partners:** When completing Schedules KPI, be sure to include any amounts reported on the Schedule KPC you received as a partner of a partnership (include Schedule KPC with your return).

### KPI, line 1

Determine the interest the partnership received from non-Minnesota state and municipal bonds. **Include** the Minnesota portion of exempt-interest dividends if less than 95 percent of the exempt-interest dividends are from Minnesota state and municipal bonds. Enter the partner's distributive share of this amount on line 1.

### KPI, line 2

Determine the state income taxes deducted in arriving at ordinary income or net rental income of the partnership. Do not include the minimum fee in this amount. Enter the partner's distributive share of this amount on line 2.

### KPI, line 3

Expenses or interest deducted on your federal return that relate to income not taxed by Minnesota must be added back to the partners' Minnesota income.

Enter the partner's share of any federal deductions that are attributable to income not taxed by Minnesota, other than U.S. government bond interest or other federal obligations.

If you had expenses attributable to interest or mutual fund dividends from U.S. bonds, see line 10 of Schedule KPI. Do not include these expenses on line 3.

### KPI, line 4

If, during the year, your total investment in qualifying property was more than \$200,000 or if you elected more than \$25,000 in section 179 expensing, your partners must add back to Minnesota 80 percent of the difference between the expensing allowed for federal and for state tax purposes. Your

partners will be allowed to subtract their share of the addition in equal parts over the next five years when they file their state tax returns.

If you completed federal Form 4562 to claim the section 179 expensing for federal tax purposes, you must also complete lines 1 through 12 on a separate federal Form 4562 (referred to as your Minnesota Form 4562 below), to determine the amount you need to add back for Minnesota purposes.

Recalculate line 12 of your Minnesota Form 4562 using the same information from your federal Form 4562 and the following modifications:

- Subtract \$475,000 from line 1 of your federal Form 4562, and enter the result on line 1 of your Minnesota Form 4562.
- Enter line 2 of federal Form 4562 on line 2 of your Minnesota Form 4562.
- Subtract \$1,800,000 from line 3 of your federal Form 4562, and enter the result on line 3 of your Minnesota Form 4562.
- Enter the information from lines 6 and 7 of federal Form 4562 on lines 6 and 7 of your Minnesota Form 4562. However, if you have section 179 expensing from a flow through entity, use the amount from line 10 of Schedule KPC instead of the amount from line 12 of federal Schedule K-1.
- Enter line 10 of federal Form 4562 on line 10 of your Minnesota Form 4562.
- Recalculate lines 4, 5, 8, 9, 11 and 12 of your Minnesota Form 4562. The result on line 12 of Minnesota Form 4562 cannot be more than line 1 of that form.

Enter the partner's distributive share of the amount on line 12 of the Minnesota Form 4562 on line 4 of Schedule KPI.

### KPI, line 5

If you chose on your federal return the special depreciation allowance for certain qualified property, your partners must add back 80 percent of the bonus depreciation to Minnesota.

Follow the steps below to determine the partner's share to enter on line 5:

- 1 Add line 14 and line 25 of your federal Form 4562 . . . . . \_\_\_\_\_
- 2 Total of any bonus depreciation amounts passed through to the partnership as a partner of another partnership (from line 8 of Schedule KPC) . . . . . \_\_\_\_\_

Continued



# KPI (continued)

3 Add steps 1 and 2 . . . . . \_\_\_\_\_

4 Multiply step 3 by the partner's percentage of ownership interest . . \_\_\_\_\_

Enter the result from step 4 on line 5 of the partner's Schedule KPI.

## **Federal bonus depreciation subtraction.**

For five years following the addback year, your partners may be able to subtract one-fifth of the addback on their Minnesota income tax return. See the instructions for Form M1 or Form M2 for details.

## **KPI, line 6**

If you are an employer who provides prescription drug coverage to your retirees, include on line 6 the partner's pro rata share of the federal tax-exempt subsidies you received for continuing these pension benefits.

## **KPI, line 7**

Enter the partner's distributive share of any fines, fees and penalties that were deducted a business expenses paid to a government entity or nongovernment regulatory body as a result of a violation of law, or the investigation of any potential violation of law. This does not include amounts identified in a court order or settlement agreement as restitution or as an amount paid to come into compliance with the law.

## **KPI, line 8**

Enter the partner's distributive share of any discharge of indebtedness income from reacquisition of business debt that was deferred federally by the partnership.

Your partners will be allowed to subtract in future years the amount they added back.

## **KPI, line 9**

**See The need for KPI, line 9, has been eliminated. See "Update" on page 1 and leave KPI, line 9 blank,** if any of the provisions apply, you must make the necessary income adjustments for Minnesota tax purposes. See page 13 to determine if any of the federal tax provisions apply to you, and if so, how to report the adjustments.

Continue to check our website for updates.

## **KPI, line 10**

Interest earned on certain direct federal obligations is taxable on the federal return, but is not taxable on the state return.

Determine the net interest you received from primary obligations issued by the U.S. government, such as savings bonds and treasury notes, that are held directly by the partnership. Do not include obligations

where the U.S. government is only a guarantor. Be sure to subtract any investment interest and other expenses you deducted on the federal return that relate to this income.

Enter the partner's distributive share of this amount on line 10.

## **KPI, line 11**

Enter the partner's distributive share of the amounts from lines 17 and 30 of Schedule JOBZ.

## **KPI, line 12**

**See The need for KPI, line 12, has been eliminated. See "Update" on page 1 and leave KPI, line 12 blank,** if any of the provisions apply, you must make the necessary income adjustments for Minnesota tax purposes. See page 13 to determine if any of the federal tax provisions apply to you, and if so, how to report the adjustments.

Continue to check our website for updates.

## **KPI, line 13**

Enter the partner's share, if any, of the employer transit pass credit that is passed through to the partners.

## **KPI, line 14**

Enter the partner's share, if any, of the enterprise zone credit that is passed through to the partners.

## **KPI, line 15**

Enter the partner's distributive share of the 2010 credit for increasing research activities. If the business qualifies, the credit cannot be claimed by the partnership and the full credit must be passed through to the partners.

## **KPI, line 16**

Enter the partner's distributive share, if any, of the historic structure rehabilitation credit based on the partner's share of the partnership's assets, or as specifically allocated in the partnership's organizational documents, as of the last day of the taxable year.

You must also include the NPS project number, which is provided on the credit certificate you received from the State Historic Preservation Office of the Minnesota Historical Society when the project was completed and placed into service.

## **KPI, line 17**

Enter the partner's distributive share, if any, of the JOBZ jobs credit that is passed through to the partners.

## **KPI, line 18**

If, for regular tax purposes, you elected the optional 60-month write-off under IRC section 59(e) for all property in this category, skip lines 18–21. No adjustments are necessary.

Intangible drilling costs (IDCs) from oil, gas and geothermal wells are a tax preference item to the extent that the excess IDCs exceed 65 percent of the net income from the wells. The tax preference item is computed separately for oil and gas properties and for geothermal properties.

Enter the partner's distributive share of the following: IDCs allowed for regular tax purposes under section 263(c), (but not including any section 263(c) deduction for nonproductive wells) less the amount that would be allowed had the IDCs been amortized over a 120-month period starting with the month the well was placed in production.

## **KPI, line 19**

Gross income from oil, gas and geothermal properties are used in determining if the excess IDCs exceed 65 percent of the net income from the wells.

Enter the partner's distributive share of the aggregate amount of gross income [within the meaning of section 613(a)] from all oil, gas and geothermal properties that was received or accrued during the tax year.

## **KPI, line 20**

Deductions allocable to oil, gas and geothermal properties are used in determining if the excess IDCs exceed 65 percent of the net income from the wells.

Enter the partner's distributive share of any deductions allocable to oil, gas and geothermal properties. Do not include deductions for nonproductive wells.

## **KPI, line 21**

In the case of oil wells and other wells of nonintegrated oil companies, enter the partner's distributive share of the amount by which the depletion deduction exceeds the adjusted basis of the property at the end of the tax year.

In computing the year-end adjusted basis, use the rules of section 1016. However, do not reduce the adjusted basis by the current year's depletion. Figure the excess amount separately for each property. If the deple-

# KPI (continued)

tion deduction for any property does not exceed the adjusted basis at year-end, do not include a tax preference amount for that property.

## Nonresident individual, estate or trust partners — Lines 22-38

### KPI, line 22

The Minnesota source gross income is used to determine whether a nonresident partner is required to file a Minnesota income tax return or has the option to elect composite income tax.

Enter the partner's distributive share of the partnership's Minnesota source gross income. The Minnesota source gross income is the total of the amounts apportioned to Minnesota that are included on line 8 of federal Form 1065; lines 18a, 19 and 20a of Form 8825; and (other than losses) lines 3a, 4, 5, 6a, 7, 8, 9a, 10 and 11 of Schedule K (Form 1065).

### KPI, lines 23-34

From the nonresident partner's federal Schedule K-1 (1065), enter the Minnesota portion of amounts on lines 23 through 34.

All income of a Minnesota resident is taxed by Minnesota, regardless of the source.

### KPI, line 26

Guaranteed payments for services provided in Minnesota are allocated to Minnesota. Additionally, if guaranteed payments are for other than services, such as the use of capital, determine the Minnesota portion by applying the partner's Minnesota apportionment ratio to the partner's share of that type of guaranteed payment.

## Nonresident individual partners only

### KPI, line 36

When determining the partner's share of the partnership's Minnesota source distributive income, you must make adjustments for any items you passed through to the partner on lines 1 through 12 of the partner's Schedule KPI.

Follow the steps below to determine line 36:

- 1 The difference between the partner's federal section 179 deduction from box 12 of federal Schedule K-1 (1065)

- and line 4 of the partner's Schedule KPI . . . . . \_\_\_\_\_
- 2 Amount from line 5 of the partner's Schedule KPI . . . . . \_\_\_\_\_
- 3 Add step 1 and step 2 . . . . . \_\_\_\_\_
- 4 Multiply step 3 by 80% (.80) . . . . . \_\_\_\_\_
- 5 Line 6 of the partner's Schedule KPI . . . . . \_\_\_\_\_
- 6 Add step 4 and step 5 . . . . . \_\_\_\_\_
- 7 Multiply step 6 by line 6 of M3A . . . . . \_\_\_\_\_
- 8 Combine lines 23–34 of the partner's Schedule KPI . . . . . \_\_\_\_\_
- 9 Combine step 7 and step 8 . . . . . \_\_\_\_\_
- 10 JOBZ subtraction from line 11 of the partner's Schedule KPI . . . . . \_\_\_\_\_
- 11 To the extent allowed by law, enter one-fifth of the partner's share of the federal bonus depreciation that was added back in a year the partner elected to be included in composite income tax . . . . . \_\_\_\_\_
- 12 To the extent allowed by law, enter one-fifth of the partner's share of the section 179 expensing that was added back in a year the partner elected to be included in composite income tax . . . . . \_\_\_\_\_
- 13 Add steps 10, 11 and 12 . . . . . \_\_\_\_\_
- 14 Subtract step 13 from step 9 . . . . . \_\_\_\_\_

Enter the result from step 14 on line 36 of the partner's Schedule KPI. This amount is the partner's adjusted Minnesota source distributive income.

### KPI, line 37

#### Composite income tax

Nonresident individual partners must pay tax if their Minnesota gross income is more than the minimum filing requirement for the year (\$9,350 for 2010).

Skip this line if the nonresident partner *did not* elect the partnership to pay composite income tax on his or her behalf.

To determine the amount of composite income tax to pay on behalf of each electing partner, follow the steps below:

- 1 Multiply line 36 of Schedule KPI by 7.85% (.0785) . . . . . \_\_\_\_\_
- 2 Add lines 13 through 17 of Schedule KPI . . . . . \_\_\_\_\_
- 3 Subtract step 2 from step 1 . . . . . \_\_\_\_\_

The result in step 3 is the amount you are required to pay on behalf of the electing in-

dividual partner. Enter this amount on line 37 of the partner's Schedule KPI and check the box to indicate the partner's election to be included.

If the individual elects to be included in composite income tax but has zero tax due, enter zero on line 37. Even though the amount may be zero, be sure to check the box to indicate the election.

Once you have completed all the KPI schedules for your electing nonresident individual partners, add the amounts on line 37 of all the schedules and enter the total on line 2 of Form M3. This is the amount of composite income tax you are required to pay on behalf of your electing partners.

### KPI, line 38

#### Nonresident withholding

Nonresident individual partners who are not included in the composite income tax may be subject to withholding. See *Nonresident withholding* on page 3 to determine if your nonresident partners are subject to Minnesota withholding.

To determine the amount of tax to withhold for each nonresident partner, follow the steps below:

- 1 Multiply line 36 of Schedule KPI by 7.85% (.0785) . . . . . \_\_\_\_\_
- 2 Add lines 13 through 17 of Schedule KPI . . . . . \_\_\_\_\_
- 3 Subtract step 2 from step 1 . . . . . \_\_\_\_\_

The result in step 3 is the amount you are required to withhold from the nonresident partner, unless the individual submits Form AWC, *Alternative Withholding Certificate*.

If the individual submits Form AWC, withhold the amount from line 6 of the certificate. Check the box provided on line 38 of the partner's Schedule KPI and also on line 3 of Form M3. Be sure to enclose a copy of the certificate when you file your return.

If the individual submits a false or fraudulent Form AWC, the department may require you to withhold the maximum percentage from that individual in the future, even if an exemption certificate is submitted.

Be sure to inform your partners that they must include their Schedule KPI when they file their Form M1 to claim the Minnesota withholding. If the schedule is not included, the department will disallow the withholding and assess the tax or reduce their refund.

# Completing Schedule KPC

Complete and provide Schedule KPC to each **corporate or partnership partner**.

Enter the information associated with this partnership and partner. If the partner is a one-member LLC, also enter the federal ID or Social Security number of the partner who is ultimately taxed for Minnesota purposes.

## Purpose

A partnership must provide each partner with enough information for them to complete a Minnesota income tax return and determine their correct Minnesota tax. Schedule KPC is used to show each corporate and partnership partner their specific share of the partnership's credits, modifications and apportionment factors. The distributive share of the apportionment factors are used in two different ways (depending on if the relationship between partner and partnership is unitary) in computing the corporate or partnership partner's Minnesota income.

There may be other items that a corporate partner would need to know in order to complete its Form M4, *Corporation Franchise Tax Return*. If applicable, you should pass that information through to the corporate partners. For more information, see the instructions for Form M4.

Be sure to provide the partner a copy of both the front and the back of the completed Schedule KPC and the instructions.

Enclose copies of the Schedules KPC and attachments issued to partners with your Form M3. Also enclose copies of federal Schedules K and K-1 with your partnership return.

## Partner ultimately taxed

Enter the identifying number of the partner ultimately taxed. For example, if the partner is an LLC and its one member is a C corporation, enter the C corporation's FEIN.

A \$50 penalty will be assessed for each incorrect tax ID number used for a partner after being notified by the department that the number is incorrect.

## Line instructions

**JOBZ ID number.** If the partnership is a qualified business participating in a JOBZ zone, you **must** provide on each partner's Schedule KPC the assigned 10-digit JOBZ ID number through which the tax benefits are claimed. If you don't know the JOBZ ID number, call the department at 651-556-6836.

**Partnership partners:** When completing Schedules KPC, be sure to include any amounts reported on the Schedule KPC you received as a partner of a partnership (include Schedule KPC with your return).

### KPC, lines 1 and 2

Generally, all of the income of a partnership is apportionable. If you have nonapportionable income, the corporate and partnership partners need to know their share of the nonapportionable income. Provide the partner with a schedule describing the type of income.

Enter the partner's share of Minnesota source nonapportionable income on line 1. On line 2, enter the partner's share of total nonapportionable income.

### KPC, line 3

Enter the partner's distributive share of the business exemption from line 17 of Schedule JOBZ.

### KPC, line 4

Enter the partnership partner's distributive share of the JOBZ investment income from line 30 of Schedule JOBZ. Line 4 does not apply to corporate partners.

### KPC, line 5

Enter the partner's distributive share of the minimum fee from line 1 of the partnership's Form M3.

### KPC, line 6

Enter the partner's distributive share of any state income tax (other than the minimum fee) the partnership deducted in arriving at the partnership's net income.

### KPC, line 7

Enter the partner's distributive share of the partnership's interest income exempt from federal tax. Provide the partner with a schedule listing how much is from Minnesota municipal bonds.

### KPC, line 8

If you chose on your federal return the special depreciation allowance for certain qualified property, your partners must add

back 80 percent of the bonus depreciation to Minnesota.

Follow the steps below to determine the partner's share to enter on line 8:

- 1 Add line 14 and line 25 of your federal Form 4562 . . . . . \_\_\_\_\_
- 2 Total of any bonus depreciation amounts passed through to the partnership as a partner of another partnership (from line 8 of Schedule KPC) . . . . . \_\_\_\_\_
- 3 Add steps 1 and 2 . . . . . \_\_\_\_\_
- 4 Multiply step 3 by the partner's percentage of ownership interest . . . . . \_\_\_\_\_

Enter the result from step 4 on line 8 of the partner's Schedule KPC.

### Federal bonus depreciation subtraction.

For five years following the addback year, your partners may be able to subtract one-fifth of the addback on their Minnesota income tax return. See the instructions for Form M3, M4 or M8 for details.

### KPC, line 9

If you are an employer who provides prescription drug coverage to your retirees, include on line 9 the partner's pro rata share of the federal tax-exempt subsidies you received for continuing these pension benefits.

### KPC, line 10

If, during the year, your total investment in qualifying property was more than \$200,000 or if you elected more than \$25,000 in section 179 expensing, your partners must add back to Minnesota 80 percent of the difference between the expensing allowed for federal and for state tax purposes. Your partners will be allowed to subtract their share of the addition in equal parts over the next five years when they file their state tax returns.

If you completed federal Form 4562 to claim the section 179 expensing for federal tax purposes, you must also complete lines 1 through 12 on a *separate* federal Form 4562 (referred to as your Minnesota Form 4562 below) to determine the amount you need to add back for Minnesota purposes.

Recalculate line 12 of your Minnesota Form 4562 using the same information from your federal Form 4562 and the following modifications:

- Subtract \$475,000 from line 1 of your federal Form 4562, and enter the result on line 1 of your Minnesota Form 4562.

*Continued*

# KPC (continued)

- Enter line 2 of federal Form 4562 on line 2 of your Minnesota Form 4562.
- Subtract \$1,800,000 from line 3 of your federal Form 4562, and enter the result on line 3 of your Minnesota Form 4562.
- Enter the information from lines 6 and 7 of federal Form 4562 on lines 6 and 7 of your Minnesota Form 4562. However, if you have section 179 expensing from a flow through entity, use the amount from line 10 of Schedule KPC instead of the amount from line 12 of federal Schedule K-1.
- Enter line 10 of federal Form 4562 on line 10 of your Minnesota Form 4562.
- Recalculate lines 4, 5, 8, 9, 11 and 12 of your Minnesota Form 4562. The result on line 12 of Minnesota Form 4562 cannot be more than line 1 of that form.

Enter the partner's distributive share of the amount on line 12 of the Minnesota Form 4562 on line 10 of Schedule KPC.

## KPC, line 11

Enter the partner's distributive share of any fines, fees and penalties that were deducted a business expenses paid to a government entity or nongovernment regulatory body as a result of a violation of law, or the investigation of any potential violation of law. This does not include amounts identified in a court order or settlement agreement as restitution or as an amount paid to come into compliance with the law.

## KPC, line 12

If the partnership made a qualified contribution of computer technology or equipment and received an enhanced charitable contribution deduction, enter the partner's distributive share of the deduction.

## KPC, line 13

If the partnership elected to defer federally the discharge of indebtedness income from reacquisition of business debt, enter the partner's distributive share of the amount.

Your partners will be allowed to subtract in future years the amount they added back on their Minnesota return.

## KPC, line 14

Skip this line for all corporate partners.

Expenses or interest deducted on your federal return that relate to income not taxed by Minnesota must be added back to the individual partners' Minnesota income.

Enter the partner's share of any federal deductions that are attributable to income not taxed by Minnesota, other than U.S. government bond interest or other federal obligations.

If you had expenses attributable to interest or mutual fund dividends from U.S. bonds, see line 16 of Schedule KPC. Do not include these expenses on line 14.

## KPC, line 15

**The need for KPC, line 15, has been eliminated. See "Update" on page 1 and leave KPC, line 15 blank.** If any of the provisions apply, you must make the necessary income adjustments for Minnesota tax purposes. See page 13 to determine if any of the federal tax provisions apply to you, and if so, how to report the adjustments.

Continue to check our website for updates.

## KPC, line 16

Enter the partner's distributive share of the extraterritorial income.

## KPC, line 17

Skip this line for all corporate partners.

Interest earned on certain direct federal obligations is taxable on the federal return, but is not taxable on the state return.

Determine the net interest you received from primary obligations issued by the U.S. government, such as savings bonds and treasury notes, that are held directly by the partnership. Do not include obligations

where the U.S. government is only a guarantor. Be sure to subtract any investment interest and other expenses you deducted on the federal return that relate to this income.

Enter the partnership partner's distributive share of this amount on line 17.

## KPC, line 18

**The need for KPC, line 18, has been eliminated. See "Update" on page 1 and leave KPC, line 18 blank.** If any of the provisions apply, you must make the necessary income adjustments for Minnesota tax purposes. See page 13 to determine if any of the federal tax provisions apply to you, and if so, how to report the adjustments.

Continue to check our website for updates.

## KPC, line 19

Enter the partner's distributive share of the employer transit pass credit being passed through to partners.

## KPC, line 20

Enter the partner's distributive share of the 2010 credit for increasing research activities. If the business qualifies, the credit cannot be claimed by the partnership and the full credit must be passed through to the partners.

## KPC, line 21

Enter the partner's distributive share, if any, of the historic structure rehabilitation credit based on the partner's share of the partnership's assets, or as specifically allocated in the partnership's organizational documents, as of the last day of the taxable year.

You must also include the NPS project number, which is provided on the credit certificate you received from the State Historic Preservation Office of the Minnesota Historical Society when the project was completed and placed into service.

## KPC, line 22

Enter the partner's distributive share of the enterprise zone credit being passed through to partners.

## KPC, line 23

Enter the partner's distributive share of the JOBZ jobs credit being passed through to partners.

## KPC, lines 24 and 25

Enter the partner's distributive share of the partnership's apportionment factors determined on M3A.

### Use a mailing label if filing a paper return

Use this mailing label on your own envelope to mail Form M3 and copies of your federal return and schedules. (Cut and tape to your envelope.)



MINNESOTA REVENUE  
Partnership Tax  
Mail Station 1760  
St. Paul, Minnesota 55145-1760