

Withholding Fact Sheet 6, Corporate Officers

This fact sheet explains Minnesota income tax withholding responsibilities as they relate to officers of a corporation. If you have questions or need to obtain forms mentioned in this fact sheet, see “Information and Assistance” on page 2.

Corporate officers who provide services for a corporation (whether an S corporation or C corporation) are considered employees of the corporation. As with any other employee, the officer should be paid a reasonable wage for services performed. A reasonable wage is an amount you would expect to pay someone else to provide services similar to those provided by the officer.

You must withhold Minnesota income tax from any compensation given to officers, including cash, goods or services in exchange for working. Examples of goods include novelty items, clothing, items from your inventory, reductions in tuition at educational institutions, etc. Examples of services include accounting, cleaning, remodeling, repair work, etc.

Wages must be paid to corporate officers separately from any payments of dividends or distributions. Any loans between an officer and a corporation should be well-documented and bear interest. There must be a valid debtor-creditor relationship. Contact the Internal Revenue Service (IRS) at 1-800-829-1040 for guidance on interest rates for loans.

Withhold tax from anyone who works in Minnesota. However, do not withhold Minnesota tax from nonresidents who will earn less in Minnesota wages than the minimum income required to file a Minnesota Individual Income Tax return. The minimum filing requirement changes each year. For tax year 2019, this amount is \$12,200.

Employees Who are Residents of Michigan or North Dakota. Minnesota has income tax reciprocity agreements with Michigan and North Dakota. Generally, under these agreements, only the home state will tax personal service income earned by the resident while working in a reciprocity state. Therefore, if an employee who is a resident of a reciprocity state gives you a completed Form MWR, *Reciprocity Exemption/Affidavit of Residency*, you are not required to withhold Minnesota income tax from their wages. It is your responsibility, as an employer, to submit the completed form to the Minnesota Department of Revenue.

Register for Withholding Tax

Before you start withholding Minnesota income tax from your employees’ wages, you must have a Minnesota Tax ID Number and be registered for withholding tax. You may be assessed a \$100 penalty if you fail to do so.

If you are a new employer, see Withholding Fact Sheet 10, *New Employer Guide*, for important information. If you do not have a Minnesota tax ID number, apply online at www.revenue.state.mn.us or call us at 651-282-5225 or 1-800-657-3605 (toll-free).

If you already have a Minnesota ID number for other taxes for the same business, you can use the same number for withholding tax. To update your account, go to www.revenue.state.mn.us and log in to our e-Services system.

Withholding Tax From Wages

Federal Withholding Allowances. You must have all new employees complete federal Form W-4 (available at www.irs.gov) and Minnesota Form W-4MN, *Minnesota Employee Withholding Allowance/Exemption Certificate*, when they begin employment to determine the number of withholding allowances to claim. If a new employee does not give you a complete federal Form W-4 or Minnesota Form W-4MN before the first wage payment, withhold tax as if they are single with zero withholding allowances.

Minnesota Withholding Allowances. If an employee has already completed a 2019 or earlier federal Form W-4, you may use the allowances from the federal Form W-4.

If the employee completes a 2020 federal Form W-4, they must complete a 2020 Minnesota Form W-4MN.

For complete information, see

- Withholding Fact Sheet 9, *Definition of Wages*
- Withholding Fact Sheet 10, *New Employer Guide*
- Form W-4MN

Continued

How to Pay

For payment options, go to www.revenue.state.mn.us and select **Make a Payment** under **For Businesses**.

You're required to pay electronically if any of the following are true:

- You withheld more than \$10,000 during the last 12-month period ending June 30
- You are required to electronically pay any other Minnesota business tax
- You use a payroll service company

If you're required to pay business taxes electronically for one year, you must continue to do so for all future years.

How to File

You must electronically file all Minnesota withholding tax returns, including past-due and amended returns using one of our filing and paying systems:

- Go to www.revenue.state.mn.us and log in to e-Services
- Call 1-800-570-3329

Information and Assistance

Minnesota Department of Revenue

Additional forms and information, including fact sheets and frequently asked questions, are available on our website.

Website: www.revenue.state.mn.us

Email: withholding.tax@state.mn.us

Phone: 651-282-9999 or 1-800-657-3594

This information is available in alternate formats.

Internal Revenue Service

Website: www.irs.gov

Phone: 1-800-829-1040