

2019 S Corporation Form M8 Instructions

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Questions?

You can find forms and information, including answers to frequently asked questions and options for filing and paying electronically, on our website at:

www.revenue.state.mn.us

Send us an email at:

businessincome.tax@state.mn.us

Call us at **651-556-3075**

Need Forms?

Go to www.revenue.state.mn.us.

This information is available in alternate formats.

Before You File

Complete Your Federal Return

Before you complete Form M8, complete federal Form 1120S and supporting schedules. You will need to reference them.

Minnesota Tax ID Number

Your Minnesota tax ID is the seven-digit number you're assigned when you register with the department. Generally, this 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, apply for one online at www.revenue.state.mn.us and type **Business Registration** in the search box or call 651-282-5225 or 1-800-657-3605.

What's New for 2019

For Taxpayers Affected by Federal Tax Law Passed after December 31, 2018

Under current law, definitions used in determining Minnesota taxable income are based on the Internal Revenue Code, as amended through December 31, 2018. Since that date, Congress has enacted the following:

- Taxpayer Certainty and Disaster Tax Relief Act (TCDTR) of 2019
- Families First Coronavirus Response Act (FFCRA) of 2020
- Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020
- Paycheck Protection Program Flexibility Act (PPPFA) of 2020

These acts contain changes affecting businesses for tax year 2019. Because Minnesota has not adopted these federal changes, adjustments are required to correctly determine your Minnesota taxable income. Use the updated instructions on pages 12, and 16-18 to calculate nonconformity adjustments relating to the TCDTR, FFCRA, CARES Act, and PPPFA.

If you amended your 2019 federal return and issued shareholders amended Schedules K-1 solely due to the TCDTR, FFCRA, CARES Act, or PPPFA your Minnesota adjustment will offset the change to your federal taxable income. For these amended returns, write "TCDTR", "FFCRA", "CARES Act", and/or "PPPFA" (all that are applicable) in red at the top of the Minnesota Form M8X and the amended schedules KS you issue to shareholders.

Filing Requirements

Corporations doing business in Minnesota that have elected to be taxed as S corporations under IRC section 1362 must file Form M8.

Who Must File

The entire share of an entity's income is taxed to the shareholder, whether or not it is actually distributed. Each shareholder must include their share of income on their tax return. However, the S corporation taxes and minimum fee are paid by the entity.

A C corporation is required to file Form M4, *Minnesota Corporation Franchise Tax*, instead of Form M8.

Minimum Fee

An S corporation is subject to a minimum fee if the sum of its Minnesota source property, payroll and sales or receipts is at least \$1,020,000. S corporations that file as QSSS federally include all factors under one parent company and are subject to only one minimum fee at the parent company level.

The minimum fee is computed on M8A, which is on page 3 of Form M8.

File Electronically

Options are available to electronically prepare and file your S corporation tax return. Electronic filing is a secure, fast and easy way to file. For more information, go to our website at www.revenue.state.mn.us.

Due Date

File your return and pay the taxes payable as soon as possible after the end of the tax year, but no later than the due date for filing your federal income tax return.

Generally, the due date is:

- Calendar year returns: March 15, 2020, or
- Fiscal year returns: the 15th day of the third month after the end of your tax year.

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

General Information (continued)

Extension of Time to File

All S corporations are granted an automatic six-month extension to file Form M8, 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* below for details.

Payments

There are four types of tax payments an S corporation can make — extension, estimated tax, tax return and amended return payments. You can pay electronically, by credit or debit card or by check. (See *Payment Options* below.)

Note: If you're currently paying electronically using the ACH credit method, continue to call your bank as usual. If you wish to make payments using the ACH credit method, instructions are available on our website at www.revenue.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 instructions for lines 16 and 17 on page 6).

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* on page 2. If you're paying by check, go to www.revenue.state.mn.us to create a voucher to print and submit with your check.

Estimated Tax Payments

An S corporation must make quarterly estimated tax payments if the sum of its estimated S corporation taxes, minimum fee, nonresident withholding and composite income tax for all nonresident shareholders electing to participate in composite income tax, less any credits, is \$500 or more.

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

If estimated tax is required for the S corporation taxes/minimum fee, composite income tax, and/or nonresident withholding, include all in the same quarterly payments.

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

- Go to www.revenue.state.mn.us and log in, or
- Call 1-800-570-3329 to pay by phone.

To be timely, you must complete your transaction and receive a confirmation number on or before the due date for that payment. You can cancel a payment up to one business day before the scheduled date, if needed. 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 or Debit Card

For a fee, you can use your credit or debit card to make a payment through Value Payment Systems, a national company that partners with federal, state and local governments to provide credit and debit card payment services.

To do so:

- Go to payMNTax.com; or
- Call 1-855-9-IPAY-MN to pay by phone.

The Department of Revenue does not have any financial agreement with Value Payment Systems and does not receive any of its fees.

■ Pay by Check

- Go to our website at www.revenue.state.mn.us and click on **Make a Payment**.
- Click **By Check** to create and print a payment voucher. Write your check to Minnesota Revenue and mail together to the address on the voucher.

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

General Information (continued)

To make an estimated payment, see *Payment Options* on page 2. If you're paying by check, visit our website to complete and print a payment voucher to send along with your check.

For additional information, see the *S Corporation Estimated Tax instructions*.

Tax Return Payment

If line 19 of Form M8 shows an amount due, you must make a tax return payment (see *Payment Options* on page 2). If you're not required to pay electronically, you may complete and print a payment voucher on our website to send along with your check.

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, and you do not pay that balance, 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 2020 is 5 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, *Application to Adopt, Change or Retain a Tax Year*, to your short-period Minnesota return.

Composite Income Tax

An S corporation may pay composite Minnesota income tax on behalf of its eligible nonresident shareholders who elect to be included in lieu of each shareholder filing their own Minnesota return. The electing individuals must not have any Minnesota source income other than the income from this S corporation and other entities for which they are electing composite filing.

Shareholders who receive a share of gross profit or income from an installment sale reported on line 8a or 8b of Schedule KS are not eligible to elect the S Corporation to pay composite income tax on their behalf.

If you are paying composite income tax for your electing shareholders, check the box for composite income tax on the front of Form M8 and see the line 3 instructions on page 5.

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

Nonresident Withholding

S corporations are required to withhold Minnesota income tax for a nonresident shareholder if the shareholder:

- 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 S corporation
- has income that was not generated by a transaction related to the termination or liquidation of the S corporation in which no cash or property was distributed in the current or prior taxable year

If you are required to pay nonresident withholding, see the line 4 instructions on pages 5 and 6.

Nonresident Entertainers: Compensation paid to a nonresident entertainment entity for performances in Minnesota is not subject to Minnesota income tax. Instead, the compensation is subject to a 2 percent withholding tax on the gross compensation the entertainment entity receives for performances in Minnesota.

An S corporation is an entertainment entity if it is paid compensation for entertainment provided by entertainers who are shareholders. An entertainer includes, for example, a musician, singer, dancer, comedian, thespian, athlete or public speaker. If you are defined by law as an entertainment entity, file Form ETR, *Nonresident Entertainer Tax Return*, by April 15 of the following year the income was reported. For additional information, see Withholding Fact Sheet 11, *Nonresident Entertainer Tax*.

If you are an entertainment entity that received compensation for performances in Minnesota and have no other type of Minnesota income, you are not required to file Form M8.

General Information (continued)

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

Assembling Paper Returns

Arrange your Minnesota schedules in the order they were completed and place them behind your Form M8. KS Schedules should be sorted with the largest share of Minnesota source income first. 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 your Form M8 and all completed Minnesota and federal forms and schedules using a mailing label (below).

If you do not use the label, mail your forms to:

Minnesota S Corporation Income Tax
Mail Station 1770
600 N. Robert Street
St. Paul, MN 55145-1770

Reporting Federal Changes

If the Internal Revenue Service (IRS) changes or audits your federal return or you amend your federal return, you must amend your Minnesota return. File your Form M8X, *Amended S Corporate Return Claim for Refund*, 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 you amended your 2019 federal return and issued shareholders amended Schedules K-1 solely due to the TCDTR, FFCRA, CARES Act, or PPPFA your Minnesota adjustment will offset the change to your federal taxable income. For these amended returns, write "TCDTR", "FFCRA", "CARES Act", and/or "PPPFA" (all that are applicable) in red at the top of the Minnesota Form M8X and the amended schedules KS you issue to shareholders. For more details, see pages 16 through 18.

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

Use a Mailing Label if Filing a Paper Return

Use this mailing label on your own envelope to mail your Form M8 and attachments. (Cut on the dotted line and tape to your envelope.)



Completing Form M8

Before you file Form M8, you must complete the following:

- Federal Form 1120S and supporting schedules.
- Schedule KS for each nonresident shareholder and for any Minnesota resident shareholder who has adjustments to income (see page 11).

Check Boxes

Initial Return. If this is the S corporation's first return filed in Minnesota, check the box on the front of the form.

Composite Income Tax. If you are paying composite income tax for your electing shareholders, check the box for composite income tax on the front of your return and see the instructions for line 3.

Financial Institutions. If you are a financial institution electing to be taxed as an S corporation for federal purposes, check the box on the front of the form.

Qualified Subchapter S Subsidiary (QSSS). If you are including a qualified subchapter S subsidiary (QSSS) on this return, check the box on the front of your Form M8.

Out of Business (final return). If the S corporation is out of business and/or is not required to file Form M8 in future years, check the "Out of Business" box on the front of the Form M8.

If you checked the "S election termination" box on your federal Form 1120S, you must attach a copy of your federal return to your Form M8.

Installment Sale of Pass-through Assets or Interests. You are required to check the "Installment Sale of Pass-through Assets or Interests" box if the entity did any of the following:

- 1) executed an installment sale, after December 31, 2016, of S corporation stock or partnership interests being reported on federal Form 6252
- 2) executed an installment sale, after December 31, 2016, of S corporation assets and is reporting the sale on federal Form 6252
- 3) owns an interest in an S corporation, partnership, or trust reporting installment sale gains on line 8 of Schedule KPI or KS, line 6 of Schedule KF, or line 11 of Schedule KPC

If you are required to check the Installment Sale of Pass-through Assets or Interests, also complete line 8 of all applicable Schedules KS to report installment sale information to your shareholders.

Public Law 86-272. Check this box to indicate you are claiming to be exempt from Minnesota income tax under Public Law 86-272.

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.

Corporate Partners: When completing Form M8 and Schedules KS, 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).

M8, Line 1—S Corporation Taxes

Enter the total of the following S corporation taxes on line 1, and check the applicable boxes to indicate the tax types included. Show the detail for each type of tax and the percentage apportioned to Minnesota. For each tax, enclose a separate schedule showing your computation.

- Determine the Minnesota portion of passive income subject to federal tax. Multiply that amount by 9.8 percent (0.098). Enclose a copy of the federal schedule used to figure your federal tax.
- Determine the Minnesota portion of recognized built-in gain and net capital gain subject to federal tax. Multiply that amount by 9.8 percent (0.098).
- If the S corporation is paying the LIFO recapture tax (figured for the last year the corporation was a C corporation) over a four-year period, include this year's installment.

M8, Line 2—Minimum Fee

Complete M8A of Form M8 to determine the minimum fee to enter on line 2. See the M8A instructions beginning on page 8.

M8, Line 3—Composite Income Tax

To determine line 3, you must first figure the amount of composite tax attributed to each electing shareholder. See the instructions for line 39 of Schedule KS on page 15.

Add the composite income tax attributed to all electing shareholders (the total of lines 39 from all Schedules KS), and enter the result on line 3 of Form M8.

M8, Line 4—Nonresident Withholding

To determine line 4, you must first figure the amount to withhold for each nonresident shareholder. See the instructions for line 40 of Schedule KS on page 15.

Add the withholding required for all nonresident shareholders (the total of lines 40 from all Schedules KS), and enter the result on line 4 of Form M8.

Completing Form M8 (continued)

If you received a signed and dated Form AWC, *Alternative Withholding Certificate*, from one or more shareholders, check the box provided on line 4 of Form M8. You must include the certificate(s) when you file your return.

M8, Line 6—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*.

Enter the amount of the credit that is being claimed directly by the S corporation and not passed through to the shareholders.

Line 6 cannot exceed the total of S corporation taxes and the minimum fee (sum of lines 1 and 2).

M8, Line 7—Tax Credit for Owners of Agricultural Assets

If you received a credit certificate from the Minnesota Rural Finance Authority for selling or leasing agricultural assets to a beginning farmer, enter the certificate number in the space provided and credit amount on line 7.

If you have multiple credits, enter the certificate number your partnership received directly from the Rural Finance Authority within the certificate number box. If you have multiple credits and received all credits from other pass-through entities, enter the certificate number relating to the largest credit amount within the certificate number box. Subtotal all credit amounts on line 7. Include a statement showing the certificate numbers and corresponding credit amounts for all credits you included on line 7.

M8, Line 10—Minnesota Nongame Wildlife Fund

You can help preserve Minnesota's rare and endangered animals and plants by donating to this fund. Your donation will be added to your total tax and will decrease your refund or increase your balance due. Monies donated are deductible the following year.

For more information, go to the Minnesota Department of Natural Resources website at www.dnr.state.mn.us.

M8, Line 12—Enterprise Zone Credit

If your business has been certified and approved by the Minnesota Department of Employment and Economic Development (DEED) as employment property in an enterprise zone, enter the credit that is being claimed directly by the S corporation and not passed through to the shareholders. Attach the certification document received from the DEED.

For details about the zones, go to the DEED website at mn.gov/deed.

M8, Line 13—Estimated Tax and Extension Payments

Enter your total prepayments, including:

- your total 2019 estimated tax payments made in 2019 and 2020, paid either electronically or with a payment voucher
- any 2019 extension payment, paid electronically or with a payment voucher, that was made by the regular due date when filing under an extension
- the portion of your 2018 refund applied to your 2019 estimated tax

M8, Line 16—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 16.

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 15.

Late Filing. If you file 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 15.

Balance Not Paid. If you file your return after the regular due date and have a balance due, an additional penalty is assessed. The additional penalty is 5 percent of the unpaid tax on line 15.

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.

If, during the 12 months ending June 30 of the tax year, you paid \$10,000 or more in estimated tax payments, you are required to make all future estimate tax payments electronically beginning January 1 of the following tax year. Once you meet the electronic payment threshold, you are required to pay electronically for all future periods.

You must also pay electronically if you're required to pay any Minnesota business tax electronically, such as sales or withholding tax.

M8, Line 17—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 2020 is 5 percent.

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

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

Completing Form M8 (continued)

M8, Line 18—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 the following is more than \$500:

- Line 5
- Less any credits on lines 6, 7 and 12

Complete Schedule EST, *Additional Charge for Underpayment of Estimated Tax*, to determine the additional charge for underpaying estimated tax.

Enter the total charge, if any, on line 18. Enclose the schedule with your return.

M8, Line 19—Amount Due

Add lines 15 through 18. This is the amount of tax you owe. Be sure to check the appropriate box on line 19 to indicate your method of payment. See *Payment Options* on page 2.

M8, Line 20—Overpayment

If line 14 is more than the sum of lines 11 and 18, subtract line 11 and line 18 from line 14.

If you have an overpayment, 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 2020 estimated tax account.

M8, Line 21—2020 Estimated Tax

Skip this line if you owe additional tax.

If you are paying 2020 estimated tax, you may apply all or a portion of your refund to your 2020 estimated tax. Enter the portion of line 20 you want to apply toward your 2020 estimated tax.

M8, Line 22—Refund

If you want to request your refund to be direct deposited into your bank account, complete line 23. Your bank statement will indicate when your refund was deposited to your account. Otherwise, skip line 23 and your refund will be sent to you in the mail.

M8, Line 23—Direct Deposit of Refund

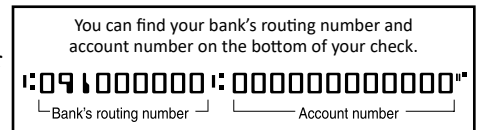
If you want your refund to be directly deposited into your checking or savings account, enter the routing and account numbers. You must use an account not associated with any foreign banks.

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 23, 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 principal officer of the corporation.

If you paid someone to prepare your return, the preparer must also sign and provide their Preparer Tax Identification Number (PTIN) and phone number.

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 REV184b, *Business Power of Attorney* with the department.

Email Address

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

By providing an email 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 Form M8A

Complete M8A to determine your Minnesota source income and minimum fee.

Apportionment Factor

Minnesota is a 100% sales apportionment state.

The minimum fee still takes into account your Minnesota portion of property, payroll, and sales.

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 statutory single sales factor formula.

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 single-sales factor formula does not properly and fairly reflect your Minnesota income, and that the alternative formula you have chosen does.

Qualified Subchapter S-Subsidiary

The S corporation parent must now calculate and report one minimum fee for all QSSSs. The S corporation parent must also include all assets, liabilities, income, deductions, credits, and apportionment factors including property, payroll, and sales factors, from all QSSSs and federally disregarded QSSS under one M8 return.

Property Factor

Enclose the completed federal Schedule L (Form 1120S) or a copy of the S corporation's balance sheet with your return.

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.

M8A, lines 1–3

In column A, lines 1a - 1d, enter the total property items for your entire business in Minnesota.

Line 1a. Add the beginning and ending year inventories, divide by two 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 two. Enter the result on line 1b.

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

Line 1d. For financial institutions only. See *Apportionment for Financial Institutions* instructions on page 10.

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 eight and enter the result in column A. The rents you receive are included in the sales factor.

Payroll Factor

M8A, line 4

In Column A, enter your total payroll paid or incurred in Minnesota, for the tax year in connection with the business.

Sales Factor

M8A, 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
- sales of stock or sales of debt instruments under IRC section 1275(a)(1)

Financial Institutions: See *Apportionment for Financial Institutions* on page 10.

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.

Completing Form M8A (continued)

Tangible Personal Property

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

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 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 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.

Minimum Fee

M8A, lines 6-9

S corporations are subject to a minimum fee if the sum of its Minnesota source property, payroll and sales or receipts is at least \$1,020,000.

M8A, line 7—Adjustments

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

In some cases the property and sales used for computing the minimum fee will be different than the amounts reported on lines 1-6. The following adjustments should be made to your Minnesota factors on line 7.

Add: All tangible property owned or rented that is not included on line 6 of M8A. 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 1-5.

Subtract:

- Any amounts included on lines 3, 4 or 5 that represent your share of the factors passed through from partnerships.
- For financial institutions only, the amount of intangible property listed on line 1d.

Completing Form M8A (continued)

- 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 year is determined by multiplying M8A, column A, line 1 by the fraction:

$$\frac{365 - \text{number of days in the tax year}}{365}$$

Enclose a schedule showing the computation and pass-through information of any adjustments listed on M8A, line 7.

Apportionment for Financial Institutions

Financial institution means any of the following:

- 1 Any corporation or other business entity registered in one of these ways:
 - under state law as a bank holding company
 - under the federal Bank Holding Company Act of 1956, as amended
 - as a saving and loan holding company under the federal National Housing Act, as amended
- 2) Any regulated financial corporation; or a national bank organized and existing as a national bank association pursuant to the provisions of U.S.C., title 12, chapter 2.
- 3) A savings association or federal savings bank as defined in United States Code, title 12, section 1813(b)(1).
- 4) Any bank or thrift institution incorporated or organized under the laws of any state.
- 5) Any corporation organized under United States Code, title 12, sections 611 to 631.
- 6) Any agency or branch of a foreign depository as defined under United States Code, title 12, section 3101.
- 7) Any corporation or other business entity that is more than 50 percent owned, directly or indirectly, by any person or business entity described in clauses (1) to (6), other than an insurance company taxable under chapter 2971.
- 8) A corporation or other business entity that derives more than 50 percent of its total gross income for financial accounting purposes from finance leases. For the purposes of this clause, "gross income" means the average from the current tax year and immediately preceding two years and excludes gross income from incidental or occasional transactions. For purposes of this clause, "finance lease" means any lease transaction that is the functional equivalent of an extension of credit and that transfers substantially all the benefits and risks incident to the ownership of property, including any direct financing lease or leverage lease that meets the criteria of Financial Accounting Standards Board Statement No. 13, accounting for leases, or any other lease that is accounted for as financing by a lessor under generally accepted accounting principles.
- 9) Any other person or business entity, other than an insurance company that derives more than 50 percent of its gross income from activities that an entity described in clauses (2) to (6) or (8) is authorized to transact. For the purposes of this clause, gross income does not include income from nonrecurring, extraordinary items.

Financial institutions complete M8A the same way as other S corporations, except for lines 1d and 5.

M8A, Line 1d—Property Factor

The property factor for financial institutions includes certain intangible property.

The following are considered Minnesota property:

- coin and currency located in Minnesota
- lease financing receivables, to the extent the property is located in Minnesota
- secured loans if real or tangible personal property is located in Minnesota
- unsecured (or secured by intangible property) consumer loans to Minnesota residents
- unsecured (or secured by intangible property) commercial loans if the proceeds are applied in Minnesota
- credit card receivables if the fees and charges are regularly billed to Minnesota
- receivables from merchant discount income if the merchant is located in Minnesota
- securities, money market instruments and secondary market assets apportioned to Minnesota, in the ratio of Minnesota deposits to all deposits if a regulated financial institution, or in the ratio of Minnesota gross business income to total gross business income if unregulated

Secondary market assets are obligations that are not originally solicited or entered into by the owner. They include secured, consumer and commercial loans and lease financing, credit card, and merchant discount receivables.

M8A, Line 5—Sales or Receipts Factor

Financial institutions use a receipts factor instead of a sales factor.

Include the gross income from activities in the ordinary course of business, including income from securities and money market instruments.

The following are considered Minnesota income:

- interest income from loans secured by real or tangible personal property located in Minnesota
- interest on consumer loans not secured by real or tangible personal property if the borrower is a Minnesota resident
- interest on commercial loans not secured by real or tangible personal property if the proceeds are applied in Minnesota
- merchant discount income if the merchant is located in Minnesota
- receipts from travelers checks if purchased in Minnesota
- receipts from credit cards if regularly billed in Minnesota
- receipts for regulated financial institutions from securities, based on the ratio of total deposits from Minnesota to total deposits in and outside Minnesota
- receipts for nonregulated financial institutions from securities, based on the ratio of gross business income from Minnesota to total gross business income
- receipts from secondary market assets treated in the same way as securities
- receipts from the performance of services if the services are received in Minnesota

Completing Schedule KS

Complete and provide Schedule KS to each nonresident shareholder and any Minnesota shareholder who has adjustments to income.

Purpose

An S corporation must provide each nonresident shareholder, and any Minnesota shareholder with adjustments to income, with enough information for them to complete a Minnesota income tax return and determine their correct Minnesota tax.

Schedule KS is used to provide shareholders with the information they need to file a Minnesota income tax return. The schedule shows each shareholder their specific share of the S corporation's income, credits and modifications. Provide the shareholder a copy of both the front and back of the completed Schedule KS and the instructions.

If there are no modifications or credits and the shareholder is a full-year Minnesota resident, you do not have to provide Schedule KS.

You must enclose with your Form M8 copies of the Schedules KS and attachments issued to your shareholders and copies of your federal Schedules K and K-1.

If you are required to amend your federal S corporation return or you have been audited by the IRS, you must file Form M8X and Schedules KS, if appropriate. See *Reporting Federal Changes* on page 4.

Line Instructions

Enter the name, address and identifying number of the shareholder. A \$50 penalty will be assessed for each incorrect tax ID number used for a shareholder after being notified by the department that the number is incorrect.

Calculate lines 1–25 the same for all resident and nonresident shareholders. Calculate lines 26–40 for nonresident shareholders only.

Corporate Partners: When completing Schedules KS, be sure to include the pro rata shares of any amounts reported on the Schedule KPC you received as a partner of a partnership (include Schedule KPC with your return).

All Shareholders

Lines 1–25

KS, line 1

If you received federally tax-exempt interest dividends from a mutual fund, you may have to enter an amount on line 1. To determine the amount, if any, use the following instructions:

- If 95 percent or more of the federally tax-exempt dividends from a mutual fund came from bonds issued by Minnesota, include only the portion of the federally tax-exempt dividend generated by non-Minnesota bonds.
- If less than 95 percent of the federally tax-exempt interest dividends from a mutual fund came from bonds issued by Minnesota, include all of the federally tax-exempt interest dividend from that fund.

Enter the shareholder's pro rata share of this amount on line 1.

KS, line 2

Determine the state income tax deducted in arriving at ordinary income or net rental income of the S corporation.

Do not include the minimum fee, the built-in gains tax, capital gains tax, LIFO recapture tax or excess net passive income tax in this amount.

Enter the shareholder's pro rata share of this amount on line 2.

KS, line 3

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

Enter the shareholder's pro rata 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 12 of Schedule KS. Do not include these expenses on line 3.

Enclose an explanation or statement showing your computation.

KS, line 4

If you claimed a deduction under IRC section 179 for property placed in service after December 31, 2017, that deduction may need to be adjusted due to Section 2307 of the CARES Act before making this addition (see instructions on pages 16–18).

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 shareholders must add back to Minnesota 80 percent of the difference between the expensing allowed for federal and for state tax purposes. Your shareholders 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

Completing Schedule KS (continued)

a separate federal Form 4562 (referred to as your Minnesota Form 4562), to determine the amount required to be added back for Minnesota purposes.

Complete a Minnesota Form 4562 using the information from your federal Form 4562 and the following modifications:

- Subtract \$995,000 from line 1 of your federal Form 4562, and enter the result on line 1 of your Minnesota Form 4562. Do not enter less than \$25,000.
- Enter line 2 of your federal Form 4562 on line 2 of your Minnesota Form 4562.
- Subtract \$2,350,000 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 your federal Form 4562 on lines 6 and 7 of your Minnesota Form 4562.
- 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.

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

KS, line 5

If you claimed a deduction for special depreciation allowance (bonus depreciation) for property placed in service after December 31, 2017, that deduction may need to be adjusted due to Section 2307 of the CARES Act before making this addition (see instructions on pages 16-18).

If you claimed federal bonus depreciation, your shareholders must add back 80 percent of the bonus depreciation to Minnesota.

Follow the steps below to determine the shareholder'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 S corporation as a partner of a partnership (from line 8 of Schedule KPC).....
3. Add steps 1 and 2
4. Multiply step 3 by the shareholder's percentage of stock ownership.

Enter the result from step 4 on line 5 of the shareholder's Schedule KS.

Federal bonus depreciation subtraction. For five years following the addback year, your shareholders 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.

KS, line 6

Determine the amount of foreign-derived intangible income (FDII) you deducted from net income under the Internal Revenue Code (IRC) section 250 for the taxable year. Enter the shareholder's pro rata share of this amount on line 6.

KS, line 7

Determine the amount of any special deduction you deducted from net income under IRC section 965(c) for the taxable year. Enter the shareholder's pro rata share of this amount on line 7.

KS, line 8a

Enter shareholder's share of the gross profit from any installment sale of S corporation stock or assets, or partnership interests or assets executed after December 31, 2016.

If the sale was completed by the entity completing this schedule, the total gross profit to be allocated amongst shareholders is reported on federal Form 6252, line 16. If the sale was executed by an entity owned by this entity, or another entity in a multi-tiered structure, this information is reported on:

- Schedule KF, line 6a
- Schedule KS, line 8a
- Schedule KPC, line 11a

If installment sale information is reported to this entity on informational schedules from other entities, the amount reported to the partners should equal the total amount reported to this entity on all Schedules KF, KS, and KPC.

If the trust receives installment payments from multiple sales executed after December 31, 2016, attach a schedule to Form M8 detailing the different sales and distributive allocations.

KS, line 8b

Enter shareholder's share of installment sale income from the sale of S corporation stock, partnership interests, and any installment sale income from the sale of the assets of any S corporation or partnership. If the sale was completed by the partnership completing this schedule, the total installment sale income to be allocated to the partners is reported on Form 6252, line 24. If the sale was executed by an entity owned by this entity, or another entity in multi-tiered structure, this information is reported on:

- Schedule KF, line 6b
- Schedule KS, line 8b
- Schedule KPC, line 11b

Completing Schedule KS (continued)

If installment sale information is reported to this entity on informational schedules from other entities, the amount reported to the partners should equal the total amount reported to this entity on all Schedules KF, KS, and KPC.

KS, line 12

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 S corporation. 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 shareholder's pro rata share of this amount on line 12.

KS, line 13

Determine the amount of deferred foreign income included in net income under IRC section 965 for the taxable year. Enter the shareholder's pro rata share of this amount on line 13.

KS, line 14

Determine the amount of global intangible low-taxed income (GILTI) included in net income under IRC section 951A for the taxable year. Enter the shareholder's pro rata share of this amount on line 14.

KS, line 15

For medical cannabis manufacturers registered with the Minnesota Department of Health, include any expenses that are disallowed on your federal return due to IRC section 280E. Enter the shareholder's pro rata share of the disallowed section 280E expenses on line 15.

KS, line 17

Enter the shareholder's pro rata share of the 2019 credit for increasing research activities that is passed through to the shareholders.

If the business qualifies, the credit cannot be claimed by the S corporation and the full credit must be passed through to the shareholders.

KS, line 18

Enter the shareholder's pro rata share of the Tax Credit for Owners of Agricultural Assets that is passed through to the shareholders.

If the shareholder has multiple credits, enter the certificate number your S corporation received directly from the Rural Finance Authority within the certificate number box. If the shareholder has multiple credits and received all credits from other pass-through entities, enter the certificate number relating to the largest credit amount within the certificate number box. Subtotal the shareholder's share of all credit amounts on Line 18. Provide a statement to the shareholder showing credit numbers and the shareholder's distributive share of the credit for all amounts included on line 18.

KS, line 19

For S corporations who receive a Historic Structure Rehabilitation Credit Certificate from the Minnesota State Historic Preservation Office (SHPO):

- If the S corporation's initial application for allocation certificate was submitted to SHPO on or before December 31, 2017, use the credit amount shown on the credit certificate.
- If the S corporation's initial application for allocation certificate was submitted to SHPO after December 31, 2017, use one-fifth of the credit amount shown on the credit certificate.

Enter the shareholder's share of the Historic Structure Rehabilitation Credit based on the shareholder's share of the S corporation's assets, or as specifically allocated in the S corporation'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 SHPO of the Minnesota Historical Society when the project was completed and placed into service.

KS, line 20

Enter the shareholder's pro rata share of the Employer Transit Pass Credit that is passed through to the shareholders.

KS, line 21

Enter the shareholder's pro rata share of the Enterprise Zone Credit that is passed through to the shareholders.

KS Lines 22-25

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 22–25. No adjustments are necessary.

KS, line 22

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 shareholder's pro rata share of the following: IDCs allowed for regular tax purposes under IRC section 263(c), (but not includ-

Completing Schedule KS (continued)

ing any IRC 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.

KS, line 23

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 shareholder's pro rata share of the aggregate amount of gross income within the meaning of IRC section 613(a) from all oil, gas and geothermal properties that was received or accrued during the tax year.

KS, line 24

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 shareholder's pro rata share of any deductions allocable to oil, gas and geothermal properties. Do not include any deductions for nonproductive wells.

KS, line 25

In the case of oil wells and other wells of nonintegrated oil companies, enter the shareholder's pro rata 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 IRC 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 depletion deduction for any property does not exceed the adjusted basis at year-end, do not include a tax preference amount for that property.

Nonresident Shareholders Lines 26-40

KS, line 26

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

Enter the shareholder's pro rata share of the S corporation's Minnesota source gross income. Minnesota source gross income is the total amounts apportioned to Minnesota included on line 3, 4, and 5 (other than losses) of federal Form 1120S; lines 18a, 19, and 20 (other than losses) of federal Form 8825; line 9 of Schedule F (1040); lines 3a, 4, 5a, 6, 7, 8a, 9, and 10 of Schedule K (1120S) plus Minnesota source gross income amounts from all partnerships, estates, and trusts in which the S corporation is a partner or beneficiary.

KS, lines 27-36

From the nonresident shareholder's federal Schedule K-1 (1120S), enter the Minnesota portion of the amounts on lines 27 through 36.

On line 35, include the Minnesota portion of any items from the Schedule K-1 that are not specifically labeled on lines 27-34.

Line 36 refers to the Minnesota apportioned amount of federal section 179 expense from the federal Schedule K-1, not the amount calculated on line 4 for the Minnesota addition.

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

Composite Income Tax and Nonresident Withholding

KS, line 38

When determining the shareholder's pro rata share of the S corporation's Minnesota source distributive income, you must make adjustments for any items you passed through to the shareholder on lines 1 through 16 of the shareholder's Schedule KS.

Follow the steps below to determine line 38:

1. The difference between line 4 of Schedule KS (M8) and the shareholder's section 179 deduction from box 11 of the federal Schedule K-1 (1120S). _____
2. Federal bonus depreciation amount from line 5 of the shareholder's Schedule KS. _____
3. Add step 1 and step 2 _____
4. Multiply step 3 by 80% (0.80) _____
5. Combine lines 6, 7*, 9, and 11 of the shareholder's Schedule KS _____
6. Add step 4 and step 5 _____
7. Multiply step 6 by apportionment factor from line 37 of Schedule KS _____
8. Combine lines 27-35 of the shareholder's Schedule KS. _____
9. Add steps 7 and 8 _____

Completing Schedule KS (continued)

- 10. To the extent allowed by law, enter one-fifth of the shareholder share of the section 179 expensing that was added back in a year the shareholder elected to be included in composite tax or nonresident withholding was required
- 11. To the extent allowed by law, enter one-fifth of the federal bonus depreciation that was added back in a year the shareholder elected to be included in composite income tax or nonresident withholding was required
- 12. Combine lines 13, 14, and 16 of the shareholder's Schedule KS
- 13. Add steps 10, 11, and 12
- 14. Multiply step 13 by the apportionment factor from line 37 of the shareholder's Schedule KS
- 15. Enter amount from line 36 of shareholder's Schedule KS
- 16. Add Steps 14 and 15
- 17. Subtract step 16 from step 9

Enter the result from step 17 on line 38 of the shareholder's Schedule KS. This amount is the shareholder's adjusted Minnesota source distributive income.

* Only include an amount from line 7 of Schedule KS if the shareholder is an estate, trust, or electing small business trust (ESBT).

KS, line 39—Composite Income Tax

Nonresident shareholders must pay tax if their Minnesota source gross income is more than the minimum filing requirement for the year (\$12,200 for 2019).

Shareholders who receive a share of gross profit or income from an installment sale reported on line 8a or 8b of Schedule KS are not eligible to elect the S Corporation to pay composite income tax on their behalf.

Skip this line if the nonresident shareholder did not elect the S corporation to pay composite income tax on their behalf.

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

- 1. Multiply line 38 of Schedule KS by 9.85% (0.0985)
- 2. Add lines 18-21 of Schedule KS
- 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 shareholder. Enter this amount on line 39 of the shareholder's Schedule KS and check the box to indicate the shareholder's election to be included.

If the shareholder elects to be included in composite income tax but has zero tax due, enter zero on line 39. Even though the amount may be zero, check the box to indicate the election.

Once you have completed all the Schedules KS for your electing nonresident shareholders, add the amounts on line 39 of all the schedules and enter the total on line 3 of Form M8. This is the amount of composite income tax you are required to pay on behalf of your electing shareholders.

KS, line 40—Nonresident Withholding

Nonresident shareholders 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 shareholders are subject to Minnesota withholding.

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

- 1. Multiply line 38 of Schedule KS by 9.85% (.0985)
- 2. Add lines 18-21 of Schedule KS
- 3. Subtract step 2 from step 1

The result in step 3 is the amount you are required to withhold from the nonresident shareholder, 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 40 of the shareholder's Schedule KS and also on line 4 of Form M8. 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.

Shareholders must include their Schedule KS 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.

Federal Adjustments for Businesses for Tax Year 2019

Under current law, definitions used in determining Minnesota taxable income are based on the Internal Revenue Code (IRC), as amended through December 31, 2018 (2018 IRC). Since that date, Congress has enacted the following:

- Taxpayer Certainty and Disaster Tax Relief Act (TCDTR) of 2019
- Families First Coronavirus Response Act (FFCRA) of 2020
- Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020
- Paycheck Protection Program Flexibility Act (PPPFA) of 2020

These acts contain change affecting businesses for tax year 2019. Because Minnesota has not adopted these federal changes, adjustments are required to correctly determine your Minnesota taxable income. Use the following instructions to calculate nonconformity adjustments relating to the TCDTR, FFCRA, CARES Act, and PPPFA.

How to Report the Federal Adjustments

If any of the federal provisions that are included in the TCDTR, FFCRA, CARES Act, and PPPFA affect the amount of taxable income reported on your 2019 federal Form 1120-S, U.S. Income Tax Return for an S Corporation, you must make an adjustment to income on your 2019 Minnesota return. To determine the adjustment amount, compute your federal taxable income based on 2018 IRC. Report the difference between this amount and the amount allowed on your federal return as an adjustment to income.

Certain CARES Act provisions and information must be reported on the following lines:

- Schedule KS, line 10 – IRC Section 461 net nonbusiness income/loss
- Schedule KS, line 11 – Business interest expense limitation

Subtotal all remaining nonconformity adjustments (positive and negative) calculated from the provisions listed below. If the net of all adjustments results in an increase of your federal taxable income (FTI), enter the shareholder's share of the net adjustment as a positive number on line 9 of Schedule KS. If the net of all adjustments results in a reduction of your FTI, enter the shareholder's share of net adjustment as a positive number on line 16 of Schedule KS. For purposes of calculating adjustments, use any federal regulation or ruling issued by the Internal Revenue Service prior to the passage of the TCDTR, FFCRA, CARES Act, and PPPFA which governs the referenced provisions.

To report the differences for Minnesota tax purposes, you must attach to your Form M8 a list of the federal provisions affecting your taxable income by act and section number and show how you calculated each adjustment amount.

If you amended your 2019 federal return and issued shareholders amended Schedules K-1 solely due to the TCDTR, FFCRA, CARES Act, or PPPFA, your Minnesota adjustment will offset the change to your federal taxable income. For these amended returns, write "TCDTR", "FFCRA", "CARES Act", and/or "PPPFA" (all that are applicable) in red at the top of the Minnesota Form M8X and the amended schedules KS you issue to shareholders.

Provisions that May Require an Income Adjustment

The following provisions may require an income adjustment for Minnesota tax purposes. This list includes the most common adjustments; you must make adjustments as described above for all provisions included in the TCDTR, FFCRA, CARES Act, and PPPFA.

TCDTR Sections

Section 111. Indian Employment Credit

If you were not allowed to deduct expenses due to the Indian Employment Credit on your federal return, include the amount of the disallowed expenses as a negative number.

Section 112. Railroad Track Maintenance Credit

If you were not allowed to deduct expenditures due to the Railroad Track Maintenance Credit on your federal return, include the amount of the disallowed expenditures as a negative number.

Section 113. Mine Rescue Team Training Credit

If you were not allowed to deduct expenses due to the Mine Rescue Team Training Credit on your federal return, include the amount of the disallowed expenses as a negative number.

Section 114. Classification of Certain Race Horses as 3-year Property

If you own race horses and you claimed a 3-year recovery period on your federal return, calculate the difference between the 3-year recovery period and the recovery period you would have been allowed under 2018 IRC. If your recovery period reported on your federal return is greater than the recalculated amount, include the difference as a positive number. If your recovery period reported on your federal return is less than the recalculated amount, include the difference as a negative number.

Section 115. 7-year Recovery Period for Motorsports Entertainment Complexes

If you have a motorsports entertainment complex and you claimed a 7-year recovery period on your federal return, calculate the difference between the 7-year recovery period and the recovery period you would have been allowed under 2018 IRC. If your recovery period reported on your federal return is greater than the recalculated amount, include the difference as a positive number. If your recovery period reported on your federal return is less than the recalculated amount, include the difference as a negative number.

Federal Adjustments for Businesses for Tax Year 2019 (continued)

Section 116. Accelerated Depreciation for Business Property on Indian Reservations

If you have qualified Indian reservation property and claimed accelerated depreciation, calculate the depreciation you would have been allowed under 2018 IRC. If your depreciation reported on your federal return is greater than the recalculated amount, include the difference as a positive number. If your depreciation reported on your federal return is less than the recalculated amount, include the difference as a negative number.

Section 117. Expensing Rules for Certain Productions

If you were allowed to deduct instead of capitalize expenditures related to a qualified film, television, and theatrical productions on your federal return, subtract the capital expenditures allowed under 2018 IRC from the amount deducted on your federal return, and include that difference as a positive number.

Section 118. Empowerment Zone Tax Incentives

If you had a tax change relating to an empowerment zone that impacted your FTI on your federal return, reverse the tax impacts to your FTI.

Section 122. Second Generation Biofuel Producer Credit

If you claimed the Second Generation Biofuel Producer Credit on your federal return that impacted your FTI, reverse the tax impacts to your FTI.

Section 124. Qualified Fuel Cell Motor Vehicles

If you claimed the credit for Qualified Fuel Cell Motor Vehicles on your federal return that impacted your FTI, reverse the tax impacts to your FTI.

Section 125. Alternative Fuel Refueling Property Credit

If you claimed the Alternative Fuel Refueling Property Credit on your federal return, adjust the property's basis without regard to the basis reduction required under **current federal law**. Include any adjustments to FTI as a result of this Minnesota change in basis.

Section 126. 2-Wheeled Plug-in Electric Vehicle Credit

If you claimed the 2-Wheeled Plug-In Electric Vehicle Credit on your federal return, adjust the vehicle's basis without regard to the basis reduction required **current federal law**. Include any adjustments to FTI as a result of this Minnesota change in basis.

Section 129. Energy Efficient Homes Credit

If you claimed the Energy Efficient Homes Credit on your federal return, adjust the property's basis without regard to the basis reduction required under **current federal law**. Include any adjustments to FTI as a result of this Minnesota change in basis.

Section 130. Special Allowance for Second Generation Biofuel Plant Property

If you were allowed to deduct the additional first-year 50-percent bonus depreciation for cellulosic biofuel facilities on your federal return, include the additional depreciation as a positive number.

Section 131. Energy Efficient Commercial Buildings Deduction

If you claimed an energy efficient commercial buildings deduction on your federal return that impacted your FTI, reverse the tax impacts to your FTI.

Section 132. Special Rule for Sales or Dispositions to Implement FERC or State Electric Restructuring Policy for Qualified Electric Utilities

If you elected to recognize gain from qualifying electric transmission transactions ratably over an eight-year period on your federal return, include the amount of the deferred gain as a positive number.

Section 203. Employee Retention Credit for Employers Affected by Qualified Disasters

If you were not allowed to deduct wages due to claiming the Employee Retention Credit on your federal return, include the amount of the disallowed wages as a negative number.

FFCRA Sections

Section 7001. Employer Credit for Paid Medical Leave

If you were not allowed to deduct wages due to claiming the Employer Credit for Paid Medical Leave on your federal return, include the amount of the disallowed wages as a negative number.

Section 7003. Employer Payroll Credit for Required Paid Family Leave

If you were not allowed to deduct wages due to claiming the Employer Payroll Credit for Required Paid Family Leave on your federal return, include the amount of the disallowed wages as a negative number.

Federal Adjustments for Businesses for Tax Year 2019 (continued)

CARES Act Sections

Section 1106. Paycheck Protection Program

If you claimed Paycheck Protection Program loan forgiveness on your federal return, take the amount that was excluded from gross income for federal purposes and subtract the amount that would have been deductible as a business expense if you had not claimed the loan forgiveness treatment. Include the amount as a positive number.

Incorporate the modifications included in the PPPFA in the above described adjustments made as a result of Section 1106 of the CARES Act.

Section 2206. Exclusion for Employer Payments of Student Loans

If you were not allowed to deduct business expenses as a result of this provision on your federal return, include the amount of the disallowed employee student loan payments as a negative number.

Section 2301. Refundable Credit for Employer Equal to 50% COVID Wages

If you were not allowed to deduct wages due to claiming the refundable payroll tax credit on your federal return, include the amount of the disallowed wages as a negative number.

Section 2304. Excess Business Losses (IRC Section 461 Net Nonbusiness Income/Loss)

In order for your shareholder to calculate their excess business loss limitation for Minnesota purposes, provide your shareholder the total nonbusiness income and nonbusiness loss amounts as it relates to IRC Section 461. Net the total nonbusiness income against the nonbusiness loss and include the result on line 10 of Schedule KS.

Section 2306. Modification of Business Interest Limitation

If your business interest expense deduction exceeds the sum of 30% of your adjusted taxable income, your business interest income, and your floor plan financing interest, determine the difference between your federal deduction and the deduction allowable using 30% of your adjusted taxable income. Include the result as a positive number on line 11 of Schedule KS.

Section 2307. Qualified Improvement Property Technical Fix

If you claimed federal bonus depreciation on qualified leasehold improvement property, qualified restaurant property, or qualified retail improvement property, determine the difference between the federal bonus depreciation you claimed on this property, and the cost recovery deduction or expensing method you would have been able to claim prior to the CARES Act, this may include a Minnesota modification for section 179 expensing. Include the result as a positive number.

If you filed an amended federal return increasing your federal bonus depreciation as a result of this provision of the CARES Act, do not adjust your Minnesota addition for bonus depreciation on line 5 of Schedule KS.

If you claimed bonus depreciation on this property on your 2018 return and made a nonconformity adjustment on your 2018 return to add back the amount not allowed for Minnesota purposes, you may calculate the depreciation you would have been able to claim prior to the CARES Act for 2019. Include this amount as a negative number.