



# 2020 Schedule M2NC, Federal Adjustments

Minnesota has not adopted the federal law changes enacted after December 31, 2018, that affect federal taxable income for tax year 2020. This schedule allows for any necessary adjustments required to file a state tax return.

Tax year beginning \_\_\_\_\_, 2020, ending \_\_\_\_\_

Name of Estate or Fiduciary \_\_\_\_\_ Federal ID Number \_\_\_\_\_ Minnesota ID Number \_\_\_\_\_

Enter amounts as a positive or negative.  
Round to the nearest whole dollar.

Before you complete this schedule, read the instructions which are on a separate sheet.

### Adjustments to federal taxable income (FTI)

- 1 Paycheck Protection Program (CARES Act Sec. 1102, 1106) . . . . . 1 ■ \_\_\_\_\_
- 2 Exclusion for employer payments of student loans (CARES Act Sec. 2206) . . . . . 2 ■ \_\_\_\_\_
- 3 Refundable credit equal to 50% COVID wages (CARES Act Sec. 2301) . . . . . 3 ■ \_\_\_\_\_
- 4 Retroactive NOL carrybacks and suspension of 80% limit (CARES Act Sec. 2303) . . . . . 4 ■ \_\_\_\_\_
- 5 Modification of excess loss limitation (CARES Act Sec. 2304) . . . . . 5 ■ \_\_\_\_\_
- 6 Modification of business interest limitation (CARES Act Sec. 2306) . . . . . 6 ■ \_\_\_\_\_
- 7 Qualified improvement property technical fix (CARES Act Sec. 2307) . . . . . 7 ■ \_\_\_\_\_
- 8 Employer credit for paid medical leave and Employer payroll credit for  
required paid family leave (FFCRA Sec. 7001, 7003) . . . . . 8 ■ \_\_\_\_\_
- 9 TCDTR basis and depreciation provisions (TCDTR Sec. 114, 115, 116, 117, 118, 130, 131, 132) . . . . . 9 ■ \_\_\_\_\_
- 10 TCDTR credit provisions impacting basis and depreciation  
(TCDTR Sec. 122, 124, 125, 126, 129) . . . . . 10 ■ \_\_\_\_\_
- 11 TCDTR credit provisions impacting business expenses (TCDTR Sec. 111, 113) . . . . . 11 ■ \_\_\_\_\_
- 12 Look-through rule for related controlled foreign corporations (TCDTR Sec. 145) . . . . . 12 ■ \_\_\_\_\_
- 13 Employee retention credit for employers affected by qualified disasters (TCDTR Sec. 203) . . . . . 13 ■ \_\_\_\_\_
- 14 Other adjustments to federal taxable income . . . . . 14 ■ \_\_\_\_\_
- 15 This line intentionally left blank. . . . . 15 ■ \_\_\_\_\_
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- 24 This line intentionally left blank. . . . . 24 ■ \_\_\_\_\_
- 25 Total lines 1-24. If the result is positive, enter it on Form M2, line 41.  
If the amount is negative, enter it as a positive number on Form M2, line 51 . . . . . 25 ■ \_\_\_\_\_

**You must include this schedule when you file Form M2.**



# Nonconformity Adjustment Instructions

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For taxpayers who are affected by federal tax law passed after December 31, 2018.

## Purpose of This Schedule

Minnesota defines net income as federal taxable income (FTI) as defined by the Internal Revenue Code, as amended through December 31, 2018 (referred to as “2018 IRC”). Since that date, Congress has enacted the following:

- Taxpayer Certainty and Disaster Tax Relief (TCDTR) Act 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
- Public Law 116-147 (S.4116) of 2020

These acts contain changes affecting FTI for tax year 2020. Because Minnesota has not adopted these federal changes, adjustments are required to correctly determine your Minnesota taxable income.

## Who Must File Schedule M2NC

You must adjust FTI on your 2020 Minnesota return if any of the following federal provisions affect the amount of taxable income reported on your 2020 federal Form 1041, U.S. Income Tax Return for Estates and Trusts.

Use the Schedule M2NC and these instructions to complete your Minnesota return. The adjustment for each line should reflect the change to FTI due to the difference between the item calculated on your 2020 federal return and the item calculated under the 2018 IRC. Each line will also include the net adjustments received from Schedule(s) KFNC, KPINC, and KSNC for your pro rata share or interest in another business or fiduciary.

If the change results in a reduction of your FTI, enter the adjustment as a negative number. If the change results in an increase of your FTI, enter the adjustment as a positive number. For purposes of calculating the adjustment, any regulation, ruling, or other guidance issued by the Internal Revenue Service under the 2018 IRC applies.

Save your entire 2020 Minnesota Form M2, Schedule M2NC, and all worksheets you use in determining the adjustments.

## Line Instructions

### Line 1 — Paycheck Protection Program (CARES Act Section 1106)

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 and S.4116 in the above described adjustments made as a result of Section 1106 of the CARES Act.

### Line 2 — Exclusion for Employer Payments of Student Loans (CARES Act Section 2206)

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.

### Line 3 — Refundable Credit Equal to 50% COVID Wages (CARES Act Section 2301)

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.

### Line 4 — Retroactive NOL Carrybacks and Suspension of 80% Limit (CARES Act Section 2303)

If you carried back NOLs and/or fully offset your income using the NOLs, determine the difference to what was allowed prior to the CARES Act. Include the result as a positive number. Report only the portion being retained by the estate or trust and allocate 100% of this adjustment to the fiduciary.

### Line 5 — Modification of Excess Loss Limitation (CARES Act Section 2304)

Calculate the amount of losses taken on your federal return that exceeds \$255,000. Include the result as a positive number. Report only the portion being retained by the estate or trust and allocate 100% of this adjustment to the fiduciary.

### Line 6 — Modification of Business Interest Limitation (CARES Act Section 2306)

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.

### Line 7 — Qualified Improvement Property Technical Fix (CARES Act Section 2307)

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, which may include a Minnesota modification for section 179 expensing. Include the result as a positive number.

If you claimed bonus depreciation on this property on your 2019 return and made a nonconformity adjustment on your 2019 return to addback 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 2020. Include this amount as a negative number.

## **Line 8 — Employer Credit for Paid Medical Leave (FFCRA Section 7001) and Employer Payroll Credit for Required Paid Family Leave (FFCRA Section 7003)**

### **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.

## **Line 9 — TCDTR Basis and Depreciation Provisions (TCDTR Sections 114, 115, 116, 117, 118, 130, 131, 132)**

### **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.

### **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 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.

## **Line 10 — TCDTR Credit Provisions Impacting Basis and Depreciation (TCDTR Sections 112, 122, 124, 125, 126, 129)**

### **Section 112. Railroad Track Maintenance Credit**

No nonconformity adjustment is needed because Minnesota requires a subtraction on line 53 of the Minnesota Form M2.

### **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.

**Line 11 — TCDTR Credit Provisions Impacting Business Expenses (TCDTR Sections 111, 113)**

**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 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.

**Line 12 — Look Through Rule for Related Controlled Foreign Corporations (TCDTR Section 145)**

If you excluded dividends, interest, rent, or royalties received or accrued from a related controlled foreign corporation (CFC) as foreign personal holding company income (FPHCI) as a result of this provision, include the amount of excluded income from FPHCI as a positive number.

**Line 13 — Employee Retention Credit for Employers Affected by Qualified Disasters (TCDTR Section 203)**

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.

**Line 14 — Other Adjustments to Federal Taxable Income**

If any provision within any federal acts enacted since December 31, 2018 impacts the calculation of FTI and is not included as an adjustment on another line of this schedule, enter an adjustment incorporating the change(s) to FTI on line 14. Common examples of adjustments to FTI are capital contribution limitations, capital loss limitations, basis adjustments, and gain or loss from sales.

Attach a schedule showing the calculation of any amount entered on line 14.

**Lines 15 through 24**

These lines are intentionally left blank.

**Line 25 — Total of lines 1 through 24**

Add lines 1 through 24. If the result is positive, enter it on Form M2, line 41. If the result is negative, enter it as a positive number on Form M2, line 51.

The nonconformity adjustment will be allocated between the fiduciary and beneficiaries in the percentages reported on the Form M2, line 59 and line 60. Any nonconformity adjustment allocated to beneficiaries should be reported on Schedule KFNC for the beneficiary's pro rata share of each adjustment.