

# 2018 Partnership Form M3 Instructions

## Partnership Information

### Website

www.revenue.state.mn.us

### Phone

651-556-3075

### Email

businessincome.tax@state.mn.us

*We provide our publications in other formats upon request to persons with disabilities.*

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## What’s New for 2018

### 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

These acts contain changes affecting businesses for tax year 2018. Because Minnesota has not adopted these federal changes, adjustments are required to correctly determine your Minnesota taxable income. Use line 26 of Schedule KPINC or KPCNC and the updated instructions on pages 14–19

to calculate nonconformity adjustments relating to the TCDTR, FFCRA, and CARES Act.

If you amended your 2018 federal return and issued partners amended Schedules K-1 solely due to the TCDTR, FFCRA, and CARES Act, your Minnesota adjustment will offset the change to your federal taxable income. For these amended returns, write “TCDTR”, “FFCRA”, and/or “CARES Act” (all that are applicable) in red at the top of the Minnesota Form M3X and the amended Schedules KPI or KPC you issue to partners.

### Section 179 Expensing Addition

In October, as a result of the 2020 5th Special Session, the Minnesota legislature passed and the Governor signed into law full conformity to federal Section 179 expensing for property received as part of a transaction that qualified under Section 1031 like-kind exchange under the Internal Revenue Code as amended through December 16, 2016 but not as amended through December 31, 2018. Minnesota no longer requires an 80% addition for federal Section 179 expensing claimed on this property.

If you are amending to reduce your Minnesota Section 179 expensing addition, you must also reduce subsequent year subtractions by the amount attributable to the reduced addition. Write “Like-Kind Exchange” in red at the top of the Minnesota Form M3X and the amended Schedules KPI or KPC you issue to partners.

## Filing Requirements

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

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

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

### Minimum Fee

A partnership is subject to a minimum fee if the sum of its Minnesota source property, payroll and sales or receipts is at least \$990,000. However, the partnership is exempt from the minimum fee if more than 80 percent of its income is from farming.

The minimum fee is determined on M3A, which is page 3 of Form M3.

### Large Partnerships

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

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

## File Electronically

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

## Before You File

### Complete Your Federal Return

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

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

Schedule K-1 (1065-B),	on Schedule KPI,
box 1	line 21
box 2	line 21
box 3	line 26
box 4a	line 28 or 29
box 4b	line 28 or 29

### Minnesota Tax ID Number

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

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

If you don’t have a Minnesota tax ID, you  
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# General Information (continued)

must apply for one. To apply, go to our website at [www.revenue.state.mn.us](http://www.revenue.state.mn.us), or call 651-282-5225 or 1-800-657-3605.

## Due Dates and Extensions

### Due Date for Filing and Paying is March 15, 2019

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

- Calendar year returns: March 15, 2019.
- Fiscal year returns: the 15th day of the third month after the end of the tax year.

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

### Extension of Time to File

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

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

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

## Payments

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

**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](http://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 lines 13 and 14 on page 4).

If you're filing after the regular due date, you can avoid penalties and interest by making an extension payment by the regular due date. See *Payment Options* above. If

## 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](http://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](http://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](http://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.

you're not required to pay electronically and are paying by check, go to [www.revenue.state.mn.us](http://www.revenue.state.mn.us) to create a voucher to print and submit with your check.

### Estimated Tax Payments

A partnership must make quarterly estimated tax payments if the sum of its estimated minimum fee, nonresident withholding and composite income tax for all nonresident partners 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 minimum fee, composite income tax and/or nonresident withholding, include all on the same quarterly payments.

To make an estimated payment, see *Payment Options* above.

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

### Tax Return Payment

If line 16 of Form M3 shows an amount due, you must make a tax return payment (see *Payment Options* above). If you're not required to pay electronically and are paying by check, go to [www.revenue.state.mn.us](http://www.revenue.state.mn.us) to create a voucher to print and submit 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, an additional 5 percent penalty will be assessed on the unpaid tax.

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# General Information (continued)

**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 2019 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

A partnership may pay composite Minnesota income tax on behalf of its nonresident individual partners or grantor trusts who elect to be included in lieu of each partner filing his or her own Minnesota return. The electing individuals must not have any Minnesota source income other than the income from this partnership and other entities electing composite filing.

Partners who receive a share of gross profit or income from an installment sale reported on line 7a or 7b of form KPI are not eligible to elect the partnership to pay composite income tax on their behalf.

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

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

### Nonresident Withholding

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

- has a legal residence that is not Minnesota;
- is not included in composite income tax;
- has Minnesota distributive income of \$1,000 or more from this partnership; and
- has income that was *not* generated by a transaction related to the termination or liquidation of the partnership in which

no cash or property was distributed in the current or prior taxable year.

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

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

*Note:* Nonresident individual partners include grantor trusts that file or can file under IRC section 1.671-4(b) and single-member LLCs when the single member is an individual.

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

**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.

A partnership is an entertainment entity if it is paid compensation for entertainment provided by entertainers who are partners. 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 M3.

### Use of Information

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

The identity and income information of the partners are required under state law so the department can determine the partner's correct Minnesota taxable income and verify if the partner has filed a return and paid the tax. The Social Security numbers of the

individual partners are required under M.S. 289A.12, subd. 13.

### Assembling Paper Tax Forms

Arrange your Minnesota schedules in the order they were completed and place them behind your Form M3. Schedules KPI and KPC should be sorted with the largest share of Minnesota source income first. Include Schedules KPINC or KPCNC behind the corresponding KPI or KPC. Then place your federal return and its schedules behind the Minnesota material. **Do not staple or tape any enclosures to your return.**

### Where to File Paper Returns

Mail Form M3 and all completed Minnesota and federal forms and schedules using a mailing label (see page 13).

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

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

### Reporting Federal Changes

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

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

If you amended your 2018 federal return and issued partners amended Schedules K-1 solely due to the TCDTR, **FFCRA**, or **CARES Act** write "TCDTR", "**FFCRA**", and/or "**CARES Act**" (all that are applicable) in red at the top of the Minnesota Form M3X and the amended Schedules KPI or KPC you issue your partners. For more details, see pages 14 through 19.

If you are amending your return to reduce your federal Section 179 addition or subtraction as a result of Minnesota law 2020 5th Sp. Sess. Chap.3, write "Like-Kind Exchange" at the top of your Form M3X. Identify the property relinquished and received in the qualifying transactions, and the dates of disposition and receipt in the Explanation of Change on page 2 of Form M3X.

# Completing Form M3

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

- Federal Form 1065—or Form 1065-B if you are a large partnership—and supporting schedules;
- Schedule KPI for each nonresident partner and to any Minnesota partner who has adjustments to income (see page 8); and
- Schedule KPC for each corporate or partnership partner (see page 12).

## Check Boxes

**Initial Return.** If this is the partnership'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 partners, check the box for composite income tax on the front of Form M3 and see the instructions for line 2.

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

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

**Out of Business (final return).** If the partnership is out of business and/or is not required to file Form M3 in future years, check the "Out of Business" box on the front of the form.

**Installment Sale of Pass-through Assets or Interests.** Check the "Installment Sale of Pass-through Assets or Interests" box if the partnership:

- 1) executed an installment sale, after December 31, 2016, of partnership interests being reported on Form 6252; or
- 2) executed an installment sale, after December 31, 2016, of the assets of a partnership and is reporting the sale on form 6252; or
- 3) owns an interest in a partnership, or trust reporting installment sale gains on line 7 of Schedule KPI, or KF, or line 10 of Schedule KPC.

If you are required to check the Installment Sale of Pass-through Assets or Interests, also complete line 7 of all applicable

Schedules KPI, and line 10 of all applicable Schedules KPC to report installment sale information to your partners.

## Line Instructions

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

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

### Line 1—Minimum Fee

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

You are exempt from the minimum fee if:

- more than 80 percent of your income is from farming

### Line 2—Composite Income Tax

To determine line 2, you must first figure the amount of composite tax attributed to each electing partner. See the partnership instructions for lines 34 and 35 of Schedule KPI on page 10.

Add the composite income tax attributed to all electing partners (the total of lines 35 from all KPI schedules), and enter the result on line 2 of Form M3.

### Line 3—Nonresident Withholding

To determine line 3, you must first figure the amount to withhold for each nonresident individual partner. See the partnership instructions for line 36 of Schedule KPI on page 11.

Add the withholding required for all nonresident partners (the total of lines 36 from all KPI schedules), and enter the result on line 3 of Form M3.

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

### Line 5—Employer Transit Pass Credit

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

Enter the amount of the credit that is being claimed directly by the partnership and not

passed through to the partners. Line 5 cannot exceed the minimum fee on line 1.

### Line 6—Tax Credit for Owners of Agricultural Assets

If you received a credit 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 6.

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 6.

### Line 9—Enterprise Zone Credit

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

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

### Line 10—Estimated Tax and Extension Payments

Enter your total prepayments, including any of the following:

- your total 2018 estimated tax payments made in 2018 and 2019, paid either electronically or by check
- any 2018 extension payment, paid electronically or by check, that was made by the due date when filing under an extension
- the portion of your 2017 refund applied to your 2018 estimated tax

### Line 13—Penalty

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

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

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

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# M3 (continued)

**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 12.

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

## Line 14—Interest

You must pay interest on the unpaid tax and penalty from the regular due date until the total is paid. The interest rate for calendar year 2019 is 5 percent.

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

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

## Line 16—Amount Due

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

## Line 17—Overpayment

If line 11 is less than the sum of lines 8 and 15, subtract line 11 from the sum of 8 and 15. Enter the result on line 16 and enter zero on line 17.

If you have an overpayment on line 17, you may choose to have it direct deposited into your bank account. You may also choose to apply all or a portion of your overpayment toward your 2019 estimated tax account.

## Line 18—2019 Estimated Tax

Skip this line if you owe additional tax.

If you are paying 2019 estimated tax, you may apply all or a portion of your refund to your 2019 estimated tax. Enter the portion of line 17 you want to apply toward your 2019 estimated tax on line 18.

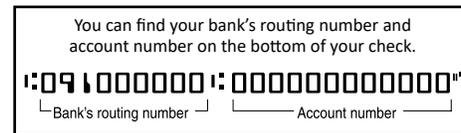
## Line 19—Refund

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

## Line 20—Direct Deposit of Refund

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

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



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

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

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

## Signature

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

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

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

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

## 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 partnership, 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 M3A

Complete M3A to determine your Minnesota source income and minimum fee.

## Apportionment Factor

Minnesota completed the transition to 100% sales apportionment state in 2014.

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

## Property Factor

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

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

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

### M3A, lines 1a–1c

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

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

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

### M3A, line 2

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

Multiply the rents you paid for property located or used in Minnesota by 8 and enter the result in column A. The rents you receive are included in the sales factor.

## Payroll Factor

### M3A, line 4

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

## Sales Factor

### M3A, line 5

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

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

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

## Determining Minnesota Sales

### Real Property

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

### Tangible Personal Property

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

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

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

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

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

The extent of use is determined as follows:

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

### Intangible Property

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

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

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

If the property is used in more than one state, then the sales or royalties must be apportioned to Minnesota pro rata based on the portion of use within this state. If you

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# M3A (continued)

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cannot determine the portion of use in Minnesota, then exclude the sales or royalties from both the numerator and the denominator of the sales factor.

## Personal Services

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

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

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

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

## M3A, lines 6–9—Minimum Fee

Partnerships are subject to the minimum fee if the sum of its Minnesota source property, payroll and sales or receipts is at least \$990,000.

However, you are exempt from the minimum fee if:

- more than 80 percent of your income is from farming

If you are exempt from the minimum fee, enter zero on line 9 of M3A and on line 1 of Form M3. Also, be sure to check the appropriate box in the heading at the top of your return to indicate you are a farm partnership.

## M3A, line 7—Adjustments

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

In some cases the property, payroll and sales used for computing the minimum fee will be different than those used for apportionment. The following adjustments should be made to your Minnesota factors on line 7.

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

## Subtract:

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

Enclose a schedule showing the computation and pass-through information of any adjustments listed on M3A, line 7.

# Completing Schedule KPI

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

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

## Purpose

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

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

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

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

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

## Partner Ultimately Taxed

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

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

## Line Instructions

Calculate lines 1–19 the same for all resident and nonresident partners. Calculate lines 20–36 for nonresident partners only.

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

### KPI, line 1

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

### KPI, line 2

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

### KPI, line 3

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

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

If you had expenses attributable to interest or mutual fund dividends from U.S. bonds, see line 9 of Schedule KPI. Do not include these expenses on line 3.

### KPI, 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 14-19).**

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

If you completed federal Form 4562 to claim the section 179 expensing for federal tax purposes, you must also complete lines 1 through 12 on a separate Federal Form 4562 (referred to as your Minnesota Form

4562), 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 \$975,000 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 Federal Form 4562 on line 2 of your Minnesota Form 4562.
- Subtract \$2,300,000 from line 3 of your Federal Form 4562, and enter the result on line 3 of your Minnesota Form 4562.
- Enter the information from lines 6 and 7 of Federal Form 4562 on lines 6 and 7 of your Minnesota Form 4562.
- Enter line 10 of your 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 partner's distributive share of the amount on line 12 of the Minnesota Form 4562 on line 4 of Schedule KPI.

**Do not include property received as part of an exchange that would have qualified under Section 1031 of the Internal Revenue Code as amended through December 16, 2016 but not as amended through December 31, 2018.**

### KPI, line 5

**If you claimed a deduction for special depreciation allowance (bonus depreciation) under IRC section 168(k) 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 14-19).**

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

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

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

*Continued*

# KPI (continued)

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

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

## Federal bonus depreciation subtraction.

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

## KPI, line 6

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

## KPI, line 7a

Enter each resident and nonresident individual partner's share of the gross profit from any installment sale of s corporation stock or assets, partnership interests or assets executed after December 31, 2016.

If the sale was completed by the partnership completing this schedule, the total gross profit to be allocated among the partners 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, or KS on line 7a, or Schedule KPC line 10a.

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 partnership receives installment payments from multiple sales executed after December 31, 2016, attach a schedule to Form M3 detailing the different sales and distributive allocations.

## KPI, line 7b

Enter each resident and nonresident individual partner's share of installment sale income 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, or KS on line 7b, or Schedule KPC line 10b.

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 partnership receives installment payments from multiple sales executed after December 31, 2016, attach a schedule to Form M3 detailing the different sales and distributive allocations.

## KPI, line 8

Enter the amount from the Schedule KPINC, line 27. Use this amount in calculating composite tax and nonresident withholding. If the amount is negative enter it as a positive number on KPI line 10.

## KPI, line 9

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

Determine the net interest you received from primary obligations issued by the U.S. government, such as savings bonds and treasury notes, that are held directly by the partnership. Do not include obligations where the U.S. government is only a guarantor. Be sure to subtract any investment interest and other expenses you deducted on the federal return that relate to this income.

Enter the partner's distributive share of this amount on line 9.

## KPI, line 10

Enter the amount from the Schedule KPINC, line 27 as a positive number. Use this amount in calculating composite tax and nonresident withholding.

## KPI, line 11

Enter the partner's distributive share of the 2017 credit for increasing research activities. If the business qualifies, the credit cannot be claimed by the partnership and the full credit must be passed through to the partners.

## KPI, line 12

If you received a credit certificate from the Minnesota Rural Finance Authority for selling or leasing agricultural assets to a begin-

ning farmer, enter the certificate number in the space provided and the partners share of the credit on line 12.

If the partner has multiple credits, enter the certificate number your partnership received directly from the Rural Finance Authority within the certificate number box. If the partner 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 partner's share of all credit amounts on Line 12.

## KPI, line 13

For partnerships who receive a Historic Structure Rehabilitation Credit Certificate from Minnesota SHPO:

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

Enter the partner's distributive share, if any, of the Historic Structure Rehabilitation Credit based on the partner's share of the partnership's assets, or as specifically allocated in the partnership's organizational documents, as of the last day of the taxable year.

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

## KPI, line 14

Enter the partner's share, if any, of the Employer Transit Pass Credit that is passed through to the partners.

## KPI, line 15

Enter the partner's share, if any, of the Enterprise Zone Credit that is passed through to the partners.

## KPI, line 16

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 16–19. No adjustments are necessary.

Intangible drilling costs (IDCs) from oil, gas and geothermal wells are a tax preference item to the extent that the excess IDCs

# KPI (continued)

exceed 65 percent of the net income from the wells. The tax preference item is computed separately for oil and gas properties and for geothermal properties.

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

## KPI, line 17

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

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

## KPI, line 18

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

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

## KPI, line 19

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

In computing the year-end adjusted basis, use the rules of section 1016. However, do not reduce the adjusted basis by the current year's depletion. Figure the excess amount separately for each property. If the 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 Individual, Estate or Trust Partners — Lines 20-36

### KPI, line 20

The Minnesota source gross income is used to determine whether a nonresident partner is required to file a Minnesota income tax

return or has the option to elect composite income tax.

Enter the partner's distributive share of the partnership's Minnesota source gross income. The Minnesota source gross income is the total of the amounts apportioned to Minnesota that are included on lines 3, 6, and 7 (other than losses) of federal Form 1065; lines 18a and 19 and 20 (other than losses) of Form 8825; line 9 of Schedule F (1040); line 3a, 5, 6a, 7, 8, 9a, 10 and 11 of Schedule K (1065, not reported elsewhere) plus Minnesota source gross income amounts from all partnerships, estates, and trusts in which the partnership is a partner or beneficiary.

### KPI, lines 21-32

From the nonresident partner's federal Schedule K-1 (1065), enter the Minnesota portion of amounts on lines 21 through 32.

On line 31, include the Minnesota portion of any items from the Schedule K-1 that are not specifically labeled on lines 21-30 and 32.

Line 32 refers to the Minnesota apportioned amount of federal section 179 expense, not the amount calculated on line 4 of Schedule KPI for the Minnesota addition.

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

### KPI, line 24

Guaranteed payments to partners (Including for services and use of capital) make up a portion of the partner's distributive share of partnership income. Accordingly, to determine the Minnesota portion of each partner's share of guaranteed payments, multiply the amount reported to the partner on Schedule K-1, line 4, to Minnesota using the same apportionment percentage or assignment ratio used to allocate the income from which the guaranteed payment was deducted federally.

## Nonresident Individual Partners Only

### KPI, line 34

When determining the partner's share of the partnership's Minnesota source distributive income, you must make adjustments for any items you passed through to the partner on lines 1 through 10 of the partner's Schedule KPI.

Follow the steps below to determine line 34:

- 1 The difference between the partner's pro rata share of the section 179 deduction from box 12 of federal Schedule K-1 (1065) and line 4 of the partner's Schedule KPI . . . . . \_\_\_\_\_
- 2 Federal bonus depreciation amount from line 5 of the partner's Schedule KPI . . . . . \_\_\_\_\_
- 3 Add step 1 and step 2 . . . . . \_\_\_\_\_
- 4 Multiply step 3 by 80% (.80) \_\_\_\_\_
- 5 Enter the amount from line 8 of Schedule KPI . . . . . \_\_\_\_\_
- 6 Combine steps 4 and 5 . . . . . \_\_\_\_\_
- 7 Multiply step 6 by apportionment factor from line 33 of partner's Schedule KPI . . . . . \_\_\_\_\_
- 8 Combine lines 21-31 of the partner's Schedule KPI . . . . . \_\_\_\_\_
- 9 Add steps 7 and 8. . . . . \_\_\_\_\_
- 10 To the extent allowed by law, enter one-fifth of the partner's share of the federal bonus depreciation that was added back in a year the partner elected to be included in composite income tax . . . . . \_\_\_\_\_
- 11 To the extent allowed by law, enter one-fifth of the partner's share of the section 179 expensing that was added back in a year the partner elected to be included in composite income tax . . . . . \_\_\_\_\_
- 12 Enter amount from line 10 of Schedule KPI . . . . . \_\_\_\_\_
- 13 Add steps 10,11, and 12 . . . . . \_\_\_\_\_
- 14 Multiply step 13 by the apportionment factor from line 33 of the partner's Schedule KPI . . . . . \_\_\_\_\_
- 15 Enter the amount from line 32 of the partner's Schedule KPI. \_\_\_\_\_
- 16 Add Steps 14 and 15 . . . . . \_\_\_\_\_
- 17 Subtract step 16 from step 9 . . . . . \_\_\_\_\_

Enter the result from step 17 on line 34 of the partner's Schedule KPI. This amount is the partner's adjusted Minnesota source distributive income.

### KPI, line 35

#### Composite Income Tax

Nonresident individual partners must pay tax if their Minnesota gross income is more than the minimum filing requirement for the year (\$10,650 for 2018).

*Continued*

# KPI (continued)

Partners who receive a share of gross profit or income from an installment sale reported on line 7a or 7b of form KPI are not eligible to elect the partnership to pay composite income tax on their behalf.

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

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

- 1 Multiply line 34 of Schedule KPI by 9.85% (.0985) . . . . . \_\_\_\_\_
- 2 Add lines 12-15 of Schedule KPI . . . . . \_\_\_\_\_
- 3 Subtract step 2 from step 1 . . . \_\_\_\_\_

The result in step 3 is the amount you are required to pay on behalf of the electing individual partner. Enter this amount on line 35 of the partner's Schedule KPI and check the box to indicate the partner's election to be included.

If the individual elects to be included in composite income tax but has zero tax due, enter zero on line 35. Even though the amount may be zero, be sure to check the box to indicate the election.

Once you have completed all the KPI schedules for your electing nonresident individual partners, add the amounts on line 35 of all the schedules and enter the total on line 2 of Form M3. This is the amount of composite income tax you are required to pay on behalf of your electing partners.

**KPI, line 36—Nonresident Withholding**  
Nonresident individual partners who are not included in the composite income tax may be subject to withholding. See *Nonresident Withholding* on page 3 to determine if your nonresident partners are subject to Minnesota withholding.

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

- 1 Multiply line 34 of Schedule KPI by 9.85% (.0985) . . . . . \_\_\_\_\_
- 2 Add lines 12-15 of Schedule KPI . . . . . \_\_\_\_\_
- 3 Subtract step 2 from step 1 . . . \_\_\_\_\_

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

If the individual submits Form AWC, withhold the amount from line 6 of the certificate. Check the box provided on line 36 of the partner's Schedule KPI and also on line 3 of Form M3. Be sure to enclose a copy of the certificate when you file your return.

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

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

# Completing Schedule KPC

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

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

## Purpose

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

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

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

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

## Partner Ultimately Taxed

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

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

## Line Instructions

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

### KPC, lines 1 and 2

Generally, all of the income of a partnership is apportionable. If you have nonapportion-

able income, the corporate and partnership partners need to know their share of the nonapportionable income. Provide the partner with a schedule describing the type of income.

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

### KPC, line 3

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

### KPC, line 4

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

### KPC, line 5

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

### KPC, line 6

Skip this line for all corporate partners.

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

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

If you had expenses attributable to interest or mutual fund dividends from U.S. bonds, see line 12 of Schedule KPC. Do not include these expenses on line 6.

### KPC, line 7

**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 14-19).**

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

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

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

- Subtract \$975,000 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 Federal Form 4562 on line 2 of your Minnesota Form 4562.
- Subtract \$2,300,000 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 your 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 partner's distributive share of the amount on line 12 of the Minnesota Form 4562 on line 4 of Schedule KPC.

**Do not include property received as part of an exchange that would have qualified under Section 1031 of the Internal Revenue Code as amended through December 16, 2016 but not as amended through December 31, 2018.**

### KPC, line 8

**If you claimed a deduction for special depreciation allowance (bonus depreciation) under IRC section 168(k) 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 14-19).**

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

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

1. Add line 14 and line 25 of your Federal Form 4562. \_\_\_\_\_
2. Total of any bonus depreciation amounts passed through to you as a partner of a

*Continued*

# KPC (continued)

partnership (from line 8 of Schedule KPC). \_\_\_\_\_

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

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

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

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

## KPC, line 9

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

## Line 10a

Enter each corporate or partnership partner's share of the gross profit from any installment sale of partnership interests or assets executed after December 31, 2016.

If the sale was completed by the partnership completing this schedule, the total gross profit to be allocated among the partners 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 7a, or Schedule KPC, line 10a.

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 partnership receives installment payments from multiple sales executed after

December 31, 2016, attach a schedule to Form M3 detailing the different sales and distributive allocations.

## Line 10b

Enter each corporate or partnership partner's share of installment sale income from the sale of partnership interests or assets executed after December 31, 2016.

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, or KS, on line 7b, or Schedule KPC line 10b.

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 partnership receives installment payments from multiple sales executed after December 31, 2016, attach a schedule to Form M3 detailing the different sales and distributive allocations.

## KPC, line 11

This line has been intentionally left blank.

## KPC, line 12

Skip this line for all corporate partners.

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

Determine the net interest you received from primary obligations issued by the U.S. government, such as savings bonds and treasury notes, that are held directly by the partnership. Do not include obligations where the U.S. government is only a guarantor. Be sure to subtract any investment interest and other expenses you deducted on the federal return that relate to this income.

Enter the partnership partner's distributive share of this amount on line 12.

## KPC, line 13

This line has been intentionally left blank.

## KPC, line 14

Enter the partner's distributive share of the 2018 credit for increasing research activities. If the business qualifies, the credit cannot be claimed by the partnership and the full credit must be passed through to the partners.

## KPC, line 15

Enter the partner's distributive share of the Tax Credit for Owners of Agricultural Assets being passed through to partners. For more information on the credit amount allowed please see page 9 of the instruction, KPI, line 12.

If the partner has multiple credits, enter the certificate number your partnership received directly from the Rural Finance Authority within the certificate number box. If the partner 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 partner's share of all credit amounts on Line 15.

## KPC, line 16

For partnerships who receive a Historic Structure Rehabilitation Credit Certificate from Minnesota SHPO:

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

Enter the partner's distributive share, if any, of the Historic Structure Rehabilitation Credit based on the partner's share of the partnership's assets, or as specifically allocated in the partnership's organizational documents, as of the last day of the taxable year.

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

## KPC, line 17

Enter the partner's distributive share of the Employer Transit Pass Credit being passed through to partners.

## KPC, line 18

Enter the partner's distributive share of the Enterprise Zone Credit being passed through to partners.

## KPC, lines 19

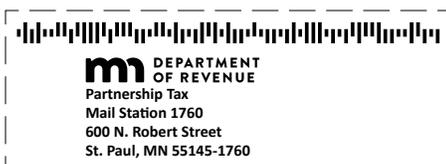
Enter the partner's Pro Rata Share of Minnesota Source Gross Income.

## KPC, lines and 20 and 21

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

## Use a mailing label if filing a paper return

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



# Nonconformity Adjustment Instructions

Minnesota has generally adopted the Internal Revenue Code as amended through December 31, 2018, but for tax year 2018 Minnesota does not recognize the tax effect of certain federal law changes enacted after December 16, 2016. In addition, Minnesota has not adopted the federal law changes enacted under the Taxpayer Certainty and Disaster Tax Relief Act (TCDTR) of 2019, the Families First Coronavirus Response Act (FFCRA) of 2020, or the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020.

## Purpose of This Schedule

On May 30, 2019, Minnesota law was updated to recognize the Internal Revenue Code (IRC), as amended through December 31, 2018. This change effects tax years 2017 and 2018. The bill included language that disallowed the tax effect of certain provisions of the federal legislation commonly known as the Tax Cuts and Jobs Act (TCJA), and Bipartisan Budget Act (BB) for tax year 2018. See M.S. 290.993 for more information.

We have updated this form and instructions to recognize enactment of this Minnesota legislation.

In addition, 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

These acts contain changes affecting businesses for tax year 2018. Under current law, definitions used in determining Minnesota taxable income are based on the Internal Revenue Code, as amended through December 31, 2018 (2018 IRC). Because Minnesota has not adopted these federal changes, adjustments are required to correctly determine your Minnesota taxable income.

## Who Must File Schedule KPINC or KPCNC

If any of the federal provisions on pages 14 through 19 affect the amount of taxable income reported on your 2018 federal Form 1165, U.S. Return of Partnership Income, you must adjust your 2018 Minnesota return using Schedules KPINC or KPCNC.

Use the Schedules KPINC or KPCNC and these instructions to complete your Minnesota return. The adjustment for each line reflects the change to your Minnesota return as a result of the special limited adjustment and the TCDTR, FFCRA, and CARES Act. Each line will also include the net adjustments received from Schedule KPCNC for your pro rata share in a partnership(s).

If the change results in a reduction of your federal taxable income (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.

Save your entire 2018 Minnesota Form M3 tax return, and all worksheets and notes used in determining the adjustments.

## Line 9 - Limitation on Deduction by Employers of Expenses for Fringe Benefits (TCJA Sec. 13304)

If you have an adjustment for one of the expenses listed below, enter the amount on line 9. If you have an adjustment for more than one expense listed below, net the adjustments and enter the total on line 9.

### Business Deductions for Entertainment Expenses

Under the Tax Cuts and Jobs Act (TCJA), no deduction is allowed for the following entertainment expenses paid or incurred after December 31, 2017—

- (1) Entertainment, amusement, or recreation activities,
- (2) Membership dues for clubs organized for business, pleasure, recreation, or other social purposes, or
- (3) A facility used in connection with either of the above items.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

No deduction is allowed for ordinary and necessary expenses for any activity of a type generally considered to be entertainment, amusement, or recreation, or for a facility used in connection with such an activity. An exception is allowed if the taxpayer establishes that the expense was directly related to or associated with the active conduct of the taxpayer's trade or business or income producing activity. The deduction is limited to 50% of the deductible amount of the entertainment expense.

If you incurred a business expense related to entertainment, amusement, or recreation activities and can establish the expense was directly related to or associated with the active conduct of your trade or business, enter 50% of the allowable amount of entertainment expenses as a negative number on line 9.

## Expenses for Employer-Operated Eating Facilities

Under TCJA, an employer can no longer deduct the full cost of food and beverages offered as a de minimis fringe benefit. Instead the employer must apply a 50% limit to the deduction of food or beverage expenses.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA. Under the 2016 IRC, employers can deduct the full cost of food and beverages that are excludable from the employee's income if they are provided for the convenience of the employer at an employer-operated eating facility as a de minimis fringe benefit.

If you offered food and beverages that qualify as a de minimis fringe benefit under 2016 IRC and are limited to a 50% deduction, enter the amount of the remaining 50% deduction as a negative number on line 9.

## Employers' Cost of Providing Qualified Transportation Fringes and Other Transportation Benefits

The TCJA repealed the employer deduction for the expense of a qualified transportation fringe. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, an employer can deduct expenses for providing qualified transportation fringe benefits or other transportation or commuting benefits to an employee.

If you offered qualified transportation fringe benefits or other transportation or commuting benefits to employees that you could not deduct on your federal return, enter the amount of the qualifying transportation expense as a negative number on line 9.

## Line 10 – Other Deduction Provisions (TCJA 13307, 13308, 13310, 13603)

If you have an adjustment for one of the provisions below, enter the amount on line 10. If you have an adjustment for more than one provision listed below, net the adjustments and enter the total on line 10.

## Denial of Deduction for Settlements Subject to Nondisclosure Agreements Paid in Connection with Sexual Harassment or Sexual Abuse (TCJA Sec. 13307)

Under the Tax Cuts and Jobs Act (TCJA), a

*Continued*

# Nonconformity Adjustment Instructions (continued)

taxpayer can no longer deduct as a business expense—

- (1) Any settlement or payment related to sexual harassment or sexual abuse if such settlement or payment is subject to a nondisclosure agreement, or
- (2) Attorney's fees related to such a settlement or payment.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA. If you incurred expenses described in items (1) or (2) that qualify as a deduction under 2016 IRC section 162, and do not qualify as a deduction under 2018 IRC, enter the amount as a negative number on line 10.

## Repeal of Deduction for Local Lobbying Expenses (TCJA Sec. 13308)

Under TCJA, you may no longer deduct amounts paid or incurred in connection with influencing, or attempting to influence, legislation of a local council, similar governing body, or Indian tribal government.

For these specific local government bodies, 2016 IRC allows taxpayers to deduct—

- (1) all ordinary and necessary expenses (including, but not limited to, traveling expenses and the cost of preparing testimony) paid or incurred in carrying on any trade or business—
  - a. In direct connection with appearance before, submission of statements to, or sending communications to the committees, or individual members, of such council or body with respect to legislation or proposed legislation of direct interest to the taxpayer, or
  - b. In direct connection with communication of information between the taxpayer and organization of which the taxpayer is a member with respect to any such legislation or proposed legislation which is of direct interest to the taxpayer and to such organization, or
- (2) The portion of the dues paid or incurred to the organization of which the taxpayer is a member for activities described in Item (1).

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA. If you incurred expenses described in items (1) or (2) that qualify as a deduction under 2016 IRC section 162, and do not qualify as a deduction under 2018 IRC, enter the amount as a negative number on line 10.

## Prohibition on Cash, Gift Cards, and Other Nontangible Personal Property as Employee Achievement Awards (TCJA Sec. 13310)

The TCJA allows a deduction for the cost of employee achievement awards with certain limitations. The employee achievement award must be tangible personal property given in recognition of an employee's length of service or safety and awarded as part of a meaningful presentation under specified conditions and circumstances.

The TCJA changed the definition of tangible personal property to exclude—

- (1) Cash, cash equivalents, gift cards, gift coupons, or gift certificates; or
- (2) Vacations, meals, lodging, tickets to theater or sporting events, stocks, bonds, other securities, and other similar items.

As a result, the above items are no longer deductible federally as an employee achievement award.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA. Under 2016 IRC, the items described above are included in the definition of tangible personal property and may be deductible as an employee achievement award.

If you granted employee achievement awards consisting of tangible personal property described in Items (1) or (2) above that qualify for the deduction under 2016 IRC section 274, enter the amount paid or incurred during the taxable year as a negative number on line 10.

## Treatment of Qualified Equity Grants (TCJA Sec. 13603)

The TCJA allows a qualified employee to make an election to defer the inclusion of income relating to qualified stock transferred from an employer to the qualified employee. Generally, an employer is allowed a business deduction in the year the employee recognizes the income.

The deferred income must be recognized by the employee and allowed as a deduction by the employer in the taxable year in which the earliest of the following occurs—

- (1) The first date the qualified stock becomes transferable,
- (2) The date the employee first becomes an excluded employee,
- (3) The first date any stock of the corporation becomes readily tradable on an established securities market,

- (4) The date that is 5 years after the first date the rights of the employee in such stock are transferable or are not subject to a substantial risk of forfeiture, whichever occurs earlier, or
- (5) The date the employee revokes the deferral election.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA. The 2016 IRC requires an employee to recognize qualified stock as income when the employee's beneficial interest in the stock is either transferable or not subject to substantial risk of forfeiture (substantially vested). The employee includes the excess of the fair market value of the stock at the time it is recognized over any amount the employee paid for the stock in income.

If a qualified employee elects to defer recognition, you may need to make an adjustment on your Minnesota return. Generally, your business may deduct the amount included in the employee's income for the taxable year.

Enter the total amount of deferred income as a negative number on line 10.

## Line 12 – Cash Distributions from Converted C Corporations (TCJA Sec. 13543(b))

The Tax Cuts and Jobs Act made changes to the tax treatment of distributions made from a C corporation which converted from an S corporation. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, cash distributions made by a C corporation during the period following conversion from an S corporation are treated as tax-free to the shareholder with a reduction in the adjusted basis of stock.

If you received a cash distribution from an eligible terminated S corporation (defined by 2018 IRC section 481(d)), enter any portion of the distribution that would be reported as income under 2016 IRC as a positive number on line 12.

## Line 13 - Tax Treatment of Alaska Native Corporations (TCJA Sec. 13821)

The Tax Cuts and Jobs Act allows an Alaska Native Corporation (ANC) a deduction for contributions made to a settlement trust. Additionally, the ANC does not recognize any gain or loss on contributions of appreciated property to a settlement trust if a deduction is allowed under 2018 IRC section 247.

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# Nonconformity Adjustment Instructions (continued)

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA. Under 2016 IRC, these modifications to income are not allowed.

If you took a deduction for contributions made to a settlement trust, include the amount of the deduction as a positive number on line 13.

If you did not recognize a gain or loss from contributions of appreciated property to a settlement trust, include the unrecognized gain as a negative number or unrecognized loss as a positive number on line 13.

## Line 14 - Special Rules for Capital Gains Invested in Opportunity Zones (TCJA Sec. 13823)

The Tax Cuts and Jobs Act allows—

- (1) A temporary deferral from income for capital gains reinvested in a qualified opportunity fund, and
- (2) A permanent exclusion from income of certain capital gains from the sale or exchange of an investment in the qualified opportunity fund.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA. If you have deferred or excluded from income one of the two types of capital gains listed above, enter the deferred or excluded amount as a positive number on line 14.

## Line 15a – Section 965 Deferred Foreign Income

Minnesota law allows a subtraction from FTI for deferred foreign income (DFI) reported on your Federal return. If you reported DFI, enter the net amount (IRC section 965(a) inclusion amount reduced by IRC section 965(c) allowed) as a negative number on line 15a.

## Line 15b – Income Excluded as Previously Taxed Under Section 965 or 951A

If you received income excluded as previously taxed under IRC section 965 (deferred foreign income) (TCJA Sec. 14103) or 951A (global-intangible low taxed income) (TCJA Sec. 14201) in the current tax year, include the amount of that income as a positive number on Line 15b.

## Line 16 – Inclusion of Global Intangible Low-Taxed Income

Minnesota law allows a subtraction from FTI for the inclusion of global intangible low-taxed income (GILTI) reported on your Federal return. If you reported GILTI as a shareholder of a controlled foreign corpora-

tion (CFC), enter the amount as a negative number on line 16.

## Line 17 - Deduction for Foreign Derived Intangible Income

Minnesota law requires an addition to FTI for any deduction for foreign-derived intangible income (FDII) claimed on your Federal return. If you deducted a portion of FDII under 2018 IRC section 250, enter the amount as a positive number on line 17.

## Line 18 - Related Party Amounts Paid in Hybrid Transactions (TCJA Sec. 14222)

The Tax Cuts and Jobs Act added 2018 IRC section 267A to disallow a deduction for disqualified related party amounts paid or accrued in a hybrid transaction or by, or to, a hybrid entity. For tax year 2018, Minnesota does not recognize the tax effects of this provision of the TCJA.

2016 IRC does not explicitly disallow deductions for disqualified related party amounts.

If you have related party amounts disallowed under 2018 IRC section 267A, enter the amount disallowed as a negative number on line 18.

## Line 20 – Source of Income from Sales of Inventory (TCJA Sec. 14303)

The Tax Cuts and Jobs Act specifies that gains, profits, and income from the sale or exchange of inventory are allocated and apportioned between sources within and without the United States based solely on where the production activities occurred for the inventory. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, any gains, profits, and income from the sales or exchange of inventory are sourced based on both the place of production and the place of sale.

If you sold or exchanged inventory during the tax year where the inventory was produced in the U.S. and sold in a foreign country (or vice versa), recalculate the allocation and apportionment of the gains, profits, and income based on both the place of production and the place of sale under 2016 IRC. Enter the adjustment to FTI on line 20.

## Line 22 - Other Provisions (TCJA Sec. 13309, 13314, 13504, 13522, 13531, 13532, 14502)

If you have an adjustment for one of the provisions below, enter the amount on line 22. If you have an adjustment for more than

one provision listed below, net the adjustments and enter the total on line 22.

## Certain Gains from Partnership Profits Interests (TCJA Sec. 13309)

The Tax Cuts and Jobs Act (TCJA) changes the tax treatment of gains from a profits interest in a partnership (or carried interest) held in connection with the performance of services by providing that if one or more applicable partnership interests are held by a taxpayer at any time during the tax year, the excess of—

- (1) The taxpayer's net long term capital gain with respect to those interest for that tax year, over
- (2) The taxpayer's net long term capital gain with respect to those interests for that tax year computed by applying 2018 IRC sections 1222(3) and 1222(4) and substituting "3 years" for "1 year,"

will be treated as short term capital gain.

The TCJA also allows a three-year holding period for certain net long-term capital gains relating to any applicable partnership interest held by the taxpayer. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

If your long-term gains under 2016 IRC have changed to short-term gains due to changes made by TCJA, enter the adjustment from short-term gains to long-term gains on line 22.

## Patents, Inventions, Certain Models or Designs, and Secret Formulas or Processes (TCJA Sec. 13314)

The TCJA adds the following items to 2018 IRC sections 1221 and 1231 as items excluded from the definition of a capital asset:

- patent
- invention
- model or design (whether or not patented)
- secret formal or process

Therefore, these assets are no longer eligible for federal capital gain treatment.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA. Under 2016 IRC, certain self-created intangibles such as copyrights, literary, musical, or artistic compositions, letters or memoranda, or similar property are excluded from the definition of a capital asset if the asset is held either by the taxpayer who created the property, or in certain circumstances a taxpayer for whom the property was produced.

# Nonconformity Adjustment Instructions (continued)

In determining the gain from this property, any self-created intangible that is excluded from the definition of a capital asset is also ineligible to be treated as a capital gain or ordinary losses asset under 2016 IRC section 1231.

If you included income from the sale of a patent, invention, model or design, or a secret formula or process, report it as the sale of capital assets for Minnesota purposes. Recalculate gains and losses under 2016 IRC sections 1221 and 1231. Enter any difference from 2018 IRC on line 22.

## **Repeal of Technical Termination of Partnerships (TCJA Sec. 13504)**

The TCJA repealed the partnership technical termination rule under 2016 IRC section 708(b)(1)(B). For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, a partnership has a technical termination if within any 12-month period, there is a sale or exchange of 50-percent or more of the total interest in the partnership capital and profits. If a technical termination occurs at the end of the taxable year, it is reportable on that year's Minnesota tax return.

If the technical termination occurs mid-year, this results in short taxable years and requires two short period Minnesota tax returns. In order to accurately file your Minnesota short period tax return, you must complete pro-forma federal returns consistent with 2016 IRC. Include a copy of the pro-forma federal partnership return as well as the federal partnership return as filed with the IRS.

For each partner, if the pro-rata share of income calculated on the federally filed form 1065 K-1 is larger than the pro-forma federal returns required because of the Minnesota technical termination, enter the difference on the applicable partners Schedules KPINC or KPCNC as a negative number on line 22.

## **Exceptions to Life Insurance Transfer-for-Value Rule (TCJA Sec. 13522)**

The TCJA requires a portion of the death benefit received by a buyer of a life insurance contract to be includable in income when a reportable policy sale occurs. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, reportable policy sales are excluded from the transfer-for-value rule and the acquirer is not required to report income.

If you included income from a reportable policy sale, enter the amount as a negative number on line 22.

## **Limitation on Deduction for FDIC Premiums (TCJA Sec. 13531)**

The TCJA limits the amount of FDIC premiums banks are allowed to deduct based on an applicable percentage defined in 2018 IRC section 162(r)(3). For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, FDIC premiums are fully deductible based upon the all-events test.

If you were disallowed a deduction for a portion of FDIC premiums, enter the amount of premiums disallowed for members of your Minnesota combined group as a negative number on line 22.

## **Repeal of Advance Refunding Bonds (TCJA Sec. 13532)**

The TCJA repealed the exclusion relating to interest on bonds issued to advance refund another bond. Instead, 2018 IRC requires any bonds for which the refunding bond is issued more than 90 days before the redemption of the refunded bond to include the interest in gross income. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, the interest on bonds issued to advance refund another bond are excluded from gross income.

If you included advance refunding bond interest, and it is allowed as a deduction under 2016 IRC, enter the amount of interest as a negative number on line 22.

## **Repeal of Fair Market Value Method of Interest Expense Allocation (TCJA Sec. 14502)**

The TCJA amended 2018 IRC section 864(e)(2) to repeal the use of the fair market value method to allocate or apportion interest expense between income from U.S. sources and income from foreign sources. Interest expense is now allocated or apportioned on the basis of assets. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, a taxpayer could use the fair market method to establish the value of its assets.

You may elect to use the fair market value method to value assets and allocate or apportion interest expenses between U.S. and foreign sources for purposes of determining your Minnesota taxable income. Include an explanation that establishes the fair market value of your assets with this schedule.

Determine any adjustments needed to FTI using the fair market value method under 2016 IRC section 864(e). Enter the adjustments on line 22.

## **Line 23 - Extension of Credits and Tax Incentives (TCJA Sec. 13401, 13403)**

If you have an adjustment for one of the provisions listed below, enter the amount on line 23. If more than one provision listed below requires an adjustment, net the adjustments and enter the total on line 23.

### **Orphan Drug Credit (TCJA Sec. 13401)**

The Tax Cuts and Jobs Act (TCJA) decreased the percentage of qualified clinical testing expenses that can be taken into account in determining the amount of the orphan drug credit. The TCJA also added an election to claim a reduced amount of orphan drug credit in lieu of reducing business expenses. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, a higher percentage of qualified clinical testing expenses is allowed and the election is not available.

If you claimed an orphan drug credit and made the election under 2018 IRC section 280C(b)(3) to reduce the amount of credit, enter the amount of qualified clinical testing expenses that exceeds the amount you could have claimed as a business expense deduction without the election as a positive number on line 23.

### **Employer Credit for Paid Family and Medical Leave (TCJA Sec. 13403)**

The TCJA allows a new credit for certain employers who offer paid family and medical leave to their employees. Generally, wages used to determine the credit are not deductible on the federal return. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

If you claimed the employer credit for paid family and medical leave, enter the amount of wages disallowed as a negative amount on line 23.

## **Line 24 - Other Adjustments to Federal Taxable Income (FTI)**

If any provision within the Federal Disaster Tax Relief and Airport and Airway Extension Act, Tax Cuts and Jobs Act, Consolidated Appropriations Act, or Bipartisan Budget Act (other than the extension of the credit for nonbusiness energy property in section 40401) impacts your calculation of FTI and is not included as an adjustment

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# Nonconformity Adjustment Instructions (continued)

on another line of this schedule, enter an adjustment incorporating the change(s) to FTI on line 24. Common examples of adjustments to FTI are capital contributions limitations, capital loss limitations, basis adjustments, and gain or loss from sales.

For example, in 2017 you placed in service a passenger vehicle and made a nonconformity adjustment on your 2017 Minnesota tax return. This resulted in creating a Minnesota basis in the property different from the federal basis. If you sell the passenger vehicle this year, the difference between the gain or loss recognized using the federal basis and the Minnesota basis should be entered as an adjustment on line 24.

Attach a schedule showing the calculation of any amount entered on line 24.

## **Line 25 – CARES Act Section 2304. Excess Business Losses (IRC Section 461 Net Nonbusiness Income/Loss)**

In order for your partner to calculate their excess business loss limitation for Minnesota purposes, provide your partner 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 25 of Schedule KPINC or line 25 of Schedule KPCNC.

## **Line 26 – Adjustments for the TCDTR, FFCRA, and CARES Act**

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 below for all provisions included in the TCDTR, FFCRA, and CARES Act.

If you have an adjustment for **only** one of the provisions in the **federal acts**, enter the amount on line 26. If you have an adjustment for more than one provision, net the adjustments and enter the total on line 26.

If you amended your 2018 federal return and issued shareholders amended Schedules K-1 solely due to the TCDTR, FFCRA, and CARES Act your Minnesota adjustment will offset the change to your federal taxable income. Write “TCDTR”, “FFCRA”, and/or “CARES Act” (all that are applicable) in red at the top of the Minnesota Form M3X and the amended Schedules KPI or KPC you issue to partners.

## **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 amount as a positive number. If your recovery period reported on your federal return is less than the recalculated amount, include the amount 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 amount as a positive number. If your recovery period reported on your federal return is less than the recalculated amount, include the amount 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 the 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 **under 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.

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# Nonconformity Adjustment Instructions (continued)

## **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.

## **CARES Act Sections**

### **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 KPI or line 8 of Schedule KPC.

If you claimed bonus depreciation on this property on your 2017 return and made a nonconformity adjustment on your 2017 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 2018. Include this amount as a negative number.

## **Line 27 - Total of Lines 1 through 26**

Add lines 1 through 26 for each partners' pro rata share on Schedules KPINC or KPCNC.

If the result is positive, enter the number on Schedule KPI, line 8 for your individual, estate, and trust partners' pro rata share of nonconformity adjustments. If the result is negative, enter it as a positive number on Schedule KPI, line 10 for your individual, estate, and trust partners' pro rata share of nonconformity adjustments.