

2020 Minnesota Income Tax for Estates and Trusts (Fiduciary) Form M2 Instructions

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What's New for 2020

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, with certain exceptions. Since that date, Congress has enacted the following significant acts:

- Taxpayer Certainty and Disaster Tax Relief (TCDTR) Act of 2020
- **Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019**
- Families First Coronavirus Response Act (FFCRA) of 2020
- Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020
- Taxpayer Certainty and Disaster Tax Relief (TCDTR20) Act of 2020
- COVID-related Tax Relief Act (COVIDTRA) of 2020
- American Rescue Plan Act (ARPA) of 2021

These acts contain changes affecting estates and trusts for tax year 2020. A bill signed into law on July 1, 2021 conforms Minnesota law to certain provisions from these federal acts. Because Minnesota has not adopted certain federal changes, adjustments are required to correctly determine your Minnesota taxable income. Use Schedules M2NC and M2SBNC to calculate nonconformity adjustments relating to the TCDTR, SECURE, FFCRA, CARES Act, TCDTR20, COVIDTRA, and ARPA.

If you amended your 2020 federal return and issued beneficiaries amended Schedules K-1 solely due to the TCDTR, SECURE, FFCRA, CARES Act, TCDTR20, COVIDTRA, or ARPA, your Minnesota adjustment may offset the change to your federal taxable income. For these amended returns, write "TCDTR", "SECURE", "FFCRA", "CARES Act", "TCDTR20", "COVIDTRA", and/or "ARPA" (all that are applicable) in red at the top of the Minnesota Form M2X and the amended Schedules KF you issue to beneficiaries.

Questions?

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

www.revenue.state.mn.us

Send us an e-mail at:

businessincome.tax@state.mn.us

Call us at 651-556-3075

This information is available in alternate formats.

Schedule M2RT – Resident Trust Questionnaire

Minnesota Schedule M2RT, *Resident Trust Questionnaire*, must be completed and filed with Form M2 if you meet the statutory definition of a resident trust, but believe you may not have sufficient minimum connections to Minnesota for due process purposes to be taxed as a resident trust. See Schedule M2RT for more details.

Resident and Nonresident Checkboxes

New checkboxes were added to the top of Form M2. The checkboxes indicate whether your trust or estate is a statutory resident, statutory nonresident, or due process nonresident of Minnesota. Check all boxes that are applicable. See instructions on page 4 for more details.

Minnesota Backup Withholding

Minnesota backup withholding must be made on any reportable payments made to a trust. The Minnesota backup withholding must be passed through to its beneficiary(s) based upon the income distributed to the beneficiary(s). See instructions for line 21 on page 7 for more details.

e-Services Upgrade

Our e-Services system has a new look and feel! The new design is more intuitive and user friendly. For help, search e-Services Help on our website.

Filing Requirements

An estate or trust, regardless of whether it is considered a resident, must file Minnesota Form M2, *Income Tax Return for Estates and Trusts (Fiduciaries)* when it has \$600 or more of gross income allocable to Minnesota or a nonresident alien as a beneficiary. [M.S. 289A.08.subd. 2] When required, the trustee of a trust or the personal representative of an estate must file Form M2 and pay the tax.

Bankruptcy Estates

If the fiduciary of a bankruptcy estate of a Minnesota resident filed a federal return, a Minnesota return must also be filed. Use Form M1, *Individual Income Tax Return*, to determine the Minnesota tax and attach it to Form M2. File it in the same way you file federal returns.

Resident Estates

A resident estate is an estate of a deceased person where:

- (1) The decedent was domiciled in Minnesota at the date of death, or
- (2) The personal representative or fiduciary was appointed by a Minnesota court in a proceeding other than an ancillary proceeding, or
- (3) The administration of the estate is carried on in Minnesota in a proceeding other than an ancillary proceeding. [M.S. 290.01, subd. 7a]

Resident trusts

The definition of a resident trust differs depending on the date—before or after December 31, 1995—the trust becomes irrevocable or is first administered in Minnesota.

For trusts that became irrevocable or were first administered in Minnesota after December 31, 1995, a resident trust means a trust, except a grantor type trust, which meets one of the following criteria:

1. The trust was created by a will of a decedent who at their death was a Minnesota resident
2. The trust is irrevocable, and at the time it became irrevocable, the grantor was a Minnesota resident. A trust is considered irrevocable if the grantor is not treated as the owner as defined in sections 671 to 678 of the IRC

Before You File

Complete a Federal Return

Before you complete Form M2, complete federal Form 1041, *U.S. Income Tax Return for Estates and Trusts*, and supporting schedules. You will need to reference them.

Minnesota Tax ID Number

Your Minnesota tax ID is the seven-digit number you're assigned when you register with the department. It's important to include your Minnesota tax ID on your return so that any payments you make are properly credited to your account.

If you don't have a Minnesota tax ID, you must apply for one. Go to www.revenue.state.mn.us and type **Business Registration** in the search box or call 651-282-5225 or 1-800-657-3605.

For trusts that became irrevocable or were first administered in Minnesota before January 1, 1996, a resident trust, except a grantor type trust, means any trust administered in Minnesota. To be considered a resident trust administered in Minnesota, you must meet two of these three criteria:

1. A majority of the discretionary investment decisions are made in Minnesota
2. The majority of discretionary distribution decisions are made in Minnesota
3. The trust's official books and records are kept in Minnesota [M.S. 290.01, subd. 7b]

Relevant Minimum Connection of Resident Trusts. The Minnesota Supreme Court ruled in *Fielding v. Commissioner of Revenue*, 916 N.W.2d 323 (Minn. 2018) that a trust may be taxed as a resident if there is "(1) some 'minimum connection' between the state and the entity subject to tax, and (2) a 'rational relationship' between the income the state seeks to tax and the protections and benefits conferred by the state."

The court set out "relevant connections" to be considered, which include Minnesota's connections to:

- the trustee
- the trust's assets
- the administration of the trust
- the trust in the tax year at issue

The resident trust statute is presumed to be constitutional. Complete and enclose Schedule M2RT with your return if you meet the statutory definition of a resident trust, but believe you may not have sufficient minimum connections to Minnesota to be taxed as a resident trust.

General Information

Due Date for Filing and Paying

The regular due date for filing Form M2 and paying the tax due is April 15, 2021. 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. If you file your return according to a fiscal year, your return and payment are due the 15th day of the fourth month following the end of the tax year. Short-year returns are due by the 15th day of the fourth month following the month in which the short year ends. Example: If the fiscal year end is May 31, the due date is September 15.

Extension of Time to File

All estates and trusts are granted an automatic six-month extension to file Form M2, if the tax is paid in full by the regular due date. **If the tax is not paid by the regular due date, the extension of time to file is invalid.**

If the IRS grants an extension to file your federal return, your state filing due date is extended to the federal due date. This is a filing extension only. To avoid penalties, you must make an extension tax payment by the regular due date. See *Extension payment* below for details.

Payments

There are four types of fiduciary income tax payments—extension payments, estimated tax payments, tax return payments, and amended return payments. **Note:** If you are currently paying electronically using the ACH credit method, continue to call your bank as usual. If you want to make payments using the ACH credit method, instructions are available at www.revenue.state.mn.us.

Extension Payment

Your tax is due by the regular due date, even if you're filing under an extension. Any tax not paid by the regular due date is subject to penalties and interest (see lines 27 and 28 instructions on page 8).

If you're filing after the regular due date, you can avoid penalty and interest by making an extension payment for the full amount of the tax owed by the regular due date. For information about payment options see *Payment Options* below. If you administer 100 or more trusts or are required to make other payments electronically, you are required to pay all fiduciary income taxes electronically. [M.S. 289A.20, subd. 1c]

Estimated Payments

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

- an estimated tax of \$500 or more
- any nonresident beneficiary's share of estimated composite income tax of \$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. Installments for a short tax year are due in equal payments on the 15th day of the fourth, sixth, ninth and final months of the tax year depending on the number of months in the short tax year. No installments are required for a short tax year of fewer than four months.

The required annual payment is the lesser of:

- 90 percent of your current year's tax liability, or
- 100 percent of the prior year's tax liability. However, if the trust has more than \$150,000 of Minnesota assignable adjusted gross income, you must use 110 percent, rather than 100 percent, of the prior year's tax liability.
- 75 percent of your actual liability for tax year 2018 (This option applies for tax year 2020 only.)

The required annual payment must be paid in four equal installments unless certain exceptions apply (see the instructions for Schedule EST, *Additional Charge for Underpayment of Estimated Tax*).

If estimated tax is required for both the estimated tax and the composite income tax, include both on the same quarterly payment. [M.S. 289A.25]

To make an estimated tax payment, see *Payment options* on page 3. If paying by check, send a completed payment voucher with your payment.

Tax Return Payment

If there is an amount due on line 30 of Form M2, you must make a tax return payment. If you're paying by check, send a completed payment voucher with your payment.

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% of the unpaid tax. If you file your return after the regular due date with a balance due, and you do not pay that balance, an additional 5% penalty will be assessed on the unpaid tax.

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

Interest. You must also pay interest on the penalty and tax you are sending in late. The interest rate for 2021 is 3%.

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

Payment Options

If you administer 100 or more trusts, you are required to pay all the fiduciary income taxes electronically. We will assess a penalty of 5% of the payment if you fail to do so when required.

Pay with your Bank Account

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

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

To be timely, you must complete your transaction and receive a confirmation number on or before the due date for that payment.

Pay by Credit or Debit Card

We use a third-party vendor, Value Payment Systems LLC, to process credit and debit card payments. A fee is charged for this service.

- To pay online, visit www.payMNtax.com
- If you cannot pay online, call 1-855-947-2966 Monday through Friday 7 a.m. to 7 p.m. Central time

Pay by Check

- Go to our website at www.revenue.state.mn.us and click **Make a Payment**
- Click **By Check or Money Order** to create a payment voucher
- Mail with your check 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.

Reporting Federal Changes

If the Internal Revenue Service (IRS) changes or audits your federal return and it affects your Minnesota return or distributions to beneficiaries, you must file a Form M2X, *Amended Income Tax Return for Estates and Trusts*, with the department within 180 days after you were notified by the IRS. Enclose a copy of the IRS report or your amended federal return with your amended Minnesota return.

If you amended your 2020 federal return and issued beneficiaries amended Schedules K-1 solely due to the TCDTR, **SECURE**, FFCRA, CARES Act, TCDTR20, COVIDTRA, or ARPA, your Minnesota adjustment **may** offset the change to your federal taxable income. For these amended returns, write "TCDTR", "**SECURE**", "FFCRA", "CARES Act", "TCDTR20", "COVIDTRA", and/or "ARPA". (all that are applicable) in red at the top of the Minnesota Form M2X and the amended Schedules KF you issue to beneficiaries. For more details, see Schedule M2NC or Schedule M2SBNC.

If the changes do not affect your Minnesota return or Schedules K-1, you have 180 days to send a letter of explanation to the department. Send your letter and a complete copy of your amended federal return or the correction notice to: Minnesota Fiduciary Income Tax, Mail Station 5140, 600 N. Robert St., St. Paul, MN 55145-5140

If you fail to report as required, a 10 percent penalty will be assessed on any additional tax. [M.S. 289A.60, subd. 24]

Filing Reminders

Composite Income Tax

Minnesota allows estates and trusts to file composite Minnesota income tax on behalf of their beneficiaries who are nonresident individuals and elect to be included. As a result, the electing beneficiary is not required to file Minnesota Form M1, *Minnesota Individual Income Tax Return*.

The electing individuals must not have any Minnesota source income other than the income from this trust or estate and other entities for which they are electing composite filing.

Beneficiaries receiving distributions from an estate or trust reporting installment sale gains on line 6 of Schedule KF are not eligible for inclusion in a composite return.

If you are paying composite income tax for your electing beneficiaries, check the box for composite income tax on the front of Form M2 and see the line 13 instructions on page 6.

Request for Early Audit

You may request an early audit of a decedent's income tax return, property tax refund claim, the return of an estate, or of a terminating trust by filing Minnesota Form M22, *Request for Early Audit of Minnesota Income Tax Return*. The request reduces the time the department has to assess additional taxes from 3 1/2 years from the later of the date the return was due, or when it was filed, to 18 months after the request was received.

Use of Information

Your Minnesota tax ID number is public information. All other information on this form is private, and cannot be given to others except as provided by state law. The identity and income information of the beneficiaries are required under state law so the department can determine the beneficiary's correct Minnesota taxable income and verify if the beneficiary has filed a return and paid the tax. The Social Security numbers of the beneficiaries are required under M.S. 289A.12, subd. 13.

When Filing a Paper Return

How to Assemble

Arrange your Minnesota schedules in the order they were completed and place them behind your Form M2. Schedules KF should be sorted with the largest share of Minnesota source income first. Then place your federal return and its schedules behind the Minnesota material. Do not staple or tape any enclosures to your return.

Where to Send

Mail your Minnesota and federal forms and schedules, using the mailing label below. Cut on the dotted line and tape to your envelope. Or mail to: Minnesota Department of Revenue, Fiduciary Income Tax, Mail Station 1310, 600 N. Robert St., St. Paul, MN 55145-1310



Minnesota Department of Revenue
Fiduciary Income Tax
Mail Station 1310
600 N. Robert St.
St. Paul, Minnesota 55145-1310

Form M2 Instructions

Before you complete Form M2, you must first complete federal Form 1041 and supporting schedules.

Tax Year

If you are filing on a fiscal year basis, enter the beginning and ending dates. Without the dates, your filing and payments may not be considered timely.

Minnesota Tax ID Number

Enter your Minnesota tax ID number on Form M2. Without it, processing of the return is delayed, and your estimated tax and extension prepayments cannot be verified and credited properly.

Check Boxes

Place an X in all boxes that apply.

Initial return. If this is the fiduciary's first return filed in Minnesota.

Final return. If this is the fiduciary's final return. For income tax purposes, Minnesota follows federal law on termination of estates and trusts. All income, deductions and credits are passed through to the beneficiaries.

Irrevocable Trust. A trust is considered irrevocable if the grantor no longer has control over the trust assets and administration. Enter the date the trust became irrevocable.

Grantor Trust. A trust is a grantor trust if the grantor retains certain powers or ownership benefits.

QSST. If the trust is filing as a Qualified Subchapter S Trust.

Composite income tax. If you are paying composite income tax for your electing nonresident beneficiaries. See the line 13 instructions on page 6.

ESBT (Electing Small Business Trust). An ESBT is a non-grantor trust that has income from one or more S corporations. The portion of an ESBT that consists of stock of one or more S corporations is treated as a separate trust.

Section 645 Election. The IRC section 645 election allows a qualified revocable trust to be treated and taxed as part of the related estate during the election period. If the election is made for federal income tax purposes, it also applies for Minnesota. Enclose a copy of federal Form 8855 or letter making the election.

Statutory Resident. A trust or estate that meets the definition of a statutory resident under Minnesota Statute section 290.01, subdivisions 7a and 7b. See instructions on pages 1- 2 for more details.

Statutory Nonresident. A trust or estate that does not meet the definition of a statutory resident under Minnesota Statute section 290.01, subdivisions 7a and 7b and therefore is considered a statutory nonresident. See instructions on pages 1- 2 for more details.

Due Process Nonresident. A trust or estate that meets the definition of a statutory resident (check the statutory resident checkbox), but you believe may not have sufficient minimum connections to Minnesota to be taxed as a resident trust or estate. If you check this box and are a trust, you must also complete and enclose Schedule M2RT with your return. See the instructions on pages 1- 2 and Schedule M2RT for more details.

Bankruptcy estate. A separate and distinct taxable entity created when an individual debtor files for bankruptcy under Chapter 7 or 11 of Title 11 of the United States Code. Enter the bankruptcy debtor's SSN in the bankruptcy debtor SSN box and, if filing jointly, enter the second debtor's SSN in the corresponding box.

Form M706 Filed. If the decedent's estate or trust had a M706 estate tax return filed. Enter the gross value of the estate on the line provided.

Owns or Operates Business. If the estate or trust owns or operates a business through the estate or trust. Provide the Federal Identification Number (FEIN) of the business in the box provided. If the estate or trust owns or operates more than one business, provide a list of all FEINs of the businesses in an attachment.

Installment Sale of Pass-through Assets or Interests. If the trust or estate:

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

If you are required to check the box and the gain from the sale was distributed, complete line 6 of all applicable Schedules KF to report installment sale information to your beneficiaries. Instructions are provided with Schedule KF. Beneficiaries who are receiving Schedules KF with positive values on line 6 may not be included in a composite return.

Line Instructions

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

Line 2 — Deductions and Losses not Allowed

Direct expenses should be allocated to the income to which it is associated. Indirect expenses should be allocated to each class of income in the proportion that each class of income bears to the total income. Only those expenses that relate to the non-Minnesota income should be added back on line 2 of Form M2.

Continued

Form M2 Instructions (continued)

Deductions not allowed by Minnesota. Interest and other expenses deducted on your federal return which relate to income or gains from non-Minnesota sources must be added to your taxable income.

Include administration fees and expenses, interest, taxes, depletion and other deductions (including the charitable deduction) that are connected with or allowed against income or gains not taxed by Minnesota. An example of this would be expenses incurred in connection with a probate proceeding in another state. [M.S. 290.17, subd. 1(b)].

Losses not allowed by Minnesota. Include your total losses from non-Minnesota sources to the extent the losses are deducted in determining your federal taxable income or loss.

Common examples of losses to include on line 2 are:

- losses deducted on the sale or other disposition of real or tangible property outside Minnesota,
- casualty losses deducted on property outside Minnesota,
- losses deducted on the operation of a farm outside Minnesota,
- out-of-state losses from partnerships, S corporations and other fiduciaries,
- losses deducted on the operation of a trade or business from sources outside Minnesota, and
- losses deducted on the sale or other disposition of stocks, bonds, securities and other intangible property by nonresident estates and trusts.

Line 3 — Capital Gain of Lump Sum Distribution

If you received a qualifying lump-sum distribution in 2020 and chose the capital gain election on federal Form 4972, enter the capital gain from line 6 of federal Form 4972. Include a copy of federal Form 4972 when you file Form M2.

Lines 4 and 6 — Additions and Subtractions

Include the amount from line 60, column E of Form M2. See the instructions for Allocation of Adjustments on page 12 for more details.

Line 7 — Income from Non-Minnesota Sources

Minnesota fiduciary income tax is based on income from Minnesota sources only. Therefore, any non-Minnesota losses that are allocated to the fiduciary must be added back to federal taxable income, and non-Minnesota income and gains must be subtracted from federal taxable income.

Intangible income earned by a resident estate or trust is considered Minnesota source income. Intangible income is income from intangible personal property, such as stocks or bonds.

Enter the total income from sources outside Minnesota to the extent the amounts are included in your federal taxable income. Do not include any income or gains that are being distributed to the beneficiary.

Examples of income not subject to Minnesota tax include:

- gains from the sale or other disposition of real or tangible property outside Minnesota,
- income or gains from the operation of a farm outside Minnesota,
- profit from a trade or business outside Minnesota (enter the name and location of the trade or business under line 7),
- out-of-state income from partnerships, S corporations and other fiduciaries (enter the name and location of the partnership or other fiduciary under line 7),
- rents and royalties from land, buildings, machinery or other tangible property outside Minnesota (enter the name and location of the property producing the rents and royalties under line 7), and
- interest, dividends, income and gains from stocks, bonds and other securities for nonresident estates and trusts, unless the income was generated by a trade or business (S corporations and partnerships) and was apportioned to Minnesota.

Enclose a separate schedule, if needed.

Line 10 — Minnesota Tax

Use the table starting on page 15 to determine the amount to enter on line 10.

Line 11 — Tax from S portion of an Electing Small Business Trust

If you are filing as an Electing Small Business Trust (ESBT), you must file Schedule M2SB to report all items relating to the S portion of the trust. Enter the tax calculated on the M2SB on line 11 of Form M2. Include Schedule M2SB when you file Form M2.

Line 12 — Additional Tax

Schedule M1LS—Tax on a Lump-Sum Distribution. If you received a lump-sum distribution from a qualified pension plan, profit sharing plan or stock bonus plan and the 10-year averaging method on federal Form 4972 was used, you must complete Minnesota Schedule M1LS, *Tax on Lump-Sum Distribution*.

Include the amount from line 11 of Schedule M1LS on line 12 of Form M2. Check the box for Schedule M1LS and include a copy of the schedule when you file your return.

Schedule M2MT—Alternative Minimum Tax. If you had to complete federal Schedule I, *Alternative Minimum Tax*, you must complete Minnesota Schedule M2MT, *Alternative Minimum Tax for Estates and Trusts*.

Include the amount from line 18 of Schedule M2MT on line 12 of Form M2. Check the box for Schedule M2MT and include a copy of the schedule with your return.

Form M2 Instructions (continued)

Line 13 — Composite Income Tax

Add the composite income tax attributed to all electing beneficiaries (the total of line 34 from all Schedules KF), and enter the result on line 13 of Form M2.

Line 15 — Credit for Taxes Paid to Another State

You may claim a nonrefundable credit on line 15 for taxes paid to another state if all of the following are true:

- You are filing as a Minnesota resident estate or trust.
- You paid 2020 income tax to Minnesota.
- You paid 2020 income tax to another state on the same income as Minnesota. For purposes of this credit, a Canadian province or territory and the District of Columbia are considered a state.

The credit cannot exceed the sum of the taxes shown on lines 10 and 11 of Form M2.

Use Schedule M1CR, *Credit for Income Tax Paid to Another State*, as a worksheet to determine the credit and enter the result on line 15.

You may not carry forward any unused credit.

Line 16 — Tax Credit for Owners of Agricultural Assets

If you received a credit certificate from the Minnesota Rural Finance Authority for selling or leasing agricultural assets to a beginning farmer, enter the credit amount on line 16 and certificate number in the space provided.

If you have multiple credits, enter the certificate number the estate or trust 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. Include a statement showing the certificate numbers and corresponding credit amounts for all credits you included on line 16. Subtotal all credit amounts on line 16.

You may carry any unused credit forward for up to 15 years.

Line 17 — Unused Credits for Owners of Agricultural Assets from a Prior Year

If you have a carryforward of one or more prior year Owners of Agricultural Assets Credits, enter the credit amount you are claiming for the current year and the relating certificate number from prior year(s).

If you can claim multiple carryforward credits in the current year, include a statement summarizing the credit amounts and relating certificate numbers from prior years. Enter the total carryforward amount for all credits you are claiming in the current year on line 17.

Line 18 — Other Nonrefundable Credits

If you are claiming a nonrefundable credit other than the Credit for Owners of Agricultural Assets and Credit for Taxes Paid to Another State, include the credit on line 18.

Include on line 18 any credits eligible outright by an estate or trust or received on Schedules KPI, KS, or KF as a partner, shareholder, or beneficiary of another entity.

Include on line 18 only the portion of the credit(s) being retained by the estate or trust. Any portion of the credit(s) being distributed to beneficiaries should be reported on the beneficiaries' Schedules KF.

If you are including an amount on line 18, include a statement indicating which credit(s) the estate or trust is claiming. Include with your return filing any required forms, schedules, credit certificates, or documentation

Employer Transit Pass Credit

You may be eligible for the nonrefundable Employer Transit Pass Credit if the estate or trust operated a business that purchases transit passes to sell or give to employees. The credit is equal to 30 percent of the difference between the price you paid for the pass and the price charged employees.

If you qualify, complete Schedule ETP, *Employer Transit Pass Credit*. Enter the credit amount on line 18.

You may not carry forward any unused credit.

SEED Capital Investment Credit

You may be eligible for the SEED Capital Investment Credit if:

- The estate or trust invested in a qualified business in Breckenridge, Dilworth, East Grand Forks, Moorhead, or Ortonville.
- The business has been certified by the Minnesota Department of Employment and Economic Development (DEED) as qualifying for the SEED Capital Investment Program.

Enter the credit amount from the credit certificate you received from the DEED on line 18.

You may carry any unused credit forward for up to four years.

Credit for Increasing Research Activities

An estate or trust may receive a Minnesota Credit for Increasing Research Activities as a partner of a partnership or shareholder of an S corporation that paid qualified research and development expenses in Minnesota.

Include on line 18 the credit amount you received on the:

- 2020 Schedule KS, line 17
- 2019 Schedule KPI, line 17
- 2019 Schedule KF, line 18

You may carry any unused credit forward for up to 15 years.

Form M2 Instructions (continued)

Alternative Minimum Tax Credit

You may be eligible for the Alternative Minimum Tax Credit if the estate or trust paid Minnesota alternative minimum tax in one or more taxable years from 1989 through 2019. If the estate or trust did not pay Minnesota alternative minimum tax, you do not qualify for the credit.

Use the Schedule M1MTC, *Alternative Minimum Tax Credit*, as a worksheet to determine if you qualify or have a credit carry over from a prior year of any unused portion of your minimum tax credit. Enter the credit calculated from Schedule M1MTC on line 18.

Line 21 — Minnesota Income Tax Withheld

Enter the total of any 2020 Minnesota tax withheld, including:

- Minnesota income tax withheld in error (and not repaid) by an employer on wages and salaries of a decedent that was received by the decedent's estate (enclose a copy of federal Form W-2, Wage and Tax Statement), and
- The fiduciary's share of any Minnesota income tax withholding from Schedule KS or KPI not passed through to the beneficiaries.

Minnesota requires backup withholding to be made when the payee is subject to federal backup withholding on reportable payments made to a trust for personal services. (*IRC section 3406*). The Minnesota backup withholding is equal to the payment multiplied by the highest Minnesota tax rate for trusts. The Minnesota backup withholding must be passed through to the trust's beneficiary(s) based upon the income distributed to the beneficiary(s). Report each beneficiary's portion of the backup withholding on line 27 of Schedule KF.

If you are including withholding on line 21, include a copy of the federal Form 1099, Schedule KPI, Schedule KS or other documentation showing the amount withheld. If the documentation is not included with your Form M2, the department will disallow the amount and assess the tax or reduce your refund.

Line 22 — Total Estimated Tax Payments and Any Extension Payments

Enter your total estimated tax and extension payments paid for the tax year, including:

- your total 2020 estimated tax payments made in 2020 and 2021, either paid electronically or by check,
- the portion of your 2019 refund applied to your 2020 estimated tax, and
- any 2020 extension payment, paid electronically or by check, that was made by the due date when filing under an extension.

Line 23 — Historic Structure Rehabilitation Tax Credit

You may be eligible for the refundable Minnesota Historic Structure Rehabilitation Credit if all of the following apply:

- You made qualified improvements to a certified historic structure in Minnesota.
- The improvements qualify for the federal Historic Rehabilitation Credit under Internal Revenue Code, section 47.
- You applied for certification to the Minnesota State Historic Preservation Office (SHPO) before starting the project.
- SHPO issued a credit certificate upon the project's completion.

For estates and trusts who receive a credit certificate from Minnesota SHPO, enter the National Park Service (NPS) project number from the credit certificate you received in the space provided, and include on line 23:

- The credit amount shown on the credit certificate if the initial application for allocation certificate was submitted to SHPO on or before December 31, 2017.
- One-fifth of the credit amount shown on the credit certificate if the initial application for allocation certificate was submitted to SHPO after December 31, 2017.

For details about the Minnesota and federal credits, go to the SHPO website at mn.gov/admin/shpo.

Line 24 — Other Refundable Credits

If you are claiming a refundable credit other than the Historic Structure Rehabilitation Tax Credit, include the credit on line 24.

Include on line 24 any credits eligible outright by an estate or trust or received on Schedules KPI, KS, or KF as a partner, shareholder, or beneficiary of another entity.

Include on line 24 only the portion of the credit(s) being retained by the estate or trust. Any portion of the credit(s) being distributed to beneficiaries should be reported on the beneficiaries' Schedules KF.

If you are including an amount on line 24, include a statement indicating which credit(s) the estate or trust is claiming. Include with your return filing any required forms, schedules, credit certificates, or documentation.

Enterprise Zone Credit

You may be eligible for the refundable Enterprise Zone Credit if the estate or trust operated a business that has been approved by the Minnesota Department of Employment and Economic Development (DEED) as employment property in an enterprise zone.

If you received approval from DEED for the Enterprise Zone Credit, enter the credit amount on line 24. Attach the certification document received from the DEED.

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

Form M2 Instructions (continued)

Angel Investment Tax Credit

You may be eligible for the refundable Angel Investment Tax Credit if you made investment in certain Minnesota businesses. The Minnesota Department of Employment and Economic Development (DEED) certifies investors, investment funds, and businesses as being eligible to participate in this credit program.

If you received the Angel Investment Tax Credit Certificate issued by DEED, enter the credit amount on line 24.

For more information about credit eligibility, go to the DEED website at mn.gov/deed.

Line 27 — Penalty

Penalties are collected as part of the tax and are in addition to any charge for underpaying estimated tax. If you are paying your tax after the regular due date, include the appropriate penalties on line 27. Include a statement showing how you arrived at the penalty amount.

Late Payment. If the tax is not paid by the original due date, a penalty is due of 6 percent of the unpaid tax on line 26.

Balance Not Paid. If you file your return after the regular due date with a balance due, an additional 5 percent penalty will be assessed on the unpaid tax.

Late Filing. If you are filing your return after the extended due date, you must pay a late filing penalty. The late filing penalty is 5 percent of the unpaid tax on line 26.

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

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

You must also pay electronically if you're required to pay any Minnesota business tax electronically.

Line 28 — 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 2021 is 3 percent. To figure how much interest you owe, use the following formula with the appropriate interest rate:

Interest = (tax + penalty) x # of days late x interest rate ÷ 365

Line 29 — Trusts Only

Skip this line if you are an estate.

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

You may also owe an additional charge if the sum of the following is more than \$500:

- Line 14
- Less the sum of any credits on lines 15 - 19 and lines 23 - 24.

Complete Schedule EST, *Additional Charge for Underpayment of Estimated Tax (for Trusts, Partnerships and S Corporations)*, to determine the additional charge for underpaying estimated tax, if any, to enter on line 29. Include Schedule EST with your return.

Line 30 — Amount Due

Add lines 26 through 29. This is the amount of tax you owe.

Check the appropriate box on line 30 to indicate your method of payment. See *Payment options* on page 3.

Line 31 — Overpayment

If you have an overpayment, you may choose to have it directly deposited into your bank account, apply all or a portion of your overpayment toward your 2021 estimated tax account, or receive a check.

Line 32 — 2021 Estimated Tax

Skip this line if you owe additional tax or you will be electing to have your entire refund directly deposited (see line 34).

If you are paying 2021 estimated tax, you may apply all or a portion of your refund to your 2021 estimated tax.

Enter the portion of line 31 you want to apply toward your 2021 estimated tax.

Line 33 — Minnesota Income Tax Refund

Subtract line 32 from line 31. The result is the amount of your 2020 Minnesota income tax refund that will be refunded to you.

If you want to request your refund to be direct deposited into your bank account, complete line 34. Your bank statement will indicate when your refund was deposited to your account. Otherwise, skip line 34 and your refund will be sent to you in the mail.

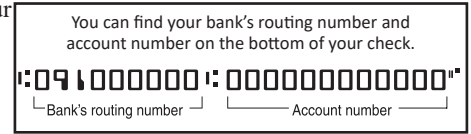
Form M2 Instructions (continued)

Line 34 — To Request 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. 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 34, 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 the fiduciary or authorized officer of the organization receiving, controlling or managing the income of the estate or trust. The person must also include his or her ID number.

If someone other than the fiduciary prepared the return, the preparer must also sign and provide their Preparer Tax Identification Number (PTIN) and phone number.

You may check the box in the signature area to give us your permission to discuss your return with the paid preparer. This authorization remains in effect for one year or 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 REV184b, *Business Power of Attorney*, with the department.

E-mail Address

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

By providing an e-mail address, you are authorizing the department to correspond with you or the designated person via email 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 fiduciary may incur as a result of an interception.

Line 35 — State and Municipal Bond Interest

Enter the amount of interest or dividends received from bonds or a bond mutual fund which invests in non-Minnesota state or municipal securities.

For dividends received from a bond mutual fund, determine the amount to include using the following instructions:

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

Nonresident estates and trusts: Non-Minnesota interest or dividends received from bonds or a bond mutual fund do not have to be added back to Minnesota income. [M.S. 290.0131, subd. 2]

Line 36 — State Taxes Deducted in Arriving at Net Income

Enter the amount of state income tax, sales and use tax, motor vehicle sales tax, excise tax, or tax based on net income paid or accrued within the taxable year and deducted on the federal return. For the purposes of this addition, "state" means any state or any province or territory of Canada to the extent the tax is deducted under IRC section 63(d). [M.S. 290.0131, subd. 3] State income tax deductions are not allowed on the Minnesota return.

Line 37 — Expenses Related to Income Not Taxed by Minnesota, Other Than From U.S. Bond Obligations

Enter the amount of expenses deducted on your federal return that relate to income not taxed by Minnesota. [M.S. 290.0131, subd. 6]. If you had expenses attributable to interest or mutual fund dividends from U.S. bonds, see the instructions for line 48 on page 10.

Form M2 Instructions (continued)

Line 38 — Suspended Loss of Bonus Depreciation

If you're claiming a suspended loss from 2001-2005 or 2008-2019 on your federal return that was generated by bonus depreciation, and you did not add back 80 percent of the bonus depreciation in those years, complete the following steps:

- 1 Bonus depreciation from 2001-2005 or 2008-2019 not added back on Form M2
- 2 Total suspended loss from activity remaining after 2020
- 3 Subtract step 2 from step 1 (if a negative amount, enter zero)
- 4 Multiply step 3 by 80 percent (.80)
- 5 Total of the 80 percent bonus depreciation addition passed through to you as a beneficiary of another estate or trust (from line 4 of Schedule KF)
- 6 Add steps 4 and 5. Enter here and on line 38

Line 39 — Bonus Depreciation Addition

If you claimed a deduction for special depreciation allowance (bonus depreciation) for property placed in service after December 31, 2017, that deduction may need to be adjusted due to Section 2307 of the CARES Act before making this addition (see Schedule M2NC for more information).

If you claimed federal bonus depreciation, you must add back 80 percent of the bonus depreciation to Minnesota. Follow the steps below to determine line 39.

- 1 Add line 14 and line 25 of your federal Form 4562*
- 2 Total of bonus depreciation passed through to you as a shareholder of an S corporation (from line 5 of Schedule KS), or as a partner of a partnership (from line 5 of Schedule KPI)
- 3 Add steps 1 and 2
- 4 Multiply step 3 by 80% (.80)
- 5 Total of any 80% federal bonus depreciation addition you received as a beneficiary of another estate or trust (from line 4 of Schedule KF)
- 6 Add steps 4 and 5. Enter here and on line 39

* If bonus depreciation included in step 1 or 2 generated a loss in an activity that cannot be deducted in 2020 (e.g., a passive activity loss, a loss in excess of basis, or an excess business loss), you may reduce step 1 or 2 by the amount of loss not allowed from the activity for 2020, up to the bonus depreciation claimed by the activity.

In a future year, you must include the bonus depreciation as an addition when the 2020 suspended loss is allowed. The bonus depreciation is treated as the last suspended loss allowed.

Line 40 — Section 199A Qualified Business Income (QBI)

Enter the amount of QBI you deducted from net income under Internal Revenue Code (IRC) section 199A for the taxable year. Include on line 40 only the portion of the QBI deduction being retained by the estate or trust. Allocate 100% of line 40 to the fiduciary on line 60 of Form M2. [M.S. 290.0131, subd. 16]

Line 41 — Addition Due to Federal Changes Not Adopted by Minnesota

Enter the amount from Schedule M2NC, line 25. If the amount is a negative, leave line 41 blank and enter it as a positive number on line 51.

Line 42 — Net Operating Loss (NOL) Carryover Adjustment

Minnesota did not adopt the provisions of the Worker, Homeownership, and Business Assistance Act of 2009 (WHBA). Under this Act, taxpayers are allowed to carryback 3, 4, or 5 years of a NOL generated in 2008 or 2009. For federal purposes, any remaining NOL that was not fully absorbed in the carryback years can be carried forward for up to 20 years, beginning in 2010. If you claimed the deduction in 2019, you must add back the federal NOL amount as a positive number on line 42.

Line 43 — Foreign-Derived Intangible Income (FDII) Deduction

Enter the amount of foreign-derived intangible income (FDII) you deducted from net income under IRC section 250 for the taxable year. [M.S. 290.0131, subd. 17]

Line 44 — Special Deduction under IRC Section 965

Enter the amount of any special deduction you deducted from net income under IRC section 965(c) for the taxable year. [M.S. 290.0131, subd. 18]

Line 48 — Net Interest from U.S. Bonds

Interest earned on certain direct federal obligations is taxable on the federal return, but is not taxable on the state return. You may reduce your taxable income if you reported interest on your federal return that is exempt from state income tax.

Include the interest you received from certain U.S. bonds, bills, notes and other debt instruments, reduced by any related investment interest and other expenses you deducted on your federal return that relate to this income.

You may also include the portion of dividends from mutual funds that are attributable to such bonds, bill or notes, reduced by any related expenses you deducted on your federal return.

Enclose a statement from the fund indicating the proportionate interest earned on the above securities. [M.S. 290.0132, subd. 2]

Form M2 Instructions (continued)

Line 49 — State Income Tax Refunds

Income tax refunded by Minnesota or any other taxing jurisdiction that was included as income on the federal return is not taxed by Minnesota. [M.S. 290.0132, subd. 3]

Line 50 — Federal Bonus Depreciation Subtraction

You may be able to reduce your taxable income if you:

- deducted bonus depreciation on your 2015 through 2019 federal return, and
- reported 80 percent of the federal bonus depreciation as an addition to income on your 2015 through 2019 Form M2, or
- received a federal bonus depreciation subtraction in 2020 from another estate or trust.

To determine the amount, see *Worksheet for Line 50* below.

Worksheet for Line 50

If you claimed bonus depreciation as an addition on your 2015 Form M2:

1	Portion of lines 28 and 29 of your 2015 Form M2 allocated to fiduciary	1	_____
2	Net operating loss generated for tax year 2015 (line 25, Schedule A of 2015 federal Form 1045). Enter as a positive number	2	_____
3	Subtract step 2 from step 1	3	_____
4	Multiply step 3 by 20% (.20)	4	_____

If you claimed bonus depreciation as an addition on your 2016 Form M2:

5	Portion of lines 28 and 29 of your 2016 Form M2 allocated to fiduciary	5	_____
6	Net operating loss generated for tax year 2016 (line 25, Schedule A of 2016 federal Form 1045). Enter as a positive number	6	_____
7	Subtract step 6 from step 5	7	_____
8	Multiply step 7 by 20% (.20)	8	_____

If you claimed bonus depreciation as an addition on your 2017 Form M2:

9	Portion of lines 28 and 29 of your 2017 Form M2 allocated to fiduciary	9	_____
10	Net operating loss generated for tax year 2017 (line 25, Schedule A of 2017 federal Form 1045). Enter as a positive number	10	_____
11	Subtract step 10 from step 9	11	_____
12	Multiply step 11 by 20% (.20)	12	_____

If you claimed bonus depreciation as an addition on your 2018 Form M2:

13	Portion of lines 28 and 29 of your 2018 Form M2 allocated to fiduciary	13	_____
14	Net operating loss generated for tax year 2018 (line 25, Schedule A of 2018 federal Form 1045). Enter as a positive number	14	_____
15	Subtract step 14 from step 13 (if zero or less, enter 0)	15	_____
16	Multiply step 15 by 20% (.20)	16	_____

If you claimed bonus depreciation as an addition on your 2019 Form M2:

17	Portion of lines 28 and 29 of your 2019 Form M2 allocated to fiduciary	17	_____
18	Net operating loss generated for tax year 2019 (line 25, Schedule A of 2019 federal Form 1045). Enter as a positive number	18	_____
19	Subtract step 18 from step 17 (if zero or less, enter 0)	19	_____
20	Multiply step 19 by 20% (.20)	20	_____

If you received a subtraction in 2020 from an estate or trust:

21	Total of any bonus depreciation subtraction amounts you received as a beneficiary of an estate or trust (from line 15 of Schedule KF)	21	_____
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Total subtraction

22	Add steps 4, 8, 12, 16, 20, and 21. Enter here and on line 50 of Form M2	22	_____
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Line 51 — Subtraction Due to Federal Changes Not Adopted by Minnesota

Enter the amount from Schedule M2NC, line 25. If the amount is a positive, leave line 51 blank and enter it as a positive number on line 41.

Line 52 — Subtraction for Prior Addback of Reacquisition of Indebtedness Income

If you included in this year's federal taxable income any discharge of indebtedness income from reacquisition of business debt which you elected to defer federally in a prior year, enter that amount on line 52.

Line 54 — Net Operating Loss (NOL) from 2008 or 2009

Minnesota did not adopt the provisions of the Worker, Homeownership, and Business Assistance Act of 2009 (WHBA). If you chose this federal option, you are limited on your Minnesota return to a carryback period of two years preceding the loss. On line 54, enter the amount you are carrying forward for 2020 for Minnesota purposes.

For complete information on how to determine line 54 and any amount to carry forward, go to our website at www.revenue.state.mn.us.

Line 55 — Deferred Foreign Income (IRC Section 965)

Enter the amount of deferred foreign income included in net income under IRC section 965 for the taxable year. [M.S. 290.0132, subd. 27]

Line 56 — Global Intangible Low-Taxed Income (GILTI)

Enter the amount of global intangible low-taxed income (GILTI) included in net income under IRC section 951A for the taxable year. [M.S. 290.0132, subd. 28]

Line 57 — Disallowed IRC Section 280E Expenses of Medical Cannabis

If you are a medical cannabis manufacturer registered with the Minnesota Department of Health, you may subtract expenses that were not allowed for federal tax purposes under IRC section 280Ee. Enter the disallowed IRC section 280E expenses on line 57. *[M.S. 290.0132, subd. 29]*

Allocation of Adjustments (Lines 59—61)

The beneficiary(s) of a trust or an estate must file an individual or fiduciary income tax return to report their portion of the income distributed. A resident individual beneficiary must report all income from the trust or estate. A nonresident individual beneficiary who receives \$12,400 or more of Minnesota gross income must report income assignable to Minnesota.

The purpose of this section is to allocate any adjustments noted on lines 35-46 and 48-57 between the beneficiary(s) and fiduciary. If all the income is retained by the trust or estate, then any adjustment is allocated entirely to the fiduciary. If all of the income is distributed, then any adjustment is passed through to the beneficiary(s) in proportion to their share of distributable net income. If part of the income is retained and part distributed, then part of the adjustment is allocated to the fiduciary and part to the beneficiary(s).

The share of adjustments in column E is the same percentage share as the fiduciary's and each beneficiary's share of federal distributable net income to the total distributable net income (the amount on Form 1041, Schedule B, line 7). Divide each share by the total distributable net income to determine the percentage.

Certain adjustments must be assigned entirely to the fiduciary or the beneficiary. See the instructions for line 21 on page 7 for the allocation instructions for Minnesota backup withholding. See the instructions for line 40 on page 10 for the allocation instructions for the Section 199A QBI addition.

Where the adjustment is an addition, that portion of the adjustment allocated to each beneficiary and to the fiduciary must be shown as an addition.

Where the adjustment is a subtraction, that part of the adjustment allocated to each beneficiary and to the fiduciary must be shown as a subtraction.

Column C

Enter the federal distributable net income assigned to each beneficiary and the fiduciary as determined for federal purposes. Add the amounts and enter the total on line 61, column C.

Column D

To obtain the proper percentage, divide each figure from column C on lines 59 and 60 by the total of column C on line 61. Enter this percentage in column D for to correspond with each beneficiary and the fiduciary. The total of column D must equal 100%.

Column E

To obtain the proper share for each beneficiary and the fiduciary, multiply the adjustment on line 61, column E, under additions and subtractions by the percentage in column D. Enter the result for each beneficiary and the fiduciary in column E, under additions or subtractions.

Complete a Schedule KF for each beneficiary who is assigned adjustments. Complete and provide Schedule KF to each nonresident beneficiary with Minnesota source income and any Minnesota beneficiary who has adjustments to income.

Completing Schedule KF

Complete and provide Schedule KF to each nonresident beneficiary and any Minnesota resident beneficiary who has adjustments to income.

Enter the information associated with this estate or trust and beneficiary.

Purpose

An estate or trust must provide each nonresident beneficiary, and any Minnesota beneficiary with adjustments to income, with enough information for them to complete a Minnesota income tax return and determine their correct Minnesota tax.

Schedule KF provides beneficiaries the information they need to file a Minnesota income tax return. The schedule shows each beneficiary their specific share of the fiduciary's income, credits and modifications. Provide the beneficiary a copy of both the front and back of the completed Schedule KF and instructions.

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

You must enclose with your Form M2 copies of the Schedules KF and attachments issued to your beneficiaries and copies of your federal Schedules K-1.

Line Instructions

Enter the name, address and social security number of the beneficiary.

Calculate lines 1-27 the same for all resident and nonresident beneficiaries. Calculate lines 28-34 for nonresident beneficiaries only. Round amounts to the nearest whole dollar.

All Beneficiaries, Lines 1-27 KF, lines 1-5 and 7-22

If all or part of the fiduciary's income is distributed, then any adjustment shown on lines 35-46 and 48-57 of Form M2 is passed through to the beneficiary(s) in proportion to their share of distributable net income. From line 59 of Form M2, enter the adjustments to income allocated to each beneficiary.

Completing Schedule KF (continued)

KF, line 6

If you checked the box for Installment Sale of Pass-through Assets or Interests and the gain from the sale was distributed, then complete line 6 for all applicable Schedules KF to report installment sale information to your beneficiaries.

Line 6a. Enter each beneficiary's share of the gross profit from any installment sale of S corporation stock or assets, or partnership interests or assets executed after December 31, 2016.

If the sale was completed by the fiduciary, then the total gross profit is found on federal Form 6252, line 16. If the sale was executed by an entity owned by the fiduciary, or another entity in a multi-tiered structure, then this information is reported on:

- Schedules KS and KPI, line 8a
- Schedule KPC, line 11a
- Schedule KF, line 6a

This amount is allocable amongst the beneficiaries in proportion to their share of distributable net income.

If installment sale information is reported to the fiduciary on informational schedules from other entities, then the amount reported to the beneficiaries should equal the total amount reported on all Schedules KF, KPI, KS, and KPC.

If the fiduciary receives installment payments from multiple sales executed after December 31, 2016, attach a schedule to Form M2 detailing the different sales and distributive allocations.

Line 6b. Enter each beneficiary's share of installment sale income from the sale of S corporation stock, or 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 fiduciary completing this schedule, then the total installment sale income is found on Form 6252, line 24. If the sale was executed by an entity owned by the fiduciary, or another entity in a multi-tiered structure, then this information is reported on:

- Schedules KS and KPI, line 8b
- Schedule KPC, line 11b
- Schedule KF, line 6b

This amount is allocable amongst the beneficiaries in proportion to their share of distributable net income.

If installment sale information is reported to the fiduciary on informational schedules from other entities, then the amount reported to the beneficiaries should equal the total amount reported on all Schedules KF, KPI, KS, and KPC.

Line 6c. Enter the S corporation's or partnership's apportionment percentage in the year of the installment sale. This information is reported on:

- Schedule KS, line 38, for shareholders of a S corporation
- Schedule KPI, line 40, for partners of a partnership
- Schedule KF, line 6c, for beneficiaries of a trust or estate. Enter the amount as a positive number carried to five decimal places.

Note: If you are reporting a gain from an entity in a multi-tiered pass-through structure, you may need to gather information from the tax preparer of the company that executed the sale.

KF, line 7

If the amount reported on the beneficiary's Schedule KFNC line 24 is a positive number, include the amount from Schedule KFNC line 24 on the beneficiary's Schedule KF line 7.

KF, line 18

If the amount reported on the beneficiary's Schedule KFNC line 24 is a negative number, include the amount from Schedule KFNC line 24 as a positive number on the beneficiary's Schedule KF line 18.

KF, line 23

If you received a Minnesota income tax withholding credit, enter the beneficiary's distributive share of any credit that is passed through to the beneficiary. Do not include amounts reported on line 21 of Form M2.

KF, line 24

If you are a partner of a partnership or a shareholder of an S corporation that conducted qualified research and development in Minnesota, enter the beneficiary's distributive share of the credit from line 17 of Schedule KPI and line 17 of Schedule KS. Attach the appropriate schedule when you file your return.

KF, line 25

If you received a credit certificate from the Minnesota Rural Finance Authority for selling or leasing agricultural assets to a beginning farmer, enter the certificate number in the space provided and the beneficiary's distributive share of the credit on line 25.

If you have multiple credits, enter the certificate number your fiduciary 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 25.

KF, line 26

If you are a partner of a partnership or a shareholder of an S corporation that qualified for the historic structure rehabilitation tax credit, enter the beneficiary's distributive share of the credit from line 19 of Schedule KPI and Schedule KS. Attach the appropriate certificate when you file your return and enter the NPS project number in the space provided. **13**

Completing Schedule KF (continued)

KF, line 27

If you remitted Minnesota backup withholding on a reportable payment made for personal services, include the beneficiary(s) portion of the backup withholding on line 27. The Minnesota backup withholding must be passed through to the trust's beneficiary(s) based upon the income distributed to the beneficiary(s). See the instructions for line 21 of Form M2 for more details.

Nonresident Beneficiaries, Lines 28 – 34

Lines 28 - 34 apply to nonresident beneficiaries. A nonresident beneficiary will be taxed on the income that is allocable to Minnesota.

KF, lines 28 – 31

From the nonresident beneficiary's federal Schedule K-1 (1041), enter the Minnesota portion of amounts on lines 28–31.

Interest or dividend income derived from a trade or business (S corporations and partnerships) that is apportioned to Minnesota should be included on line 30.

Include only other income allocable to Minnesota on line 31. For example, include other income from services performed in Minnesota, but do not include interest, dividends or distribution from a pension plan.

KF, line 32

Minnesota source gross income is used to determine if a nonresident individual is required to file a Minnesota individual income tax return (Form M1). Gross income is income before business or rental deductions and does not include losses.

Enter the beneficiary's distributive share of the fiduciary's Minnesota source gross income.

Composite Income Tax

KF, line 33

Use the Worksheet for Line 33 to determine line 33.

Worksheet for Line 33

1	80 percent of bonus depreciation from line 5 of the beneficiary's Schedule KF	_____
2	Combine lines 7, 9, and 12* of the beneficiary's Schedule KF	_____
3	Combine lines 28–31 of the beneficiary's Schedule KF.	_____
4	Add steps 1, 2 and 3	_____
5	To the extent allowed by law, enter one-fifth of the beneficiary's share of the federal bonus depreciation that was added back in a year the beneficiary elected to be included in composite income tax	_____
6	Combine lines 18, 20, and 21 of the beneficiary's Schedule KF	_____
7	Add steps 5 and 6	_____
8	Subtract step 7 from step 4	_____

Enter the result from step 8 on line 33 of the beneficiary's Schedule KF. The result in step 8 is the beneficiary's adjusted Minnesota source distributive income from this fiduciary.

* Only include an amount from line 12 of Schedule KF if the beneficiary is an estate or trust.

KF, line 34

Nonresident beneficiaries must pay tax if their Minnesota gross income is more than the minimum filing requirement for the year (\$12,400 for 2020).

Skip this line if the nonresident beneficiary did not elect the fiduciary 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 beneficiary, follow the steps on the Worksheet for Line 34.

Check the box next to Line 34 indicating the beneficiary's election for composite income tax filing.

If the beneficiary elects to be included in composite income tax but has zero tax due, enter zero on line 34 and still check the box to indicate the election.

Once you have completed all Schedules KF for your electing nonresident beneficiaries, add the amounts on line 34 of all schedules and enter the total on line 13 of Form M2. This is the amount of composite income tax you are required to pay on behalf of your electing beneficiaries.

Worksheet for Line 34

1	Multiply line 33 of Schedule KF by 9.85% (.0985).	_____
2	Add the credits and backup withholding from lines 23, 25, 26, and 27 of Schedule KF	_____
3	Subtract step 2 from step 1. If the result is less than zero, enter zero	_____

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

Enter this amount on line 34 of the beneficiary's Schedule KF and check the box to indicate the beneficiary's election to be included.

2020 Tax Table

If line 9 of Form M2 is:		
at least	but less than	your tax is
0	20	0
20	100	3
100	200	8
200	300	13
300	400	19
400	500	24
500	600	29
600	700	35
700	800	40
800	900	45
900	1,000	51
1,000	1,100	56
1,100	1,200	62
1,200	1,300	67
1,300	1,400	72
1,400	1,500	78
1,500	1,600	83
1,600	1,700	88
1,700	1,800	94
1,800	1,900	99
1,900	2,000	104
2,000	2,100	110
2,100	2,200	115
2,200	2,300	120
2,300	2,400	126
2,400	2,500	131
2,500	2,600	136
2,600	2,700	142
2,700	2,800	147
2,800	2,900	152
2,900	3,000	158
3,000	3,100	163
3,100	3,200	169
3,200	3,300	174
3,300	3,400	179
3,400	3,500	185
3,500	3,600	190
3,600	3,700	195
3,700	3,800	201
3,800	3,900	206
3,900	4,000	211
4,000	4,100	217
4,100	4,200	222
4,200	4,300	227
4,300	4,400	233
4,400	4,500	238
4,500	4,600	243
4,600	4,700	249
4,700	4,800	254
4,800	4,900	259
4,900	5,000	265
5,000	5,100	270
5,100	5,200	276
5,200	5,300	281
5,300	5,400	286
5,400	5,500	292
5,500	5,600	297
5,600	5,700	302
5,700	5,800	308
5,800	5,900	313
5,900	6,000	318
6,000	6,100	324
6,100	6,200	329

If line 9 of Form M2 is:		
at least	but less than	your tax is
6,200	6,300	334
6,300	6,400	340
6,400	6,500	345
6,500	6,600	350
6,600	6,700	356
6,700	6,800	361
6,800	6,900	366
6,900	7,000	372
7,000	7,100	377
7,100	7,200	383
7,200	7,300	388
7,300	7,400	393
7,400	7,500	399
7,500	7,600	404
7,600	7,700	409
7,700	7,800	415
7,800	7,900	420
7,900	8,000	425
8,000	8,100	431
8,100	8,200	436
8,200	8,300	441
8,300	8,400	447
8,400	8,500	452
8,500	8,600	457
8,600	8,700	463
8,700	8,800	468
8,800	8,900	473
8,900	9,000	479
9,000	9,100	484
9,100	9,200	490
9,200	9,300	495
9,300	9,400	500
9,400	9,500	506
9,500	9,600	511
9,600	9,700	516
9,700	9,800	522
9,800	9,900	527
9,900	10,000	532
10,000	10,100	538
10,100	10,200	543
10,200	10,300	548
10,300	10,400	554
10,400	10,500	559
10,500	10,600	564
10,600	10,700	570
10,700	10,800	575
10,800	10,900	580
10,900	11,000	586
11,000	11,100	591
11,100	11,200	597
11,200	11,300	602
11,300	11,400	607
11,400	11,500	613
11,500	11,600	618
11,600	11,700	623
11,700	11,800	629
11,800	11,900	634
11,900	12,000	639
12,000	12,100	645
12,100	12,200	650
12,200	12,300	655
12,300	12,400	661
12,400	12,500	666

If line 9 of Form M2 is:		
at least	but less than	your tax is
12,500	12,600	671
12,600	12,700	677
12,700	12,800	682
12,800	12,900	687
12,900	13,000	693
13,000	13,100	698
13,100	13,200	704
13,200	13,300	709
13,300	13,400	714
13,400	13,500	720
13,500	13,600	725
13,600	13,700	730
13,700	13,800	736
13,800	13,900	741
13,900	14,000	746
14,000	14,100	752
14,100	14,200	757
14,200	14,300	762
14,300	14,400	768
14,400	14,500	773
14,500	14,600	778
14,600	14,700	784
14,700	14,800	789
14,800	14,900	794
14,900	15,000	800
15,000	15,100	805
15,100	15,200	811
15,200	15,300	816
15,300	15,400	821
15,400	15,500	827
15,500	15,600	832
15,600	15,700	837
15,700	15,800	843
15,800	15,900	848
15,900	16,000	853
16,000	16,100	859
16,100	16,200	864
16,200	16,300	869
16,300	16,400	875
16,400	16,500	880
16,500	16,600	885
16,600	16,700	891
16,700	16,800	896
16,800	16,900	901
16,900	17,000	907
17,000	17,100	912
17,100	17,200	918
17,200	17,300	923
17,300	17,400	928
17,400	17,500	934
17,500	17,600	939
17,600	17,700	944
17,700	17,800	950
17,800	17,900	955
17,900	18,000	960
18,000	18,100	966
18,100	18,200	971
18,200	18,300	976
18,300	18,400	982
18,400	18,500	987
18,500	18,600	992
18,600	18,700	998
18,700	18,800	1,003

If line 9 of Form M2 is:		
at least	but less than	your tax is
18,800	18,900	1,008
18,900	19,000	1,014
19,000	19,100	1,019
19,100	19,200	1,025
19,200	19,300	1,030
19,300	19,400	1,035
19,400	19,500	1,041
19,500	19,600	1,046
19,600	19,700	1,051
19,700	19,800	1,057
19,800	19,900	1,064
19,900	20,000	1,071
20,000	20,100	1,078
20,100	20,200	1,084
20,200	20,300	1,091
20,300	20,400	1,098
20,400	20,500	1,105
20,500	20,600	1,112
20,600	20,700	1,118
20,700	20,800	1,125
20,800	20,900	1,132
20,900	21,000	1,139
21,000	21,100	1,146
21,100	21,200	1,152
21,200	21,300	1,159
21,300	21,400	1,166
21,400	21,500	1,173
21,500	21,600	1,180
21,600	21,700	1,186
21,700	21,800	1,193
21,800	21,900	1,200
21,900	22,000	1,207
22,000	22,100	1,214
22,100	22,200	1,220
22,200	22,300	1,227
22,300	22,400	1,234
22,400	22,500	1,241
22,500	22,600	1,248
22,600	22,700	1,254
22,700	22,800	1,261
22,800	22,900	1,268
22,900	23,000	1,275
23,000	23,100	1,282
23,100	23,200	1,288
23,200	23,300	1,295
23,300	23,400	1,302
23,400	23,500	1,309
23,500	23,600	1,316
23,600	23,700	1,322
23,700	23,800	1,329
23,800	23,900	1,336
23,900	24,000	1,343
24,000	24,100	1,350
24,100	24,200	1,356
24,200	24,300	1,363
24,300	24,400	1,370
24,400	24,500	1,377
24,500	24,600	1,384
24,600	24,700	1,390
24,700	24,800	1,397
24,800	24,900	1,404
24,900	25,000	1,411
25,000	25,100	1,418

2020 Tax Table (continued)

If line 9 of Form M2 is:		
at least	but less than	your tax is
75,900	76,000	4,879
76,000	76,100	4,886
76,100	76,200	4,892
76,200	76,300	4,899
76,300	76,400	4,906
76,400	76,500	4,913
76,500	76,600	4,920
76,600	76,700	4,926
76,700	76,800	4,933
76,800	76,900	4,940
76,900	77,000	4,947
77,000	77,100	4,954
77,100	77,200	4,960
77,200	77,300	4,967
77,300	77,400	4,974
77,400	77,500	4,981
77,500	77,600	4,988
77,600	77,700	4,994
77,700	77,800	5,001
77,800	77,900	5,008
77,900	78,000	5,015
78,000	78,100	5,022
78,100	78,200	5,028
78,200	78,300	5,035
78,300	78,400	5,043
78,400	78,500	5,051
78,500	78,600	5,058
78,600	78,700	5,066
78,700	78,800	5,074
78,800	78,900	5,082
78,900	79,000	5,090
79,000	79,100	5,098
79,100	79,200	5,106
79,200	79,300	5,113
79,300	79,400	5,121
79,400	79,500	5,129
79,500	79,600	5,137
79,600	79,700	5,145
79,700	79,800	5,153

If line 9 of Form M2 is:		
at least	but less than	your tax is
79,800	79,900	5,161
79,900	80,000	5,168
80,000	80,100	5,176
80,100	80,200	5,184
80,200	80,300	5,192
80,300	80,400	5,200
80,400	80,500	5,208
80,500	80,600	5,215
80,600	80,700	5,223
80,700	80,800	5,231
80,800	80,900	5,239
80,900	81,000	5,247
81,000	81,100	5,255
81,100	81,200	5,263
81,200	81,300	5,270
81,300	81,400	5,278
81,400	81,500	5,286
81,500	81,600	5,294
81,600	81,700	5,302
81,700	81,800	5,310
81,800	81,900	5,318
81,900	82,000	5,325
82,000	82,100	5,333
82,100	82,200	5,341
82,200	82,300	5,349
82,300	82,400	5,357
82,400	82,500	5,365
82,500	82,600	5,372
82,600	82,700	5,380
82,700	82,800	5,388
82,800	82,900	5,396

If line 9 of Form M2 is:		
at least	but less than	your tax is
82,900	83,000	5,404
83,000	83,100	5,412
83,100	83,200	5,420
83,200	83,300	5,427
83,300	83,400	5,435
83,400	83,500	5,443
83,500	83,600	5,451
83,600	83,700	5,459
83,700	83,800	5,467
83,800	83,900	5,475
83,900	84,000	5,482
84,000	84,100	5,490
84,100	84,200	5,498
84,200	84,300	5,506
84,300	84,400	5,514
84,400	84,500	5,522
84,500	84,600	5,529
84,600	84,700	5,537
84,700	84,800	5,545
84,800	84,900	5,553
84,900	85,000	5,561
85,000	85,100	5,569
85,100	85,200	5,577
85,200	85,300	5,584
85,300	85,400	5,592
85,400	85,500	5,600
85,500	85,600	5,608
85,600	85,700	5,616
85,700	85,800	5,624
85,800	85,900	5,632
85,900	86,000	5,639

If line 9 of Form M2 is:		
at least	but less than	your tax is
86,000	86,100	5,647
86,100	86,200	5,655
86,200	86,300	5,663
86,300	86,400	5,671
86,400	86,500	5,679
86,500	86,600	5,686
86,600	86,700	5,694
86,700	86,800	5,702
86,800	86,900	5,710
86,900	87,000	5,718
87,000	87,100	5,726
87,100	87,200	5,734
87,200	87,300	5,741
87,300	87,400	5,749
87,400	87,500	5,757
87,500	87,600	5,765
87,600	87,700	5,773
87,700	87,800	5,781
87,800	87,900	5,789
87,900	88,000	5,796
88,000	88,100	5,804
88,100	88,200	5,812
88,200	88,300	5,820
88,300	88,400	5,828
88,400	88,500	5,836
88,500	88,600	5,843
88,600	88,700	5,851
88,700	88,800	5,859
88,800	88,900	5,867
88,900	89,000	5,875
89,000	89,100	5,883
89,100	89,200	5,891
89,200	89,300	5,898
89,300	89,400	5,906
89,400	89,500	5,914
89,500	89,600	5,922
89,600	89,700	5,930
89,700	89,800	5,938
89,800	89,900	5,946
89,900	90,000	5,953

90,000 & over					
If line 9 of Form M2 is:		Enter on line 10 of your Form M2:		of the amount over—	
over—	but not over—				
\$0	\$19,705	0.00	5.35%	0	
19,705	78,285	1,054.22	+ 6.80%	19,705	
78,285	136,735	5,037.66	+ 7.85%	78,285	
136,735	-----	9,625.99	+ 9.85%	136,735	

Common Problems Using Software Packages

If you use tax preparation software, be careful to buy packages acceptable to the Department of Revenue. Forms produced by the software must meet requirements and be approved before being sold or provided to consumers.

If you are considering any company's tax preparation software, ask to see the vendor's approval letter for the forms you will be using. Keep in mind that we usually won't know if they are approved until late January. It is also important to test the software before filing forms prepared with it. We do not, however, approve the operation or accuracy of any software.

Below are common problems found on fiduciary returns submitted using software packages:

- **Verify that the program uses updated tax tables.** Tax tables are required to be updated every year for inflation. Be sure that the amount on line 10 of your Form M2 is the same amount shown in the tax tables.
 - Fiscal year filers must use the table based on the beginning year of the return.
 - If you are an Electing Small Business Trust (ESBT), verify that the software package uses the tax table when determining the tax. The ESBT is taxed at the highest tax rate only for federal purposes.
- **Look for a payment voucher if you have tax due on line 30 of Form M2.** If you owe tax, your software package is required to include a payment voucher when you print out a copy of your return. If you are paying your tax by check, you must complete and send this payment voucher with your check to ensure your payment is credited properly.
- **Verify that estimated tax payments were made.** Some software programs may insert the amount of estimated tax payments that should have been paid, not the amount of tax actually paid.