



Tax Forms & e-File Updates Webinar: September 21, 2021

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Mark: Hello and thank you for joining us today. My name is Mark Krause and I'm the Tax Professional Outreach Coordinator with the Income Tax and Withholding Division at the Minnesota Department of Revenue.

I am joined today by Allyson Casseday, the External Training and Communications Specialist with the Corporate Franchise Tax Division. Also joining us today are Ben Pederson, our E-File Coordinator with the Tax Operations Division, and representatives from our Policy Teams. There are also several other Department of Revenue employees who are joining us to assist with your questions.

In the past, we held separate webinars for software providers and tax professionals. This year, we decided to try something different based on feedback. Today's webinar will focus on updates to our individual and business income tax forms. We will also provide information that software providers need to know for electronic filing. We will have another webinar in December focusing on legislative updates and what tax professionals will need to know for the upcoming filing season.

For today, please limit your questions and feedback to tax forms and electronic filing. We will have time in our December webinar to address your policy and tax law-related questions. If you have questions that cannot wait until then, you can email us at TaxLawChanges@state.mn.us. You can also review the Legislative Bulletins released on our website. Just enter **legislative bulletins** into the Search box.

Before we get started, there are a few housekeeping items we want to cover:

1. We've muted your phone lines. This will eliminate background noise and help facilitate the conversation.
2. We will take questions entered into the chat after our tax forms demonstration and again at the end of the e-filing presentation.
3. Just a quick reminder that our focus today is on tax forms updates and electronic filing updates. We will not be answering tax policy questions today on this webinar.

Today, we will focus on changes for the upcoming filing season. This includes:

- Walking through some of the updated 2021 Minnesota individual and business income tax forms
- Taking your questions and comments about forms for the 2021 tax year filing season
- Reviewing some electronic filing updates for the 2022 filing season

Changes for tax year 2021

We use our annual change process to prepare for the upcoming filing season. This process starts when the legislative session ends and continues until we are ready to accept returns. We published near final forms to our website in August. This allows time for software developers to work on certifying and testing their systems.

We are currently developing and updating tax forms. We will publish final forms and instructions in October and anticipate opening the filing season in 2022 at the same time as the IRS.

Website Demo

I'd also like to highlight our [Tax Law Changes page](#), which is accessible from the link in the footer of our website. We have re-arranged some of the information on this page this year based on your feedback.

We've put many items relating to the upcoming filing season on this webpage. For example, you can find the 2021 near final draft forms and instructions for all tax types and the FAQs for Businesses and Individuals.

We will organize the FAQs and place the date they are last updated next to each. If you have a question that's not answered on our [FAQ pages](#), email us at TaxLawChanges@state.mn.us.

Since we are near the footer, I'll also encourage you to [sign up for our email updates](#). If you have not already done so, select the gray envelope or enter your email address in the field in the footer of our website and select Updates for Tax Professionals. If you have already signed up for these emails, encourage your colleagues to do so as well. There are other email lists under "Tax Professionals" to sign up for, as well as email lists specific for businesses.

I will now turn it over to Geoff Fournier from our Corporate Franchise Tax Division to review some of our forms updates.

2021 Business and Fiduciary Income Tax Law Changes

Geoff: Hello, I am Geoff Fournier. I will share a high-level overview of the 2021 Minnesota form changes for business and fiduciary income and estate taxpayers.

From the draft forms and instructions website page, let's take a look at one of these tax types: C Corporations.

You will notice on the screen that we are providing nonconformity schedules for tax year 2021. Since the tax law passed in July did not include general conformity, business and fiduciary income taxpayers must make nonconformity adjustments on their 2021 returns for provisions of the Internal Revenue Code (IRC) that Minnesota does not conform to.

Similar to 2018 and 2020, there are seven business and fiduciary nonconformity schedules. They are: M4NC, M2NC, M2SBNC, KFNC, KSNC, KPINC, and KPCNC. You will notice that the 2021 nonconformity schedules are very similar to our most recently updated 2020 nonconformity schedules.

The only provision that has been added in 2021 that was not included in previous years is the Allocation of Interest on a Worldwide Basis reported on line 1 of the M4NC. This provision is specific to C corporations and is not included on the other nonconformity schedules.

You will also notice that we included a number of “intentionally left blank” lines on all our nonconformity schedules. This allows us more flexibility if there are additional state or federal tax law changes impacting tax year 2021.

In addition to the nonconformity schedules, we made other changes to the business and fiduciary income tax forms.

First, we’ll open Form M4 to point out one of these changes.

We added a new checkbox to Forms M4 and M4X that must be checked if a member of the combined group owns a captive insurance company. A part of the 2019 Minnesota tax law included law specific to captive insurance insurance companies.

You will notice that we no longer have the Section 179 addition on any of our forms and schedules in 2021. Due to the July tax law, this addition is not required for tax years 2020 or later. The subtraction modifications, however, will remain on our forms until the last 1/5th subtraction is used up. The subtraction allowed for tax year 2021 is based on additions made on returns for tax years 2016, 2017, 2018, and 2019.

We added a few “intentionally left blank” lines in the modification sections of all our forms and schedules. Again, this will allow us more flexibility if future tax laws are enacted impacting taxable year 2021.

The tax law included a new nonrefundable tax credit for film production expenses. There is a new line on our business and fiduciary M-series Forms and K-series Schedules for this tax credit as well as a credit certificate number data entry line. The Department of Employment and Economic Development, or DEED, will be issuing taxpayers credit certificates after approving their applications.

On line 22, we added a new line for the last-in, first-out (or LIFO) recapture tax deferral required to be reported by a corporation when it changes from a C corporation to an S corporation. This new line is not related to the recent Minnesota tax law. Finally, Form M4T has a second page for taxable year 2021 due to the new lines added.

The final major change for C corporations is that we reorganized the checkboxes at the top of the M4X. We also removed two “yes or no” questions, incorporating those questions into the checkboxes.

A new law enacted as part of the July tax law is the Pass-Through Entity (PTE) Tax election. This election was enacted as a state and local tax (SALT) cap workaround to allow eligible partnerships – including limited liability companies (LLCs) taxed as partnerships – and S corporations to elect to file and pay tax at the entity level on behalf of their owners. We created the Schedule PTE, Pass-through Entity Tax, to calculate the PTE tax payable by the entity.

Schedule PTE also calculates a refundable tax credit passed to partners and shareholders to claim on their individual, estate, or fiduciary income tax returns. We have added the tax credit to our Schedules KPI, KS, and KF, as well as Forms M1 and M2, Income Tax Return for Estates and Trusts.

You will see the pass-through entity credit on line 30 of the Schedule KPI here. In addition, we ask that entities check the box if the PTE tax filing and payment will satisfy the owner’s filing requirement, similar to composite income tax.

On the partnership and S-corporation forms (Forms M3 and M8, respectively), we added a check box to mark if the entity is electing the Pass-through Entity Tax. If this checkbox is checked, the entity must provide Schedule PTE with their return filing.

In addition, on line 2, the partnership or S corporation will report the amount of pass-through entity tax from Schedule PTE. The entity pays this tax with Form M3 or Form M8.

The Schedule M3BBA, Partnership Audit Report, is another new schedule as a result of the July tax law. Schedule M3BBA calculates a partnership’s tax if it was audited by the IRS in a federal Bipartisan Budget Act of 2015 (BBA) centralized partnership audit, and the partnership chooses to elect the “partnership pays election” for Minnesota purposes. The partnership pays election allows the partnership to report and pay the Minnesota income tax, penalty, and interest on its partners’ behalf.

Partnerships must file Schedule M3BBA with Form M3X, Amended Partnership Return.

You will see on page 4 of Schedule M3BBA that the partnership may designate a different State Partnership Representative. If the partnership does not complete this designation, its state partnership representative will be the same as its federal partnership representative.

We also added a checkbox on Form M3X that the partnership must check if they are making the partnership pays election. They must provide Schedule M3BBA if they check this box. We also expanded the IRS Adjustment checkbox to enter the Final Determination Date.

Then, on line 5 of Form M3X, the partnership reports the amount of tax calculated on Schedule M3BBA in Column C.

We made one change specific to the fiduciary income tax returns. On Forms M2 and M2X, we added line 19 for the Minnesota Credit for Increasing Research Activities (also known as the R&D Credit). Previously this credit amount would have been included within the “other nonrefundable credits” line.

Lastly, we added a few lines to the last page of the Schedule M706Q, which is the estate tax election for qualified small business and farm property. Specifically, we added lines 4 through 7 to Part 7, which helps to prevent an estate from claiming a larger deduction than necessary to reduce their estate tax to \$0.

This concludes our updates for business and fiduciary income and estate taxes. I will now turn it over to Chris Henjum and Clint Zahnow to review changes affecting Individual Income Tax returns for tax year 2021.

2021 Minnesota Individual Income Tax Forms

Chris: Hi, my name is Chris Henjum and I am a Policy Lead for the Income Tax and Withholding Division.

We’ve updated our 2021 Individual Income Tax forms to reflect annual changes and nonconformity between Minnesota and federal tax laws. Several federal tax laws were enacted that affect tax year 2021, and we’ll run through our forms to highlight some of these changes.

We’ll start with 2021 Form M1, Individual Income Tax. You can see that it looks generally the same as 2020 Form M1.

Line 1 of Form M1 lists federal adjusted gross income (or FAGI). Minnesota uses FAGI as defined by section 62 of the Internal Revenue Code as amended through December 31, 2018, except for temporary conformity items.

We continue to require nonconformity adjustments on Schedule M1NC, Federal Adjustments, which may impact federal adjusted gross income. If you complete Schedule M1NC, other forms and instructions that point to adjusted gross income will use the amount from line 37 of Schedule M1NC and not line 1 of Form M1.

Line 2 of Form M1 is for additions to Minnesota income. We have moved several lines this year from the Schedule M1M, Income Additions and Subtractions to a new schedule, the Schedule M1MB, Business Income Additions and Subtractions.

Schedule M1MB includes modifications particularly for individuals that have ownership interest in a business. You can see some familiar lines that were previously on Schedule M1M which are now on Schedule M1MB, including additions for federal bonus depreciation and state income taxes passed to one as a pass-through entity partner, shareholder, or a beneficiary. On line 2 of Form M1, taxpayers will include the combined total of line 10 of Schedule M1M and line 9 of Schedule M1MB.

Line 7 of Form M1 for subtraction modifications has a similar change. Subtractions such as the Section 179 expensing subtraction have been moved to Schedule M1MB. On line 7 of Form M1, taxpayers will include the combined total of line 32 of Schedule M1M and line 22 of Schedule M1MB.

We reorganized Schedule M1M as a whole. The July tax law also introduced a new subtraction: the volunteer mileage reimbursement subtraction. This is included on line 24 of Schedule M1M.

Going back to the M1, the standard deduction amounts for 2021 are:

- \$25,050 for Married Filing Jointly and Qualifying Widow(er)
- \$18,800 for Head of Household
- \$12,525 for Single and Married Filing Separately

The standard deduction, reported on line 4, is reduced as Minnesota adjusted gross income exceeds \$199,850 for all filing statuses except Married Filing Separately. For Married Filing Separately, the standard deduction is reduced as Minnesota adjusted gross income exceeds \$99,925.

Itemized Deductions

Minnesota itemized deductions are defined by state law. Some Minnesota itemized deductions are similar to the federal deductions, but they may require a modified calculation such as differences in certain charitable contribution limits and carryovers of contributions from a prior tax year. Other deductions will come directly from federal Schedule A.

Minnesota itemized deductions are limited when a taxpayer's Minnesota adjusted gross income is more than \$199,850 (or \$99,925 for Married Filing Separately). As a reminder, if a married couple files separately and one spouse chooses to itemize their deductions, the other spouse must also itemize.

Line 5

Line 5 captures the allowable dependent exemption amount. Exemptions are defined under Minnesota Statutes section 290.0121 and are limited to dependents only. The exemption amount is \$4,350 per dependent.

To be a dependent, an individual must meet the qualifications under sections 151 and 152 of the Internal Revenue Code. The exemption phases out when adjusted gross income exceeds:

- \$299,750 for Married Filing Jointly and Qualifying Widow(er)
- \$249,800 for Head of Household
- \$199,850 for Single and Married Filing Separately

Line 11

On Line 11, individuals will use Schedule M1MT, Alternative Minimum Tax, to determine if they are required to pay Minnesota Alternative Minimum Tax, or AMT. We added nonconformity adjustments to line 3 of Schedule M1MT. Individuals will need to recalculate their Minnesota AMT income if they entered an adjustment on Schedule M1NC. Differences such as net operating loss carryovers may result in individuals being required to pay Minnesota AMT without having to pay federal AMT.

Line 13

On line 13, part-year residents and nonresidents continue to use Schedule M1NR, Nonresidents/Part-Year Residents, to determine their Minnesota tax.

The 2021 Schedule M1NR is generally the same as the 2020 version. We replaced line 11 for the Section 179 addition with a calculation related to those individuals who are qualifying owners of a business and elect to pay the pass-through entity tax. If the individual entered a credit amount on line 9 of Schedule M1REF, Refundable Credits, they must complete line 11 of Schedule M1NR.

Line 16

The next change for 2021 is on the Schedule M1C, Nonrefundable Credits, and reported on line 16 of Form M1. On Schedule M1C, line 11 is a new line for the film production credit enacted in the July tax law. The Department of Employment and Economic Development (or DEED) will certify the credit amount and provide a certificate with the amount of the credit. Recipients will enter the DEED credit certificate number on line 11.

Line 22

Taxpayers will continue reporting refundable credits on Schedule M1REF and enter the total on line 22 of Form M1. New lines on Schedule M1REF this year include the Angel Investment Credit on line 8, the Pass-Through Entity Tax Credit on line 9, and Claim of Right on line 10.

The Angel Investment Credit temporarily sunsetted in tax year 2020, but is back for tax year 2021. The Pass-Through Entity tax credit is new for 2021. Recipients of the credit will have their portion of the credit reported on Schedules KF, KPI, and KS. The claim of right line is not a new credit, but we added it to the schedule for administrative purposes.

There are significant changes to Schedule M1CD, Child and Dependent Care Credit. Because Minnesota is not in conformity with federal law related to the Child and Dependent Care Credit provisions, separate calculations on a Minnesota-specific form are necessary.

Schedule M1CD is similar to federal Form 2441, which provides for calculations for expenses, adjusted for certain excluded benefits. Taxpayers will calculate the Minnesota credit differently than the federal credit due to nonconformity and certain Minnesota provisions.

There are four sections to Schedule M1CD:

- If taxpayers did not receive dependent care benefits, they must complete only parts 1 and 2 of the Schedule.
 - o Part 1 is used to provide the care provider's name, address, ID number and amount paid
 - o Part 2 is used for information about the qualifying persons and to calculate the credit
 - o If there are more than two items in either Part 1 or Part 2, you must use an overflow page.
- Parts 3 and 4 are used to account for dependent care benefits, which are excluded from income. Those receiving dependent care benefits must complete parts 1 through 4.
 - o The Minnesota exclusion amount is compared to the federal amount, and the difference between the two amounts is a nonconformity adjustment that flows into Schedule M1NC.
 - o To claim the credit, those who received dependent care benefits will complete part 4 before going back to part 2.

There have been few changes to Schedule M1WFC, Working Family Credit. Minnesota's Working Family Credit eligibility was expanded for those with no qualifying children. For tax year 2021, the age eligibility has been lowered from 21 to 19 years old, which will be listed in the eligibility requirement section of the instructions. The income limits were also adjusted for inflation.

All other eligibility requirements for the Minnesota Working Family Credit remain unchanged from tax year 2020 to 2021. In past years, eligibility for the Working Family Credit was similar to eligibility for the federal Earned Income Tax Credit. Recent federal law changes have created some new discrepancies. Also, taxpayers must use their 2021 earned income to determine their Working Family Credit eligibility.

I will now turn it over to Clint Zahnow to go over Schedule M1NC and the Property Tax Refund forms.

Clint: Hi, my name is Clint Zahnow and I am a Policy Lead for the Income Tax and Withholding Division.

Schedule M1NC makes necessary adjustments to the Minnesota return as a result of nonconformity. Each line describes provisions in the federal tax laws enacted after December 31, 2018, which state law does not conform to.

Schedule M1NC determines taxpayers' Minnesota adjusted gross income on line 37. If taxpayers complete Schedule M1NC, various schedules and worksheets will require Minnesota adjusted gross income from line 37 of Schedule M1NC instead of FAGI from line 1 of Form M1. New lines 13a, 13b, 14a, and 14b were added as information reference lines. These are used to calculate other amounts on the return and to determine carryover amounts to other tax years.

We expect to post the Schedule M1NC instructions by mid-October. The instructions provide additional information on items of nonconformity for Individual Income Taxpayers.

M1PR

Clint: Form M1PR, Homestead Credit Refund (for Homeowners) and Renter's Property Tax Refund, remains similar for 2021, but we will provide a brief overview along with some reminders.

It is important to note that the 2021 Minnesota tax law changes did not impact the property tax refund, with the exception that veteran's disability compensation is now excluded for purposes of determining household income. The refund is still determined based on household income, meaning that changes in Minnesota law that excluded certain amounts from taxable income are still included on Form M1PR as nontaxable income.

Individuals will continue to list additional nontaxable income on line 5 of M1PR. They must complete and include Schedule M1PR-AI, Additions to Income, to identify the types and amounts of nontaxable income. They will include the total amount of nontaxable income reported on Schedule M1PR-AI on line 5 of Form M1PR.

As a reminder, forgiven loans such as Paycheck Protection Program loans – which are excluded from Minnesota taxable income under the July 2021 Minnesota tax law – must be included as nontaxable income on Schedule M1PR-AI.

We updated line 10 of Form M1PR to exclude COVID-related retirement plan distributions during 2020 which individuals chose to include in income over three years. The pro-rated amount for 2021 should be included on line 10 to the extent it was included in individuals' federal adjusted gross income. The subtraction for alimony – which is non-deductible due to tax law changes of Public Law 115-97 (Tax Cuts and Jobs Act) – is also included on line 10.

That is all we have for updates on Form M1PR. We will turn it back to Mark Krause to open up for questions.

Mark: Thanks Geoff, Chris, and Clint. There was a lot of useful information just shared by our Policy teams.

Q & A

We will now open up the webinar for questions and suggestions about our 2021 tax forms. As a reminder, please limit your questions to business and individual forms. You'll have an opportunity to ask tax-related questions during our December webinar. You may either enter your question in chat or use the "raise hand" feature in WebEx. When it is your turn to speak, we will announce your name and unmute your microphone.

Mark: Thanks to all of the tax professionals who participated in our webinar. The remaining part of the call is for software providers so if you are a tax professional, you may disconnect from the call at this time. We'll pause for just a moment as we get the next website demo up here on the screen. Now I'll turn things over to Ben Pederson for some electronic filing updates.

Updates on Electronic Filing

Ben: Hello. My name is Ben Pederson and I'm an E-File Coordinator with the Tax Operations Division. I'll be highlighting some updates to the website and electronic filing for this year.

On our [Software Providers page](#) under the Tax Professionals section of our website, you can see key dates, draft forms and instructions, grid form templates, substitute form design specifications, error rejection codes (ERCs), and all the requirements you will need for certification.

You can see our entire list of key dates on our website. I'll review some of them now and you can review the others on our website. We'll update our key dates when we get news of the IRS's filing season. If any of these dates change, we'll send an email noting the changes.

- **August 23:** We posted near final forms and opened up forms certification. We will approve forms based on the near final forms.
- **September 15:** We released draft schemas for all tax types.
- **October 1:** We'll release draft ERCs for all tax types.
- **November 15:** We'll open e-file and Leads Reporting certification for approved software providers.

Let's go back to the Software Provider page and look over the certification requirements. These are the steps you need to complete before you'll be certified to transmit returns to us.

The first step is to **submit a 2021 Minnesota Letter of Intent (LOI)**. Our website describes what you need to do to get your LOI accepted.

- Our LOI was available July 19.
- You must submit a state LOI for each of your products by October 29, 2021. We will not accept late LOIs. We'll respond with the status of your application within seven business days.
- Each unique product **must** have a separate LOI.

- For details to develop your product, you'll need access to the State Exchange System (SES) for Modernized Electronic Filing (MeF) requirements, MeF testing requirements, fraud leads reporting requirements, and specifications from the software provider guide on our website.

The second step is **submit substitute forms**. When submitting forms from products using the same print engine, send one submission and include all form IDs on that submission. When you select the **substitute form scenario requirements**, you can see the requirements for the three submissions we need per form. If you have questions about submissions and print engines, contact us before submitting your forms.

Remember: You are responsible for ensuring your software programs only print substitute forms that are approved.

As an example, let's look at the [Specifications for Business Vouchers](#).

- The variable data, such as the Preparer Tax Identification Number (PTIN) and scan line, will continue to use the "Courier" or "Courier New" fonts.
- Make sure vouchers have the Minnesota Tax ID Number or Social Security Number in the scan line with a valid check digit. This means the Minnesota ID number cannot be blank or filled with characters others than numbers because it flows to the scan line.

Back on the software provider page, the third step is **submit electronic files**.

- Our certification test cases will be available to approved software providers by November 1.
- We must approve all forms from each software product, both paper and electronic. We do not accept electronic-only software products.

Part of your electronic requirements are fraud leads and reporting certification. The fraud leads information is stored on SES, not on our website.

- You are responsible for implementing appropriate security measures to protect taxpayers and their information in your system. This includes but is not limited to when software is online, offline, at rest, and in transit. Refer to cybersecurity resources, such as IRS Publication 1075, to assist you with this process.
- We will continue to use SES for schemas, testing requirements, leads, and certification.
- We will transmit leads and reporting using "MoveIt" as we did last year. We will post all the changes to the leads and reporting schemas on SES.

The fourth step is **submit additional requirements**. If you are planning to have a free file product, email us with your intention and criteria by December 31. We will publish [which products are available for free file along with their criteria](#) on our website.

We recently sent out a SES message spreading awareness of the requirement for tax preparers to notify their customers of the option to contribute to the Nongame Wildlife Fund. We are currently drafting language for all products so that all customers receive a similar message. This is will be an additional requirement to include in products for the 2022 filing season.

Lastly, on our software provider page is a reminder that **after certification, we will monitor all electronic and substitute forms**. We reserve the right to suspend our approval and refuse to accept returns of any software product that does not adhere to our requirements. We will contact you with any concerns before taking action.

We encourage all individuals and tax professionals to **use electronic returns and electronic payments**. They are easy and more secure to use. Customers can:

- Set up their return payment for the day they file or the payment due date
- Request when estimated taxes are withdrawn from their accounts, so they do not need to worry about mailing a check
- Apply a portion of their refund to next year's estimated tax and receive the remaining amount as a refund

It's the easiest and safest way to file returns and make payments. Thank you for your support in changing over to electronic returns and payments!

Lastly, you can see contact information on our page.

- **Email:** efile.devsupport@state.mn.us
- **Phone:** 651-556-4818

Thank you for all the work you are doing to prepare for next season! We will now open up the webinar for questions and suggestions about electronic filing. As a reminder, please limit your questions to e-filing. If you have other questions, you may use the email address here to send them to us.

I will turn it over to Allyson Casseday to close us out.

Closing

Allyson: Thanks again for joining us. Our department's vision is that everyone reports, pays, and receives the right amount: no more, no less. Our partnership with you is essential to provide the information and resources Minnesota taxpayers need to realize this vision. We appreciate your engagement, questions, and comments as we move closer to the 2022 filing season.

We'll post the recording for this webinar under our [Tax Law Changes page](#) as well as the [Conference Calls and Webinars page](#) on our website. When we post near final forms instructions, we will also post a summary of the tax form changes we discussed during this webinar.

We're committed to meeting our priorities for the upcoming filing season. If you have further comments or ideas, contact us at 651-556-4818 or email efile.devsupport@state.mn.us.

Remember to check our [Tax Law Changes FAQs](#) as we regularly post new questions and answers. You can also email your questions about the 2021 tax year filing season to TaxLawChanges@state.mn.us. Thanks again for attending our webinar.