

2021 Minnesota Income Tax for Estates and Trusts (Fiduciary) Form M2 Instructions

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What's New for 2021

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 2019
- 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 2021. 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.

Schedule PTE – Pass-through Entity Tax

Minnesota Schedule PTE, *Pass-Through Entity Tax*, is used by partnerships, S corporations, and limited liability companies (LLC) taxed as a partnership or S corporation to elect to file and pay income tax at the entity level. Qualifying partners and shareholders may claim a refundable tax credit on Schedule KF for their portion of income tax paid by the entity. Certain nonresident partners and shareholders may have their Minnesota filing requirement fulfilled by Schedule PTE. See the Schedule PTE instructions for the election requirements and more details.

Film Production Tax Credit

The new Minnesota film production tax credit is a nonrefundable credit for 25% of eligible production costs. For more information regarding the tax credit and eligibility, go to the Minnesota Department of Employment and Economic Development website at mn.gov/deed/.

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.

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]

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.

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.

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 30 and 31 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* on page 3. 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.

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 33 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 2022 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**

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 to process credit and debit card payments. A fee is charged for this service.

- Go to www.revenue.state.mn.us and click **Make a Payment**
- Click **By Credit or Debit Card** and follow the prompts to complete the payment

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 2021 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 tax or are a part of a PTE tax return.

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 grouped together and 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.

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.

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

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.

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.**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.

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.

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

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 7 of Schedule KPI or KS, line 6 of Schedule KF, or line 10 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.

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.

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.

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

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.

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.

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 2021 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 71, 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 16 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 44 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 2021 income tax to Minnesota.
- You paid 2021 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 — Film Production Credit

If you received a credit certificate from the Department of Employment and Economic Development (DEED) for eligible production costs, enter the credit amount on line 16 and the certificate number in the space provided.

You may carry any unused credit forward for up to 5 years.

For more details regarding this tax credit, go to the DEED website at mn.gov/deed.

Line 17 — 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 17 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 17. Subtotal all credit amounts on line 17.

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

Line 18 — 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 18.

Line 19

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 19 the credit amount you received on the:

- 2021 Schedule KS, line 24
- 2021 Schedule KPI, line 24
- 2021 Schedule KF, line 32

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

Line 20 — Other Nonrefundable Credits

If you are claiming a nonrefundable credit other than the credits listed on lines 15 through 19, include the credit on line 20.

Include on line 20 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 20 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 20, 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 20.

You may not carry forward any unused credit.

Form M2 Instructions (continued)

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 20.

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

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 2020. 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 20.

Line 23 - Pass-Through Entity Tax Credit

An estate or trust may receive a tax credit as a qualifying owner of an electing pass-through entity.

Include on line 23 the credit amount you received on the:

- 2021 Schedule KS, line 30
- 2021 Schedule KPI, line 30
- 2021 Schedule KF, line 36

Line 24 — Minnesota Income Tax Withheld

Enter the total of any 2021 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 37 of Schedule KF.

If you are including withholding on line 24, 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 25 — Total Estimated Tax Payments and Any Extension Payments

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

- your total 2021 estimated tax payments made in 2021 and 2022, either paid electronically or by check,
- the portion of your 2020 refund applied to your 2021 estimated tax, and
- any 2021 extension payment, paid electronically or by check, that was made by the due date when filing under an extension.

Line 26 — 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 26:

- 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.

Form M2 Instructions (continued)

Line 27 — Other Refundable Credits

If you are claiming a refundable credit other than the Historic Structure Rehabilitation Tax Credit or Pass-Through Entity Tax Credit, include the credit on line 27.

Include on line 27 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 27 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 27, 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 27. Attach the certification document received from the DEED.

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

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 27.

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

Line 30 — 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 30. 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 29.

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 29.

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 31 — 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 2022 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 32 — 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 - 20.

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 32. Include Schedule EST with your return.

Form M2 Instructions (continued)

Line 33 — Amount Due

Add lines 29 through 32. This is the total amount you owe.

Check the appropriate box on line 33 to indicate your method of payment. See *Payment options* on page 3.

Line 34 — 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 2022 estimated tax account, or receive a check.

Line 35 — 2022 Estimated Tax

Skip this line if you owe additional tax or you will be electing to have your entire refund directly deposited (see line 37).

If you are paying 2022 estimated tax, you may apply all or a portion of your refund to your 2022 estimated tax.

Enter the portion of line 34 you want to apply toward your 2022 estimated tax.

Line 36 — Minnesota Income Tax Refund

Subtract line 35 from line 34. The result is the amount of your 2021 Minnesota income tax refund that will be refunded to you.

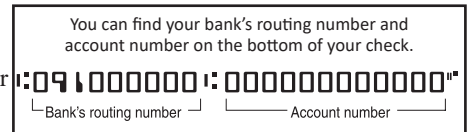
If you want to request your refund to be direct deposited into your bank account, complete line 37. Your bank statement will indicate when your refund was deposited to your account. Otherwise, skip line 37 and your refund will be sent to you in the mail.

Line 37 — 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 37, 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 38 — 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 39 — 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.

Form M2 Instructions (continued)

Line 40 — 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 54 on page 10.

Line 41 — Suspended Loss of Bonus Depreciation

If you're claiming a suspended loss from 2001-2005 or 2008-2020 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 2008-2020 not added back on Form M2
- 2 Total suspended loss from activity remaining after 2021
- 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 42 — 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 42.

- 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 4 of Schedule KS), or as a partner of a partnership (from line 4 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 2021 (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 2021, up to the bonus depreciation claimed by the activity.

In a future year, you must include the bonus depreciation as an addition when the 2021 suspended loss is allowed. The bonus depreciation is treated as the last suspended loss allowed.

Line 43 — 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 43 only the portion of the QBI deduction being retained by the estate or trust. Allocate 100% of line 43 to the fiduciary on line 71 of Form M2. [M.S. 290.0131, subd. 16]

Line 44 — Addition Due to Federal Changes Not Adopted by Minnesota

Enter the amount from Schedule M2NC, line 32. If the amount is a negative, leave line 44 blank and enter it as a positive number on line 57.

Line 45 — 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 2021, you must add back the federal NOL amount as a positive number on line 45.

Line 46 — 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 47 — 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]

Lines 48 through 52

These lines are intentionally left blank.

Line 54 — 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.

Form M2 Instructions (continued)

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]

Line 55 — 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 56 — Federal Bonus Depreciation Subtraction

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

- deducted bonus depreciation on your 2016 through 2020 federal return, and
- reported 80 percent of the federal bonus depreciation as an addition to income on your 2016 through 2020 Form M2, or
- received a federal bonus depreciation subtraction in 2021 from another estate or trust.

To determine the amount, see *Worksheet for Line 56* below.

Worksheet for Line 56	
If you claimed bonus depreciation as an addition on your 2016 Form M2:	
1 Portion of lines 28 and 29 of your 2016 Form M2 allocated to fiduciary	1 _____
2 Net operating loss generated for tax year 2016 (line 25, Schedule A of 2016 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 2017 Form M2:	
5 Portion of lines 28 and 29 of your 2017 Form M2 allocated to fiduciary	5 _____
6 Net operating loss generated for tax year 2017 (line 25, Schedule A of 2017 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 2018 Form M2:	
9 Portion of lines 28 and 29 of your 2018 Form M2 allocated to fiduciary	9 _____
10 Net operating loss generated for tax year 2018 (line 25, Schedule A of 2018 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 2019 Form M2:	
13 Portion of lines 28 and 29 of your 2019 Form M2 allocated to fiduciary	13 _____
14 Net operating loss generated for tax year 2019 (line 25, Schedule A of 2019 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 2020 Form M2:	
17 Portion of lines 38 and 39 of your 2020 Form M2 allocated to fiduciary	17 _____
18 Net operating loss generated for tax year 2020 (line 25, Schedule A of 2020 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 2021 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 18 of Schedule KF)	21 _____
Total subtraction	
22 Add steps 4, 8, 12, 16, 20, and 21. Enter here and on line 56 of Form M2	22 _____

Line 57 — Subtraction Due to Federal Changes Not Adopted by Minnesota

Enter the amount from Schedule M2NC, line 32. If the amount is a positive, leave line 57 blank and enter it as a positive number on line 44.

Line 58 — 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 58.

Line 60 — 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 60, enter the amount you are carrying forward for 2021 for Minnesota purposes.

For complete information on how to determine line 60 and any amount to carry forward, go to our website at www.revenue.state.mn.us.

Line 61 — 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 62 — 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 63 — 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 63. [M.S. 290.0132, subd. 29]

Lines 64 through 68

These lines are intentionally left blank.

Allocation of Adjustments (Lines 70—72)

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 \$12,525 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 38-52 and 54-68 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 24 on page 7 for the allocation instructions for Minnesota backup withholding. See the instructions for line 43 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 70 and 71 by the total of column C on line 72. 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 72, 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.

Completing Schedule KF (continued)

Line Instructions

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

Calculate lines 1-37 the same for all resident and nonresident beneficiaries. Calculate lines 38-44 for nonresident beneficiaries only. Round amounts to the nearest whole dollar.

All Beneficiaries, Lines 1-37

KF, lines 1-5 and 7-30

If all or part of the fiduciary's income is distributed, then any adjustment shown on lines 38-52 and 54-68 of Form M2 is passed through to the beneficiary(s) in proportion to their share of distributable net income. From line 70 of Form M2, enter the adjustments to income allocated to each beneficiary.

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 7a
- Schedule KPC, line 10a
- 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 7b
- Schedule KPC, line 10a
- 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 47, for shareholders of a S corporation
- Schedule KPI, line 49, 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 32 is a positive number, include the amount from Schedule KFNC line 32 on the beneficiary's Schedule KF line 7.

KF, lines 10 through 14

These lines are intentionally left blank.

KF, line 21

If the amount reported on the beneficiary's Schedule KFNC line 32 is a negative number, include the amount from Schedule KFNC line 32 as a positive number on the beneficiary's Schedule KF line 21.

KF, lines 26 through 30

These lines are intentionally left blank.

Completing Schedule KF (continued)

KF, line 31

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 24 of Form M2.

KF, line 32

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 24 of Schedule KPI and line 24 of Schedule KS. Attach the appropriate schedule when you file your return.

KF, line 34

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 34.

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 34.

KF, line 35

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 27 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.

KF, line 36

If the estate or trust is a qualifying owner of an electing pass-through entity, enter the beneficiary's distributive share of the credit that is passed through to the beneficiary. Do not include amounts reported on line 23 of Form M2.

If payment of the PTE tax satisfies the beneficiary's filing requirement, check the box on line 36.

KF, line 37

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 37. 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 24 of Form M2 for more details.

Nonresident Beneficiaries, Lines 38 – 44

Lines 38 - 44 apply to nonresident beneficiaries. A nonresident beneficiary will be taxed on the income that is allocable to Minnesota.

KF, lines 38 – 41

From the nonresident beneficiary's federal Schedule K-1 (1041), enter the Minnesota portion of amounts on lines 38–41.

Interest or dividend income derived from a trade or business (S corporations and partnerships) that is apportioned to Minnesota should be included on line 40.

Include only other income allocable to Minnesota on line 41. For example, include other income from services performed in Minnesota, but do not include interest, dividends or distribution from a pension plan.

KF, line 42

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.

Completing Schedule KF (continued)

Composite Income Tax KF, line 43

Use the Worksheet for Line 43 to determine line 43.

Worksheet for Line 43

- 1 80 percent of bonus depreciation from line 5 of the beneficiary's Schedule KF
- 2 Combine lines 7, 9, and 15* of the beneficiary's Schedule KF
- 3 Combine lines 38–41 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 21, 23, and 24 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 43 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 15 of Schedule KF if the beneficiary is an estate or trust.

KF, line 44

Nonresident beneficiaries must pay tax if their Minnesota gross income is more than the minimum filing requirement for the year (\$12,525 for 2021).

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 44.

Check the box next to line 44 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 44 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 44 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 44

- 1 Multiply line 43 of Schedule KF by 9.85% (.0985)
- 2 Add the credits and backup withholding from lines 31 and 33 through 37 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 44 of the beneficiary's Schedule KF and check the box to indicate the beneficiary's election to be included.

2021 Tax Table (continued)

If line 9 of Form M2 is:		
at least	but less than	your tax is
75,900	76,000	4,876
76,000	76,100	4,883
76,100	76,200	4,890
76,200	76,300	4,896
76,300	76,400	4,903
76,400	76,500	4,910
76,500	76,600	4,917
76,600	76,700	4,924
76,700	76,800	4,930
76,800	76,900	4,937
76,900	77,000	4,944
77,000	77,100	4,951
77,100	77,200	4,958
77,200	77,300	4,964
77,300	77,400	4,971
77,400	77,500	4,978
77,500	77,600	4,985
77,600	77,700	4,992
77,700	77,800	4,998
77,800	77,900	5,005
77,900	78,000	5,012
78,000	78,100	5,019
78,100	78,200	5,026
78,200	78,300	5,032
78,300	78,400	5,039
78,400	78,500	5,046
78,500	78,600	5,053
78,600	78,700	5,060
78,700	78,800	5,066
78,800	78,900	5,073
78,900	79,000	5,080
79,000	79,100	5,087
79,100	79,200	5,094
79,200	79,300	5,102
79,300	79,400	5,110
79,400	79,500	5,118
79,500	79,600	5,126
79,600	79,700	5,134
79,700	79,800	5,142

If line 9 of Form M2 is:		
at least	but less than	your tax is
79,800	79,900	5,149
79,900	80,000	5,157
80,000	80,100	5,165
80,100	80,200	5,173
80,200	80,300	5,181
80,300	80,400	5,189
80,400	80,500	5,196
80,500	80,600	5,204
80,600	80,700	5,212
80,700	80,800	5,220
80,800	80,900	5,228
80,900	81,000	5,236
81,000	81,100	5,244
81,100	81,200	5,251
81,200	81,300	5,259
81,300	81,400	5,267
81,400	81,500	5,275
81,500	81,600	5,283
81,600	81,700	5,291
81,700	81,800	5,299
81,800	81,900	5,306
81,900	82,000	5,314
82,000	82,100	5,322
82,100	82,200	5,330
82,200	82,300	5,338
82,300	82,400	5,346
82,400	82,500	5,353
82,500	82,600	5,361
82,600	82,700	5,369
82,700	82,800	5,377
82,800	82,900	5,385

If line 9 of Form M2 is:		
at least	but less than	your tax is
82,900	83,000	5,393
83,000	83,100	5,401
83,100	83,200	5,408
83,200	83,300	5,416
83,300	83,400	5,424
83,400	83,500	5,432
83,500	83,600	5,440
83,600	83,700	5,448
83,700	83,800	5,456
83,800	83,900	5,463
83,900	84,000	5,471
84,000	84,100	5,479
84,100	84,200	5,487
84,200	84,300	5,495
84,300	84,400	5,503
84,400	84,500	5,510
84,500	84,600	5,518
84,600	84,700	5,526
84,700	84,800	5,534
84,800	84,900	5,542
84,900	85,000	5,550
85,000	85,100	5,558
85,100	85,200	5,565
85,200	85,300	5,573
85,300	85,400	5,581
85,400	85,500	5,589
85,500	85,600	5,597
85,600	85,700	5,605
85,700	85,800	5,613
85,800	85,900	5,620
85,900	86,000	5,628

If line 9 of Form M2 is:		
at least	but less than	your tax is
86,000	86,100	5,636
86,100	86,200	5,644
86,200	86,300	5,652
86,300	86,400	5,660
86,400	86,500	5,667
86,500	86,600	5,675
86,600	86,700	5,683
86,700	86,800	5,691
86,800	86,900	5,699
86,900	87,000	5,707
87,000	87,100	5,715
87,100	87,200	5,722
87,200	87,300	5,730
87,300	87,400	5,738
87,400	87,500	5,746
87,500	87,600	5,754
87,600	87,700	5,762
87,700	87,800	5,770
87,800	87,900	5,777
87,900	88,000	5,785
88,000	88,100	5,793
88,100	88,200	5,801
88,200	88,300	5,809
88,300	88,400	5,817
88,400	88,500	5,824
88,500	88,600	5,832
88,600	88,700	5,840
88,700	88,800	5,848
88,800	88,900	5,856
88,900	89,000	5,864
89,000	89,100	5,872
89,100	89,200	5,879
89,200	89,300	5,887
89,300	89,400	5,895
89,400	89,500	5,903
89,500	89,600	5,911
89,600	89,700	5,919
89,700	89,800	5,927
89,800	89,900	5,934
89,900	90,000	5,942

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	\$19,905	\$0.00	5.35%	0
19,905	79,070	1,064.92	+ 6.80%	19,905
79,070	138,100	5,088.14	+ 7.85%	79,070
138,100	-----	9,722.00	+ 9.85%	138,100

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 33 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.