

# **2020** Form M706Q, Election to Claim the Qualified Small Business and Farm Property Deduction

To be completed by the executor of the estate with a date of death in 2020, and qualified heirs.

				Decedent's Social Security number		
ome address (street, apartment, route)			Date of death			
	State	Zip code	Minnesota	probate county and	I file number	
or's first name, middle initial	Last name		Executor's S	ocial Security num	ber	
of firm (if applicable)			Executor's	phone		
ss (street, apartment, route)	City		State	Zip code		
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Did the trade or business have gross annual sales of \$10 million or less during the last taxable year that ended before the decedent's death?  Did the decedent or the decedent's spouse continuously own the property for the three-year period ending at the decedent's death?  answered yes to all of the Part 1 questions, the estate may be eligible to claim the small business prope slete Part 3 to determine if the estate has qualified heirs.  P.—Qualified Farm Property Requirements slete Part 2 to determine if the estate meets the qualified farm property requirements. If the answer is " eligible to claim the farm property deduction.  Is the value of the property included in the decedent's federal adjusted taxable estate, which is after federal allowable deductions, including debts, expenses and bequests to a surviving spouse?  Does the property classified for property tax purposes in the taxable year of death as agricultural homestead, agricultural relative homestead, or special agricultural homestead under M.S. 273.124?  Was the property classified for property tax purposes in the taxable year of death as class 2a property under M.S. 273.13, subd. 23?  Did the	cor's first name, middle initial  Last name  Executor's Social Security num  of firm (if applicable)  Executor's phone  sos (street, apartment, route)  City  State  Zip code  1. — Qualified Small Business Property Requirements  slete Part 1 to determine if the estate meets the qualified small business property requirements. If the answer is "No" for state is not eligible to claim the small business property deduction.  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Selete Part 3 to determine if the estate has qualified heirs.  P.—Qualified Farm Property Requirements  slete Part 2 to determine if the estate meets the qualified farm property requirements. If the answer is "No" for any of the eligible to claim the farm property deduction, including debts, expenses and bequests to a surviving spouse?  6 Does the property consist of agricultural land and is owned by a person or entity that is either not subject to or is in compliance with M.S. 500.24?  7 Was the property classified for property tax purposes in the taxable year of death as agricultural homestead, a	or's first name, middle initial  Last name  Executor's Social Security number  of firm (if applicable)  Executor's phone  sis (street, apartment, route)  City  State  Zip code  L—Qualified Small Business Property Requirements  slete Part 1 to determine if the estate meets the qualified small business property requirements. If the answer is "No" for any of the state is not eligible to claim the small business property deduction.  Is the value of the property included in the decedent's federal adjusted taxable estate, which is after federal allowable deductions, including debts, expenses and bequests to a surviving spouse?  1 Yes  Does the property consist of assets of a trade or business (or shares of stock or other ownership interests in a corporation or other entity that is engaged in a trade or business and is not publicly traded)?  2 Yes  Did the decedent or the decedent's spouse materially participate in the trade or business during the taxable year that ended before the decedent's death?  3 Yes  Did the trade or business have gross annual sales of \$10 million or less  Unduring the last taxable year that ended before the decedent's death?  4 Yes  Did the decedent or the decedent's spouse continuously own the property for the three-year period ending at the decedent's death?  5 Yes  Did the decedent or the decedent's spouse continuously own the property for the three-year period ending at the decedent's death?  5 Yes  Did the decedent or the decedent's spouse continuously own the property for  The trade or business have gross annual sales of \$10 million or less  Period the decedent or the decedent's spouse continuously own the property for  The trade or business have gross annual sales of \$10 million or less  Buste Part 2 to determine if the estate has qualified farm property requirements. If the answer is "No" for any of the question elete Part 3 to determine if the estate has qualified farm property requirements. If the answer is "No" for any of the question elete Part 2 to determine if the estate has qual

If you answered yes to all of the Part 2 questions, the estate may be eligible to claim the farm property deduction. Complete Part 3 to determine if the estate has qualified heirs.

Deced	ent's first name, middle initial, last name	Decedent's Social Security number	Executor's first name, middle initial, last nam	Executor's Social Security number
		uired the qualified property from ? leduction: Describe the trade or b	the decedent  ousiness the decedent and the qualified	
13			ramily member will maintain the 2a	
	business described in question 12 following the decedent's death?	for the small business property o		
14	property other than to a family m	ember during the three years foll ollowing the decedent's death, th	dispose of any interest in the qualified owing the decedent's death?e qualified heir(s) do not adhere to the	14 Yes No
15	Enter the name of each qualified	heir from question 11, their relati	ionship to the decedent, the Federal so nd the fair market value of the propert	
	Federal Schedule and Item Number Where Reported	Name	Relationship to Decedent Fa	ir Market Value Received

Part 4 — Agreement (Must be completed Heirs: All persons signing below agree and I am a "family member" as provided by M I am a "qualified heir" as provided by M.S. Each and every qualified heir who acquired	attest to the following:	Executor's first name, middle initial, last name under the company of the company of the executor)	Executor	r's Social Security number	
<b>Heirs:</b> All persons signing below agree and I am a "family member" as provided by M I am a "qualified heir" as provided by M.S.	attest to the following:	ualified heir and the executor)			
l am a "family member" as provided by M I am a "qualified heir" as provided by M.S.	•				
I am a "qualified heir" as provided by M.S.	6 201 22 1 1 6				
	S. 291.03, subd. 8.				
Each and every qualified heir who acquirea	291.03, subd. 8(c).				
below.	I the qualified property or an intere	est in the qualified property described o	on Line 1, Parts	s 5 and 6 is listed	
If any qualified heir or family member dispo to a family member, during the three-year to the amount listed on Line 4, Part 7, mult disposition.	period following decedent's death,	. I am personally responsible for filing a	ind paying the	recapture tax equal	
If a family member does not maintain the 2 family member does not materially particity on Line 1, Part 5 for the small business propand paying the recapture tax equal to the conformathe date of the disqualifying cessation	pate in the operation of the trade of perty deduction during the three-y amount listed on Line 4, Part 7, mu	or business described on Line 12, Part 3 ear period following decedent's death,	for the qualifi I am personal	ied property described ly responsible for filing	
This schedule is correct and complete to the	e best of my knowledge and belief.				
Name	Address	City	State	Zip code	
Signature of qualified heir	Date	Social Security number	Phone num	ber	
Name	Address	City	State	Zip code	
Signature of qualified heir	Date	Social Security number	Phone num	ber	
Name	Address	City	State	Zip code	
Signature of qualified heir	Date	Social Security number	Phone num	Phone number	
Name	Address	City	State	Zip code	
Signature of qualified heir	Date	Social Security number	Phone num	ber	
Executor: I agree and attest to the following	<i>ı</i> :				
I am the executor of the decedent's estate. Each and every qualified heir who acquired t ment above.	the qualified property or an interest	in the qualified property described on L	ine 1, Parts 5 c	and 6 signed the agree-	
ment above.  If any qualified heir or family member dispos family member, during the three-year period the amount listed on Line 4, Part 7, multiplie tion. Additionally, I understand that I am per the recapture tax.	d following decedent's death, I here ed by 16%. The filing and payment a	by agree that the estate is liable for the lue date is no later than six months from	payment of the the the	e recapture tax equal to ne disqualifying disposi-	
If a family member does not maintain the 2c member does not materially participate in ti Part 5 for the small business property deduc ment of the recapture tax equal to the amou the date of the disqualifying cessation of the filing of the recapture tax return and the pay	he operation of the trade or busines tion during the three-year period fo unt listed on Line 4, Part 7, multiplie e trade or business. Additionally, I un yment of the recapture tax.	ss described on Line 12, Part 3 for the qu ollow-ing decedent's death, I hereby agre od by 16%. The filing and payment due d	alified propert se that the est ate is no later	y described on Line 1, ate is liable for the pay- than six months from	
This schedule is correct and complete to the	vest of my knowleage and belief.				

 $\ensuremath{\mathsf{A}}$  continuation page is provided after the instructions, if needed.

Signature of executor

Deced	ent's first name, middle initial, last name Decedent's Social Security number	Executor's first name, middle initial, last name	Executor's Social Security number				
Part	5 — Deduction Calculation for Qualified Small Business Property						
1	Value of assets. For each asset elected to be deducted from the decedent's Minnesota adjusted taxable estate as qualified small business property, provide a description, indicate the Schedule and item number from the Federal Form 706 where the asset is reported, and report the asset's fair market value at the valuation date.						
	Description of Asset (entity name and FEIN, if applicable)	Federal Schedule and Item Number Where Reported	Fair Market Value At Valuation Date				
	Subtotal from additional sheets attached to this schedule, if any						
2	Total value of assets	06 and on line 1 above that is not	1				
	eligible for the qualified small business deduction (see instructions).	Value Included in	Amount Not Allowed				
	Noneligible Property	Federal Gross Estate	in Deduction				
	Subtotal from additional sheets attached to this schedule, if any						
	Total amount not allowed in deduction		2				
3	ederal allowable deductions. Report allowable deductions that are related to the assets included on line 1 above and indicate he Schedule and item number from the Federal Form 706 where the allowable deduction is reported.						
	Description of Deduction	Federal Schedule and Item Number Where Reported	Amount Claimed as a Deduction				
	Subtotal from additional sheets attached to this schedule, if any						
	Total allowable deductions		3				
4	Add line 2 and line 3		4				
5	<b>Tentative Deduction.</b> Subtract line 4 from line 1. If you are also clair property, continue to Part 6. If not, continue to Part 7		e e				

eced	ent's first name, middle initial, last name	Decedent's Social Security number	Executor's first name, middle initial, last name	ne Executor's Social Security number			
art	6 — Deduction Calculation for Qual	ified Farm Property					
1	Value of assets. For each asset elected to be deducted from the decedent provide a description, indicate the Schedule and item number from the Fe fair market value at the valuation date.		•				
	Description of Asset (parcel ID num	nber and legal description)	Federal Schedule and Item Number Where Reported	Fair Market Value At Valuation Date			
	Subtotal from additional sheets att	cached to this schedule, if any					
	Total value of assets			1			
2	Noneligible property. List property farm property deduction (see instru		06 and on line 1 above that is not elig				
	Noneligible Property		Value Included in Federal Gross Estate	Amount Not Allowed in Deduction			
	Subtotal from additional sheets att	ached to this schedule, if any					
	otal amount not allowed in deduction						
3	Federal allowable deductions. Report allowable deductions that are related to the assets included on line 1 above and indicate the Schedule and item number from the Federal Form 706 where the allowable deduction is reported.						
	Description of Deduction		Federal Schedule and Iter Number Where Reported				
				_			
	Total allowable deductions			3			
,	Add line 2 and line 3			Δ			

Dece	dent's first name, middle initial, last name	Decedent's Social Security number	Executor's first name, middle initial, last name	Executor's Social Security number
Part	7 — Deduction Calculation for Quali	fied Small Business Property an	d Qualified Farm Property	
1	Enter the amount from Part 5, Line	5		1
2	Enter the amount from Part 6, Line	5		2
3	Add line 1 and line 2			3
4	<b>Deduction.</b> Enter the lesser of line 3	3 or \$2,000,000. Also, enter the	amount on line 6b of Form M706	4

#### You must attach the following to the Form M706Q:

- Documentation demonstrating decedent's or decedent's spouse's continuous ownership of the qualified property for the three-year period prior to decedent's death (deeds, titles, Federal Schedules K-1, etc.). NOTE: Property Tax Statements are not sufficient legal documentation.
- A copy of the decedent's will, trust, probate distribution ruling, transfer on death deed or other documentation that demonstrates to whom the qualified property is distributed to upon death.
- If the deducted property is qualified small business property, a complete copy of the decedent's federal income tax return, schedules, and attachments for the three taxable years ending prior to the decedent's death (including the taxable year of death).
- If the deducted property is qualified small business property, a complete copy of the business tax return, schedules, and attachments for the taxable year **prior** to the decedent's death.
- If the deducted property is qualified small business property, an explanation as to how the decedent materially participated in the qualified small business in the taxable year **prior** to death.
- If the deducted property is qualified farm property, a copy of the decedent's property tax statements for the taxable year of death.

# 2020 Schedule M706Q Instructions

## Purpose of Schedule M706Q

Schedule M706Q allows the estate of a decedent dying in 2020 to make an election to deduct qualified small business or qualified farm property from the Minnesota adjusted taxable estate. The deduction cannot exceed \$2,000,000 for estates of decedents dying in 2020. Qualified heirs must pay a recapture tax if a qualified heir fails to own the property or if a family member fails to use the property for a qualified use during the three years after the decedent's death.

#### Who Should File

An estate may be eligible for this deduction if all of the following are true:

- The estate is required to file Form M706.
- The value of the Minnesota adjusted taxable estate includes qualified small business or qualified farm property.
- For the small business property deduction, the estate and all qualified heirs agree that a family member will materially participate in the operation of the trade or business for three years following the decedent's death.
- For the farm property deduction, the estate and all qualified heirs agree that a family member will maintain 2a property classification for three years following the decedent's death.
- The estate and all qualified heirs agree not to dispose of any interest in the qualified property other than to a family member during the three years following the decedent's death.

#### When to File

File Schedule M706Q with Form M706.

## **Required Attachments**

You must attach the following to Form M706Q:

- · Documentation demonstrating decedent's or decedent's spouse's continuous ownership of the qualified property for the three-year period prior to decedent's death.
- If the deducted property is qualified small business property, a complete copy of the decedent's federal income tax return, schedules, and attachments for the three taxable years ending prior to the decedent's death (including the taxable year of death).
- If the deducted property is qualified farm property, a copy of the decedent's property tax statements for the taxable year of death.
- If the deducted property is qualified small business property, a complete copy of the business tax return, schedules, and attachments for the taxable year **prior** to the decedent's death.
- · If the deducted property is qualified small business property, an explanation as to how the decedent materially participated in the qualified small business in the taxable year **prior** to death.
- · A copy of the decedent's will, trust, probate distribution ruling, transfer on death deed or other documentation that demonstrates to whom the qualified property is distributed to upon death.

#### **Assembly Required**

See Form M706 instructions for details.

#### **Line Instructions**

#### Part 1 - Qualified Small Business Property Requirements

The estate must complete the federal Form 706 and Minnesota Form M706 to determine if the value of the qualified property is included in the decedent's federal adjusted taxable estate. The federal adjusted taxable estate is after deductions, including debts, expenses and bequests to a surviving spouse.

Material participation is described in section 469 of the Internal Revenue Code. The existence of material participation is a factual determination that generally requires regular, continuous, and substantial involvement in the operations of the trade or business activity. A passive activity within the meaning of section 469(c) of the Internal Revenue Code does not constitute material participation.

If the estate answers "no" to any of the questions in Part 1, stop here: the estate is not eligible to claim the small business property deduction. If the estate answers "yes" to all questions in Part 1, the estate may be eligible to claim the small business property deduction. Continue to Part 3. (M.S. 291.03, subd. 9)

#### Part 2 - Qualified Farm Property Requirements

The estate must complete the federal Form 706 and Minnesota Form M706 to determine if the value of the qualified property is included in the decedent's federal adjusted taxable estate. The federal adjusted taxable estate is after deductions, including debts, expenses and bequests to a surviving spouse.

Minnesota law, in general, bars corporations, limited liability companies, pension or investment funds, trusts, and limited partnerships from farming, owning, or leasing farmland in Minnesota. To meet the requirements of the qualified farm property deduction, the land cannot be Continued 1 owned by an entity that is prohibited from owning agricultural land under section 500.24 of Minnesota Statutes.

## **2020 M706Q Instructions** (continued)

Class 2a agricultural land consists of parcels of property, or portions thereof that are agricultural land and buildings. Class 2a land may be homestead or non-homestead depending on ownership, occupancy, and active farming scenarios.

To meet the requirements of qualified farm property, the property must be classified as class 2a agricultural land. If the property has multiple property classifications and the county assessor can practically separate the acreage of each classification type, then only the acreage that is attributable to class 2a can be claimed for the farm property deduction.

To meet the requirements of qualified farm property, the property must be classified as the agricultural homestead, agricultural relative homestead, or special agricultural homestead. If the property has multiple homestead classification and the county assessor can practically separate the acreage of each classification type, then only the acreage that is attributable to the agricultural homestead, agricultural relative homestead, or special agricultural homestead can be claimed for the farm property deduction."

If the estate answers "no" to any of the questions in Part 2, stop here: the estate is not eligible to claim the farm property deduction. If the estate answers "yes" to all questions in Part 2, the estate may be eligible to claim the small business property deduction. Continue to Part 3. (M.S. 291.03, subd. 10)

#### Part 3 - Qualified Heirs and Family Members Requirements

A "family member" means any of the following:

- An ancestor of the decedent (parent, grandparent, etc.)
- The decedent's spouse
- · A lineal descendant (child, grandchild, etc.) of the decedent, of the decedent's spouse; or of the decedent's parents
- The spouse of any lineal descendant described above
- A trust whose present beneficiaries are all family members

A decedent's aunts, uncles, and cousins do not qualify as family members. A decedent's nieces or nephews, however, do qualify as family members.

A "qualified heir" means a family member who acquired qualified property upon the death of the decedent.

Describe the trade or business, including the type of industry, and enter the six-digit NAICS code that best describes the business activities. To determine the appropriate NAICS code, go to http://www.census.gov/eos/www/naics/index.html. Enter a keyword to search the most recent NAICS list.

If a family member does not maintain the 2a classification for the qualified property for the farm property deduction or a family member does not materially participate in the operation of the trade or business for the small business property deduction during the three-year period following decedent's death, a recapture tax will be imposed.

If the qualified heirs dispose of any interest in the qualified property other than to a family member during the three years following the decedent's death, a recapture tax will be imposed.

The recapture tax is equal to 16% of the amount deducted by this election from the Minnesota adjusted taxable estate. The recapture tax and return are due no later than six months from the date of the disqualifying cessation of the trade or business or the disqualifying disposition of the qualified property. (M.S. 291.03, subd. 11)

If the estate answers "no" to any of the questions in Part 3, stop here: the estate is not eligible to claim the small business or farm property deduction. If the estate answers "yes" to all questions in Part 3, the estate may be eligible to claim the small business or farm property deduction. Continue to Part 4.

#### Part 4 – Agreement

To make a valid election, the agreement must be completed and signed by each and every qualified heir who acquired the qualified property upon the death of the decedent.

In addition, the executor of the estate must sign the agreement on behalf of the estate.

A continuation page for the agreement is provided after the instructions, if needed.

#### Parts 5 and 6 – Deduction Calculation

Value of Assets. Complete section 1 by entering a description of each asset that is elected to be deducted as qualifying property from the decedent's Minnesota adjusted taxable estate. Enter the schedule and item number from the federal Form 706 where the asset is reported. Then enter the fair market value of the asset at the valuation date. This is the value included in the Federal gross estate. If the estate is electing to deduct only a portion of an asset reported on the federal Form 706, enter the appropriate valuation percentage that qualifies for the deduction. Subtotal all amounts as line 1.

## 2020 M706Q Instructions (continued)

Non-eligible Property. For qualified small business property, complete section 2 by entering a description of any cash, cash equivalents, publicly traded securities, or assets not used in the operation of the trade or business. Cash equivalents are short-term securities that are liquid enough to be considered equivalent to cash. Examples include negotiable instruments, money market holdings, short-term government bonds or Treasury bills, marketable securities, commercial paper, and other like items. For assets entered above in section 1 consisting of shares of stock or other ownership interests in a business entity, the amount of cash, cash equivalents, publically traded securities, or assets not used in the operation of the trade or business held by the corporation or business entity must be entered in section 2 in proportion to the decedent's share of ownership of the corporation or business entity on the date of death.

For qualified farm property, complete section 2 by entering a description of any property other than class 2a agricultural land (real property) or non-homestead property included in the values entered above in section 1.

Subtotal all amounts as line 2.

**Allowable Deductions.** Complete section 3 by entering a description of the Federal allowable deductions that are related to the assets entered above in section 1, including:

- · Marital deduction
- Mortgages and liens held against the qualifying property
- · Property tax payable on the qualifying property
- Expenses and costs taken as a deduction used to preserve the qualifying property
- · Appraisal fees

Enter the schedule and item number from the federal Form 706 where the allowable deduction is reported. Subtotal all amounts as line 3.

### **Recapture Tax**

If any of the following occurs within three years of the decedent's death and before the death of the qualified heir, then a recapture tax is imposed:

- The qualified heir disposes of any interest in the qualified property (other than by a disposition to a family member).
- For the qualified small business property deduction, a family member does not materially participate in the operation of the trade or business.
- For the qualified farm property deduction, a family member does not maintain the 2a classification for the qualified property.

The recapture tax equals 16 percent of the amount of the deduction. The return must be filed and the recapture tax must be paid to the Minnesota Department of Revenue within six months after the date of disqualifying disposition or cessation of use.

Exceptions to three-year holding period for the qualified farm property:

- Recapture tax is not triggered if the property is acquired by a governmental unit via eminent domain for a public purpose.
- Recapture tax is not triggered if a portion of qualified farm property consisting of less than 1/5 of the claimed acreage is reclassified for property tax purposes from 2a to 2b under M.S. 273.13, subd. 23, so long as the property is not substantially altered.
- Recapture tax is not triggered if a portion of the qualified farm property (residence, garage, and up to one acre of surrounding property) are reclassified for property tax purposes from 2a to 4bb under M.S. 273.13, subd. 23.

#### Informational Returns

When an estate elects for this deduction, a qualified heir must file two information returns to confirm that no recapture tax is due. The first return is due 24 to 26 months after the decedent's death. The second return is due 36 months to 39 months after the decedent's death. Failure to timely file an informational return will result in a penalty under M.S. 289A.60, subd. 8.

#### Forms and Information

Website: www.revenue.state.mn.us

Email: BusinessIncome.tax@state.mn.us

Phone: 651-556-3075

Weekdays, 8 a.m. to 4:30 p.m.

Mail: Minnesota Department of Revenue

Mail Station 1315 600 N. Robert St.

St. Paul, MN 55146-1315

# 2020 M706Q Part 4 - Continuation Page

Decedent's first name, middle initial, last name	Decedent's Social Security number	Executor's first name, middle initial, last name	Executor's Socia	al Security number
Heirs:				
Name	Address	City	State Z	ip code
Signature of qualified heir	Date	Social Security number	Phone number	
Name	Address	City	State Z	ip code
Signature of qualified heir	Date	Social Security number	Phone number	
Name	Address	City	State Z	ip code
ignature of qualified heir	Date	Social Security number	Phone number	
Name	Address	City	State Z	ip code
Signature of qualified heir	Date	Social Security number	Phone number	
Name	Address	City	State Z	ip code
Signature of qualified heir	Date	Social Security number	Phone number	
Name	Address	City	State Z	ip code
Signature of qualified heir	Date	Social Security number	Phone number	
Name	Address	City	State Z	ip code
Signature of qualified heir	Date	Social Security number	Phone number	
Name	Address	City	State Z	ip code
Signature of qualified heir	Date	Social Security number	Phone number	
Executor:				
Name	Address	City	State Zip co	de
Signature of executor		Date		
Name	Address	City	State Zip co	de
Signature of executor		Date		
Name	Address	City	State Zip co	de
Signature of executor		Date		
Name	Address	City	State Zip co	de