



**INDIVIDUAL INCOME TAX  
SALES AND USE TAX  
Disregarded LLCs**

April 6, 2022

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>	X	

*Revised Estimate*

Department of Revenue  
Analysis of S.F. 3852 (Johnson) / H.F. 4318 (Agbaje)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>
	(000's)			
<b>Individual Income Tax</b>				
Credit for Taxes Paid to another State	\$0	\$0	\$0	\$0
<b>Sales and Use Tax</b>				
Sales of Tangible Personal Property	<u>\$0</u>	<u>(\$660)</u>	<u>(\$710)</u>	<u>(\$760)</u>
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$660)</b>	<b>(\$710)</b>	<b>(\$760)</b>
<b>Natural Resources and Arts Funds</b>				
Sales of Tangible Personal Property	\$0	(\$40)	(\$40)	(\$40)
<b>Total—All Funds</b>	<b>\$0</b>	<b>(\$700)</b>	<b>(\$750)</b>	<b>(\$800)</b>

The income tax credit is effective beginning with tax year 2022.  
The sales and use tax exemption is effective for sales made after June 30, 2022.

**EXPLANATION OF THE BILL**

**Current Law:**

*Credit for Taxes Paid to Another State*

A Minnesota resident may claim a credit for income tax paid to another state or a Canadian province on income also taxed by Minnesota. The credit is generally limited to the amount of Minnesota tax on that income or the tax paid to the other state, whichever is less. For taxes paid to Wisconsin on personal service income, the credit is equal to the Wisconsin tax even if it is larger than the Minnesota tax and is refundable.

*Sales of Tangible Personal Property*

Under current administrative rules, the transfer of sales taxable property between a disregarded single member limited liability company (LLC) and the single member do not qualify for an exemption.

**Proposed Law:**

*Credit for Taxes Paid to Another State*

For purposes of the credit for taxes paid to another state, a Minnesota resident who is the sole member of a disregarded LLC would be considered to have paid any net income tax paid by the disregarded LLC to another state. Net income tax means any tax imposed on or measured by a disregarded LLC's net income.

## **EXPLANATION OF THE BILL (Cont.)**

### *Sales of Tangible Personal Property*

The bill creates a sales tax exemption for sales between the sole member of a disregarded LLC and the disregarded LLC.

## **REVENUE ANALYSIS DETAIL**

### *Credit for Taxes Paid to Another State*

- Since the net income tax imposed on the disregarded entity is ultimately the liability of the owner by virtue of the entity being disregarded, the owner is eligible to claim the credit under current law. Therefore, the provision will have no fiscal impact.

### *Sales of Tangible Personal Property*

- Department of Revenue records show that 145,000 single member limited liability companies were registered in 2021 and about 17% of those are disregarded entities.
- Department of Revenue records show that about 12,600 single member LLCs are formed each year.
- It was assumed that the number of new single member LLCs formed each year is constant.
- It is assumed that 7% of the LLCs would have taxable sales between the company and the member with an average value of \$5,000.

**Number of Taxpayers:** About 1,900 disregarded LLCs will qualify for the sales tax exemption. An unknown number will claim the credit for taxes paid to another state.

Minnesota Department of Revenue  
Tax Research Division  
[https://www.revenue.state.mn.us/  
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)