DEPARTMENT OF REVENUE

187151

2018 Schedule M2NC, Federal Adjustments

Minnesota has generally adopted the Internal Revenue Code as amended through December 15, 2022. This schedule allows for any remaining necessary adjustments required to file a state tax return.

Tax year beginning ______________, **2018, ending** ______________

Name of Estate or Fiduciary | Federal ID Number | Minnesota ID Number

*Before you complete this schedule, **read the instructions which are on a separate sheet**.*

Enter amounts as a positive or negative. Round amounts to the nearest whole dollar.

Adjustments to federal taxable income (FTI)

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2 a. This line intentionally left blank . . . . . 2a ■ ______

b. This line intentionally left blank . . . . . 2b ■ ______

c. This line intentionally left blank . . . . . 2c ■ ______

3 a. This line intentionally left blank . . . . . 3a ■ ______

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4 a. This line intentionally left blank . . . . . 4a ■ ______

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6 Deduction for Qualified Business Income . . . . . 6 ■ ______

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9 a. This line intentionally left blank . . . . . 9a ■ ______

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10 Limitation on Deduction by Employers of Expenses for Fringe Benefits (TCJA Sec. 13304) . . . . . 10 ■ ______

11 Other Deduction Provisions (TCJA Sec. 13307, 13308, 13310, 13603) . . . . . 11 ■ ______

12 This line intentionally left blank . . . . . 12 ■ ______

13 Cash Distributions from Converted C Corporations (TCJA Sec. 13543(b)) . . . . . 13 ■ ______

14 Tax Treatment of Alaska Native Corporations and Settlement Trusts (TCJA Sec. 13821) . . . . . 14 ■ ______

15 Special Rules for Capital Gains Invested In Opportunity Zones (TCJA Sec. 13823) . . . . . 15 ■ ______

16 a. Section 965 Deferred Foreign Income . . . . . 16a ■ ______

b. Income excluded as previously taxed under section 965 or 951A . . . . . 16b ■ ______

* 1 8 7 1 6 1 *

17	Inclusion of Global Intangible Low Taxed Income	17 ■	
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19	Related Party Amounts Paid in Hybrid Transactions (TCJA Sec. 14222)	19 ■	
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28	Total lines 1-27. If the result is positive, enter it on Form M2, line 31. If the amount is negative, enter it as a positive number on Form M2, line 38.	28 ■	

You must include this schedule when you file Form M2.

2018 Schedule M2NC Instructions

For taxpayers who are affected by federal tax law passed after December 16, 2016 for which Minnesota does not recognize the tax effect of for tax year 2018. In addition, Minnesota has generally adopted the Internal Revenue Code as amended through December 15, 2022. This schedule allows for any remaining necessary adjustments required to file a state tax return.

Purpose of This Schedule

On May 30, 2019, Minnesota law was updated to recognize the Internal Revenue Code (IRC) as amended through December 31, 2018. This change effects tax years 2017 and 2018. The bill included language that disallowed the tax effect of certain provisions of the federal legislation commonly known as the Tax Cuts and Jobs Act (TCJA), and Bipartisan Budget Act (BBA) for tax year 2018. See M.S. 290.993 for more information.

We have updated this form and instructions to recognize enactment of this Minnesota legislation.

In addition, in January 2023, Minnesota law was updated to recognize the Internal Revenue Code as amended through December 15, 2022. However, some nonconformity adjustments still apply due to retroactive Minnesota modifications enacted in the tax bill.

We have updated this form and instructions to recognize enactment of this Minnesota legislation.

Who Must File Schedule M2NC

If any of the federal provisions on pages 1 through 6 of these instructions affect the amount of taxable income reported on your 2018 federal Form 1041, U.S. Income Tax Return for Estates and Trusts, you must adjust your 2018 Minnesota return using Schedule M2NC.

Use the Schedule M2NC and these instructions to complete your Minnesota return. The adjustment for each line reflects the change to your Minnesota return as a result of the following:

- the special limited adjustment;
- the Minnesota tax bill enacted on July 1, 2021; and
- the Minnesota tax bill enacted in January 2023.

Each line will also include the net adjustments received from Schedules KFNC, KPINC, and KSNC for your pro rata share or interest in another business or fiduciary.

If the change results in a reduction of your federal taxable income (FTI), enter the adjustment as a negative number. If the change results in an increase of your FTI, enter the adjustment as a positive number.

Save your entire 2018 Minnesota fiduciary income tax return, and all worksheets and notes used in determining the adjustments.

Line Instructions

Line 6 - Deduction for Qualified Business Income

Federal law allows a deduction for qualified business income (QBI). QBI is the net amount of qualified items of income, gain, deduction, and loss of a partnership, S corporation, or sole proprietorship. Trusts and estates are eligible for the deduction to reduce their federal taxable income for the apportionable W-2 wages and unadjusted basis immediately after the acquisition of qualified property.

Minnesota law requires an addition for federally deducted QBI. Therefore, any trust or estate that retains current income, and claimed the QBI deduction, must enter the amount of the federal deduction on M2NC as a positive amount on line 6.

Line 10 - Limitation on Deduction by Employers of Expenses for Fringe Benefits (TCJA Sec. 13304)

If you have an adjustment for one of the expenses listed below, enter the amount on line 10. If you have an adjustment for more than one expense listed below, net the adjustments and enter the total on line 10.

Business Deductions for Entertainment Expenses

Under the Tax Cuts and Jobs Act (TCJA), no deduction is allowed for the following entertainment expenses paid or incurred after December 31, 2017—

(1) Entertainment, amusement, or recreation activities,

(2) Membership dues for clubs organized for business, pleasure, recreation, or other social purposes, or

(3) A facility used in connection with either of the above items.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA. No deduction is allowed for ordinary and necessary expenses for any activity of a type generally considered to be entertainment, amusement, or recreation, or for a facility used in connection with such an activity. An exception is allowed if the taxpayer establishes that the expense was directly related to or associated with the active conduct of the taxpayer's trade or business or income producing activity. The deduction is limited to 50% of the deductible amount of the entertainment expense.

If you incurred a business expense related to entertainment, amusement, or recreation activities and can establish the expense was directly related to or associated with the active conduct of your trade or business, enter 50% of the allowable amount of entertainment expenses as a negative number on line 10.

Expenses for Employer-Operated Eating Facilities

Under TCJA, an employer can no longer deduct the full cost of food and beverages offered as a de minimis fringe benefit. Instead the employer must apply a 50% limit to the deduction of food or beverage expenses.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA. Under the 2016 IRC, employers can deduct the full cost of food and beverages that are excludable from the employee's income if they are provided for the convenience of the employer at an employer-operated eating facility as a de minimis fringe benefit.

If you offered food and beverages that qualify as a de minimis fringe benefit under 2016 IRC and are limited to a 50% deduction, enter the amount of the remaining 50% deduction as a negative number on line 10.

Employers' Cost of Providing Qualified Transportation Fringes and Other Transportation Benefits

The TCJA repealed the employer deduction for the expense of a qualified transportation fringe. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, an employer can deduct expenses for providing qualified transportation fringe benefits or other transportation or commuting benefits to an employee.

If you offered qualified transportation fringe benefits or other transportation or commuting benefits to employees that you could not deduct on your federal return, enter the amount of the qualifying transportation expense as a negative number on line 10.

Line 11 – Other Deduction Provisions (TCJA 13307, 13308, 13310, 13603)

If you have an adjustment for one of the provisions below, enter the amount on line 11. If you have an adjustment for more than one provision listed below, net the adjustments and enter the total on line 11.

Denial of Deduction for Settlements Subject to Nondisclosure Agreements Paid in Connection with Sexual Harassment or Sexual Abuse (TCJA Sec. 13307)

Under the Tax Cuts and Jobs Act (TCJA), a taxpayer can no longer deduct as a business expense—

(1) Any settlement or payment related to sexual harassment or sexual abuse if such settlement or payment is subject to a nondisclosure agreement, or

(2) Attorney's fees related to such a settlement or payment.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

If you incurred expenses described in items (1) or (2) that qualify as a deduction under 2016 IRC section 162, and do not qualify as a deduction under 2018 IRC, enter the amount as a negative number on line 11.

Repeal of Deduction for Local Lobbying Expenses (TCJA Sec. 13308)

Under TCJA, you may no longer deduct amounts paid or incurred in connection with influencing, or attempting to influence, legislation of a local council, similar governing body, or Indian tribal government.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

For these specific local government bodies, 2016 IRC allows taxpayers to deduct—

(1) all ordinary and necessary expenses (including, but not limited to, traveling expenses and the cost of preparing testimony) paid or incurred in carrying on any trade or business—

  a. In direct connection with appearance before, submission of statements to, or sending communications to the committees, or individual members, of such council or body with respect to legislation or proposed legislation of direct interest to the taxpayer, or

  b. In direct connection with communication of information between the taxpayer and organization of which the taxpayer is a member with respect to any such legislation or proposed legislation which is of direct interest to the taxpayer and to such organization, or

(2) The portion of the dues paid or incurred to the organization of which the taxpayer is a member for activities described in Item (1).

If you incurred expenses described in items (1) or (2) that qualify as a deduction under 2016 IRC section 162, and do not qualify as a deduction under 2018 IRC, enter the amount as a negative number on line 11.

Prohibition on Cash, Gift Cards, and Other Nontangible Personal Property as Employee Achievement Awards (TCJA Sec. 13310)

The TCJA allows a deduction for the cost of employee achievement awards with certain limitations. The employee achievement award must be tangible personal property given in recognition of an employee's length of service or safety and awarded as part of a meaningful presentation under specified conditions and circumstances.

The TCJA changed the definition of tangible personal property to exclude—

(1) Cash, cash equivalents, gift cards, gift coupons, or gift certificates; or

(2) Vacations, meals, lodging, tickets to theater or sporting events, stocks, bonds, other securities, and other similar items.

As a result, the above items are no longer deductible federally as an employee achievement award.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA. Under 2016 IRC, the items described above are included in the definition of tangible personal property and may be deductible as an employee achievement award.

If you granted employee achievement awards consisting of tangible personal property described in Items (1) or (2) above that qualify for the deduction under 2016 IRC section 274, enter the amount paid or incurred during the taxable year as a negative number on line 11.

Treatment of Qualified Equity Grants (TCJA Sec. 13603)

The TCJA allows a qualified employee to make an election to defer the inclusion of income relating to qualified stock transferred from an employer to the qualified employee. Generally, an employer is allowed a business deduction in the year the employee recognizes the income.

The deferred income must be recognized by the employee and allowed as a deduction by the employer in the taxable year in which the earliest of the following occurs—

(1) The first date the qualified stock becomes transferable,

(2) The date the employee first becomes an excluded employee,

(3) The first date any stock of the corporation becomes readily tradable on an established securities market,

(4) The date that is 5 years after the first date the rights of the employee is such stock are transferable or are not subject to a substantial risk of forfeiture, whichever occurs earlier, or

(5) The date the employee revokes the deferral election.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA. The 2016 IRC requires an employee to recognize qualified stock as income when the employee's beneficial interest in the stock is either transferable or not subject to substantial risk of forfeiture (substantially vested). The employee includes the excess of the fair market value of the stock at the time it is recognized over any amount the employee paid for the stock in income.

If a qualified employee elects to defer recognition, you may need to make an adjustment on your Minnesota return. Generally, your business may deduct the amount included in the employee's income for the taxable year.

Enter the total amount of deferred income as a negative number on line 11.

Line 13 – Cash Distributions from Converted C Corporations (TCJA Sec. 13543(b))

The Tax Cuts and Jobs Act made changes to the tax treatment of distributions made from a C corporation which converted from an S corporation. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, cash distributions made by a C corporation during the period following conversion from an S corporation are treated as tax-free to the shareholder with a reduction in the adjusted basis of stock.

If you received a cash distribution from an eligible terminated S corporation (defined by 2018 IRC section 481(d)), enter any portion of the distribution that would be reported as income under 2016 IRC as a positive number on line 13.

Line 14

If you have an adjustment for one of the provisions below, enter the amount on line 14. If you have an adjustment for more than one provision listed below, net the adjustments and enter the total on line 14.

Tax Treatment of Alaska Native Corporations (TCJA Sec. 13821)

Include the value from Schedules KPINC, KSNC, or KFNC on line 14.

Tax Treatment of Alaska Native Settlement Trusts (TCJA Sec. 13821)

The Tax Cuts and Jobs Act requires an Alaska Native Settlement Trust to report contributions from an Alaska Native Corporation (ANC) as income if 2018 IRC section 247(e) applies. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, these contributions are not required to be reported as income.

If you reported contributions from an ANC as income, include the amount as a negative number on line 14.

Line 15 - Special Rules for Capital Gains Invested in Opportunity Zones (TCJA Sec. 13823)

The Tax Cuts and Jobs Act allows—

(1) A temporary deferral from income for capital gains reinvested in a qualified opportunity fund, and

(2) A permanent exclusion from income of certain capital gains from the sale or exchange of an investment in the qualified opportunity fund.

For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

If you have deferred or excluded from income one of the two types of capital gains listed above, enter the deferred or excluded amount as a positive number on line 15.

Line 16a – Section 965 Deferred Foreign Income

Minnesota law allows a subtraction from FTI for deferred foreign income (DFI) reported on your federal return. If you reported DFI, enter the net amount (IRC section 965(a) inclusion amount reduced by IRC section 965(c) allowed) as a negative number on line 16a.

Line 16b – Income Excluded as Previously Taxed Under Section 965 or 951A

If you received income excluded as previously taxed under IRC section 965 (deferred foreign income) (TCJA Sec. 14103) or 951A (global-intangible low taxed income) (TCJA Sec. 14201) in the current tax year, include the amount of that income as a positive number on Line 16b.

Line 17 – Inclusion of Global Intangible Low-Taxed Income

Minnesota law allows a subtraction from FTI for the inclusion of global intangible low-taxed income (GILTI) reported on your federal return.

If you reported GILTI as a shareholder of a controlled foreign corporation (CFC), enter the amount as a negative number on line 17.

Line 18 - Deduction for Foreign Derived Intangible Income

Minnesota law requires an addition to FTI for any deduction for foreign-derived intangible income (FDII) claimed on your federal return.

If you deducted a portion of FDII under 2018 IRC section 250, enter the amount as a positive number on line 18.

Line 19 - Related Party Amounts Paid in Hybrid Transactions (TCJA Sec. 14222)

The Tax Cuts and Jobs Act added 2018 IRC section 267A to disallow a deduction for disqualified related party amounts paid or accrued in a hybrid transaction or by, or to, a hybrid entity. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

2016 IRC does not explicitly disallow deductions for disqualified related party amounts.

If you have related party amounts disallowed under 2018 IRC section 267A, enter the amount disallowed as a negative number on line 19.

Line 21 – Source of Income from Sales of Inventory (TCJA Sec. 14303)

The Tax Cuts and Jobs Act specifies that gains, profits, and income from the sale or exchange of inventory are allocated and apportioned between sources within and without the United States based solely on where the production activities occurred for the inventory. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, any gains, profits, and income from the sales or exchange of inventory are sourced based on both the place of production and the place of sale.

If you sold or exchanged inventory during the tax year where the inventory was produced in the U.S. and sold in a foreign country (or vice versa), recalculate the allocation and apportionment of the gains, profits, and income based on both the place of production and the place of sale under 2016 IRC. Enter the adjustment to FTI on line 21.

Line 23 - Other Provisions (TCJA Sec. 13309, 13312, 13314, 13504, 13522, 13531, 13532, 14502)

If you have an adjustment for one of the provisions below, enter the amount on line 23. If you have an adjustment for more than one provision listed below, net the adjustments and enter the total on line 23.

Certain Gains from Partnership Profits Interests (TCJA Sec. 13309)

The Tax Cuts and Jobs Act (TCJA) changes the tax treatment of gains from a profits interest in a partnership (or carried interest) held in connection with the performance of services by providing that if one or more applicable partnership interests are held by a taxpayer at any time during the tax year, the excess of—

(1) The taxpayer's net long term capital gain with respect to those interest for that tax year, over

(2) The taxpayer's net long term capital gain with respect to those interests for that tax year computed by applying 2018 IRC sections 1222(3) and 1222(4) and substituting "3 years" for "1 year,"

will be treated as short term capital gain.

The TCJA also allows a three-year holding period for certain net long-term capital gains relating to any applicable partnership interest held by the taxpayer. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

If your long-term gains under 2016 IRC have changed to short-term gains due to changes made by TCJA, enter the adjustment from short-term gains to long-term gains on line 23.

Certain Contributions by Governmental Entities not Treated as Contributions to Capital (TCJA Sec. 13312)

The TCJA requires gross income to include any contributions to the capital of the taxpayer by any governmental entity or civic group (other than a contribution made by a shareholder as such). For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC section 118, these contributions to capital are excluded from gross income.

If you include the above contributions to capital, and the contributions are excluded under 2016 IRC, enter the amount as a negative number on line 23.

Patents, Inventions, Certain Models or Designs, and Secret Formulas or Processes (TCJA Sec. 13314)

The TCJA adds the following items to 2018 IRC sections 1221 and 1231 as items excluded from the definition of a capital asset:

- patent
- invention
- model or design (whether or not patented)
- secret formal or process

Therefore, these assets are no longer eligible for federal capital gain treatment. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, certain self-created intangibles such as copyrights, literary, musical, or artistic compositions, letters or memoranda, or similar property are excluded from the definition of a capital asset if the asset is held either by the taxpayer who created the property, or in certain circumstances a taxpayer for whom the property was produced.

In determining the gain from this property, any self-created intangible that is excluded from the definition of a capital asset is also ineligible to be treated as a capital gain or ordinary losses asset under 2016 IRC section 1231.

If you included income from the sale of a patent, invention, model or design, or a secret formula or process, report it as the sale of capital assets for Minnesota purposes. Recalculate gains and losses under 2016 IRC sections 1221 and 1231. Enter any difference from 2018 IRC on line 23.

Repeal of Technical Termination of Partnerships (TCJA Sec. 13504)

Enter the value from Schedule KPINC, KSNC, or KFNC on line 23.

Exceptions to Life Insurance Transfer-for-Value Rule (TCJA Sec. 13522)

The TCJA requires a portion of the death benefit received by a buyer of a life insurance contract to be includable in income when a reportable policy sale occurs. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, reportable policy sales are excluded from the transfer-for-value rule and the acquirer is not required to report income.

If you included income from a reportable policy sale, enter the amount as a negative number on line 23.

Limitation on Deduction for FDIC Premiums (TCJA Sec. 13531)

The TCJA limits the amount of FDIC premiums banks are allowed to deduct based on an applicable percentage defined in 2018 IRC section 162(r)(3). For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, FDIC premiums are fully deductible based upon the all-events test.

If you were disallowed a deduction for a portion of FDIC premiums, enter the amount of premiums disallowed for members of your Minnesota combined group as a negative number on line 23.

Repeal of Advance Refunding Bonds (TCJA Sec. 13532)

The TCJA repealed the exclusion relating to interest on bonds issued to advance refund another bond. Instead, 2018 IRC requires any bonds for which the refunding bond is issued more than 90 days before the redemption of the refunded bond to include the interest in gross income. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, the interest on bonds issued to advance refund another bond are excluded from gross income.

If you included advance refunding bond interest, and it is allowed as a deduction under 2016 IRC, enter the amount of interest as a negative number on line 23.

Repeal of Fair Market Value Method of Interest Expense Allocation (TCJA Sec. 14502)

The TCJA amended 2018 IRC section 864(e)(2) to repeal the use of the fair market value method to allocate or apportion interest expense between income from U.S. sources and income from foreign sources. Interest expense is now allocated or apportioned on the basis of assets. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, a taxpayer could use the fair market method to establish the value of its assets.

You may elect to use the fair market value method to value assets and allocate or apportion interest expenses between U.S. and foreign sources for purposes of determining your Minnesota taxable income. Include an explanation that establishes the fair market value of your assets with this schedule. Determine any adjustments needed to FTI using the fair market value method under 2016 IRC section 864(e). Enter the adjustments on line 23.

Line 24 - Extension of Credits and Tax Incentives (TCJA Sec. 13401, 13403)

If you have an adjustment for one of the provisions below, enter the amount on line 24. If more than one provision listed below requires an adjustment, net the adjustments and enter the total on line 24.

Orphan Drug Credit (TCJA Sec. 13401)

The Tax Cuts and Jobs Act (TCJA) decreased the percentage of qualified clinical testing expenses that can be taken into account in determining the amount of the orphan drug credit. The TCJA also added an election to claim a reduced amount of orphan drug credit in lieu of reducing business expenses. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

Under 2016 IRC, a higher percentage of qualified clinical testing expenses is allowed and the election is not available.

If you claimed an orphan drug credit and made the election under 2018 IRC section 280C(b)(3) to reduce the amount of credit, enter the amount of qualified clinical testing expenses that exceeds the amount you could have claimed as a business expense deduction without the election as a positive number on line 24.

Employer Credit for Paid Family and Medical Leave (TCJA Sec. 13403)

The TCJA allows a new credit for certain employers who offer paid family and medical leave to their employees. Generally, wages used to determine the credit are not deductible on the federal return. For tax year 2018, Minnesota does not recognize the tax effect of this provision of the TCJA.

If you claimed the employer credit for paid family and medical leave, enter the amount of wages disallowed as a negative amount on line 24.

Line 25 - Other Adjustments to Federal Taxable Income (FTI)

If any provision within the Federal Disaster Tax Relief and Airport and Airway Extension Act, Tax Cuts and Jobs Act, Consolidated Appropriations Act, or Bipartisan Budget Act (other than the extension of the credit for nonbusiness energy property in section 40401) impacts your calculation of FTI and is not included as an adjustment on another line of this schedule, enter an adjustment incorporating the change(s) to FTI on line 25. Common examples of adjustments to FTI are capital contributions limitations, capital loss limitations, basis adjustments, and gain or loss from sales.

For example, in 2017 you placed in service a passenger vehicle and made a nonconformity adjustment on your 2017 Minnesota tax return. This resulted in creating a Minnesota basis in the property different from the federal basis. If you sell the passenger vehicle this year, the difference between the gain or loss recognized using the federal basis and the Minnesota basis should be entered as an adjustment on line 25.

Attach a schedule showing the calculation of any amount entered on line 25.

Line 26 — Excess Business Loss and NOL Deduction Adjustments

If you have an adjustment for one of the provisions below, enter the amount on line 26. If you have an adjustment for more than one provision listed below, net the adjustments and enter the total on line 26.

Section 2303. Allowance of Retroactive NOL Carrybacks and Suspension of 80% Limit

If you carried back NOLs and/or fully offset your income using the NOLs, determine the difference to what was allowed prior to the

CARES Act. Include the result, as a positive number, on line 26 of Form M2NC for only the portion being retained by the estate or trust. Allocate 100% of this adjustment to the fiduciary on line 44 of Form M2.

Section 2304. Modification of Excess Loss Limitation
Calculate the amount of losses taken on your federal return that exceeds $250,000 for individuals and $500,000 for those married filing jointly. Include the result, as a positive number, on line 26 of Form M2NC. Report only the portion being retained by the estate or trust. Allocate 100% of this adjustment to the fiduciary on line 44 of Form M2.

Line 27 – Adjustments for the TCDTR and CARES Act

The following provisions may require an income adjustment for Minnesota tax purposes. This list includes the most common adjustments; you must make adjustments as described below for all provisions included in the TCDTR, FFCRA, and CARES Act to which Minnesota has not conformed.

These instructions no longer apply.

If you have an adjustment for only one of the provisions in the federal acts, enter the amount on line 27. If you have an adjustment for more than one provision, net the adjustments and enter the total on line 27.

If you have to amend as a result of conformity within the January 2023 Minnesota tax bill, only adjust your amended return for the following reasons:

1. To update composite income tax for electing beneficiaries, or
2. To update fiduciary income tax when the trust or estate retains income.

You may need to amend, and issue updated Schedules KF or KFNC if your beneficiary(s) need additional information to update their return(s). For example, if you claimed federal bonus depreciation on qualified improvement property (QIP) and adjusted the beneficiary's bonus depreciation addition as a result of the QIP nonconformity adjustment.

If you are amending solely due to the January 2023 Minnesota tax bill, write "Conformity" in red at the top of the Minnesota Form M2X. For more details, see the Form M2 instructions.

TCDTR Sections

Section 111. Indian Employment Credit
If you were not allowed to deduct expenses due to the Indian Employment Credit on your federal return, include the amount of the disallowed expenses as a negative number.

These instructions no longer apply.

Section 112. Railroad Track Maintenance Credit
No nonconformity adjustment is needed because Minnesota requires a subtraction on line 40 of Minnesota Form M2.

Section 113. Mine Rescue Team Training Credit
If you were not allowed to deduct expenses due to the Mine Rescue Team Training Credit on your federal return, include the amount of the disallowed expenses as a negative number.

Section 114. Classification of Certain Race Horses as 3-year Property
If you own race horses and you claimed a 3-year recovery period on your federal return, calculate the difference between the 3-year recovery period and the recovery period you would have been allowed under 2018 IRC. If your recovery period reported on your federal return is greater than the recalculated amount, include the amount as a positive number. If your recovery period reported on your federal return is less than the recalculated amount, include the amount as a negative number.

Section 115. 7-year Recovery Period for Motorsports Entertainment Complexes
If you have a motorsports entertainment complex and you claimed a 7-year recovery period on your federal return, calculate the difference between the 7-year recovery period and the recovery period you would have been allowed under 2018 IRC. If your recovery period reported on your federal return is greater than the recalculated amount, include the amount as a positive number. If your recovery period reported on your federal return is less than the recalculated amount, include the amount as a negative number.

These instructions no longer apply.

Section 118. Empowerment Zone Tax Incentives

If you had a tax change relating to an empowerment zone that impacted your FTI on your federal return, reverse the tax impacts to your FTI.

Section 122. Second Generation Biofuel Producer Credit
If you claimed the Second Generation Biofuel Producer Credit on your federal return that impacted your FTI, reverse the tax impacts to your FTI.

Section 124. Qualified Fuel Cell Motor Vehicles
If you claimed the credit for Qualified Fuel Cell Motor Vehicles on your federal return that impacted your FTI, reverse the tax impacts to your FTI.

Section 125. Alternative Fuel Refueling Property Credit
If you claimed the Alternative Fuel Refueling Property Credit on your federal return, adjust the property's basis without regard to the basis reduction required under current federal law. Include any adjustments to FTI as a result of this Minnesota change in basis.

Section 126. 2-Wheeled Plug-in Electric Vehicle Credit
If you claimed the 2-Wheeled Plug-In Electric Vehicle Credit on your federal return, adjust the vehicle's basis without regard to the basis reduction required under current federal law. Include any adjustments to FTI as a result of this Minnesota change in basis.

These instructions no longer apply.

Section 129. Energy Efficient Homes Credit
If you claimed the Energy Efficient Homes Credit on your federal return, adjust the property's basis without regard to the basis reduction required under current federal law. Include any adjustments to FTI as a result of this Minnesota change in basis.

Section 203. Employee Retention Credit for Employers Affected by Qualified Disasters
If you were not allowed to deduct wages due to claiming the Employee Retention Credit on your federal return, include the amount of the disallowed wages as a negative number.

CARES Act Sections

Section 2303. Allowance of Retroactive NOL Carrybacks and Suspension of 80% Limit
Include your adjustment for this section on line 26 of M2NC. See the instructions for line 26 for more details.

Section 2304. Modification of Excess Loss Limitation
Include your adjustment for this section on line 26 of M2NC. See the instructions for line 26 for more details.

Section 2307. Qualified Improvement Property Technical Fix
If you claimed federal bonus depreciation on qualified leasehold improvement property, qualified restaurant property, or qualified retail improvement property, determine the difference between the federal bonus depreciation you claimed on this property, and the cost recovery deduction or expensing method you would have been able to claim prior to the CARES Act, this may include a Minnesota modification for section 179 expensing. Include the result as a positive number.

These instructions no longer apply.

If you filed an amended federal return increasing your federal bonus depreciation as a result of this provision of the CARES Act, do not adjust your Minnesota addition for bonus depreciation on line 29 of Form M2.

These instructions no longer apply.

If you claimed bonus depreciation on this property on your 2017 return and made an nonconformity adjustment on your 2018 return to addback the amount not allowed for Minnesota purposes, you may calculate the depreciation you would have been able to claim prior to the CARES Act for 2018. Include this amount as a negative number.

Line 28 – Total of lines 1 through 27

Add lines 1 through 27. If the result is positive, enter it on Form M2, line 31. If the result is negative, enter it as a **positive** number on Form M2, line 38.

The nonconformity adjustments will be allocated between the fiduciary and beneficiaries in the percentages reported on the Form M2, line 43 and line 44. Any nonconformity adjustments allocated to beneficiaries should be reported on Schedule KFNC for the beneficiary's pro rata share of each adjustment.

Schedule KFNC Line 25 – CARES Act Section 2304. Excess Business Losses (IRC Section 461 Net Nonbusiness Income/Loss)

In order for your beneficiary to calculate their excess business loss limitation for Minnesota purposes, provide your beneficiary the total nonbusiness income and nonbusiness loss amounts as it relates to IRC Section 461. Net the total nonbusiness income against the nonbusiness loss and report that amount on line 25 of Schedule KFNC.