DEPARTMENT OF REVENUE

2017 Partnership Form M3 Instructions

Partnership Information

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We provide our publications in other formats upon request to persons with disabilities.

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What's New for 2017

For Taxpayers Affected by Federal Tax Law Passed after December 31, 2018

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. Use the instructions on page 10 to calculate any remaining nonconformity adjustments.

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

Section 179 Expensing Addition

In October, as a result of the 2020 5th Special Session, the Minnesota legislature passed and the Governor signed into law full conformity to federal Section 179 expensing for property received as part of a transaction that qualified under Section 1031 like-kind exchange under the Internal Revenue Code as amended through December 16, 2016 but not as amended through December 31, 2018. Minnesota no longer requires an 80% addition for federal Section 179 expensing claimed on this property.

If you are amending to reduce your Minnesota Section 179 expensing addition, you must also reduce subsequent year subtractions by the amount attributable to the reduced addition. Write "Like-Kind Exchange" in red at the top of the Minnesota Form M3X and the amended Schedules KPI or KPC you issue to partners.

Accelerated Installment Sale Gains

Beginning in tax year 2017, some nonresident taxpayers will be required to accelerate recognition of installment sale gains if the sales involve S corporation stock or assets, or partnership interests or assets. The new law applies to sales that are executed by individuals, and to sales that are executed by partnerships, s corporations, trusts, and multi-tiered pass-through structures.

A new checkbox has been added to Form M3 and new lines have been added to Schedules KPI and KPC to ensure correct reporting to all partners.

Minimum Fee Amounts and Brackets have Changed

The 2017 minimum fee brackets amounts have been adjusted for inflation. Some of the minimum fee amounts have also been adjusted for inflation. (See Form M3A for additional details.)

Credit for Increasing Research Expenditures

The second-tier credit, for qualified research expenses over $2,000,000, is raised from 2.5 percent to 4 percent.

Filing Requirements

All entities required to file a federal Form 1065, *U.S. Return of Partnership Income*, or Form 1065-B, *U.S. Return of Income for Electing Large Partnerships*, and have Minnesota gross income must file Form M3, *Partnership Return*. The entire share of an entity's income is taxed to the partner/member, whether or not it is actually distributed. Each partner/member must include their share of income on their tax return. However, the minimum fee is paid by the entity.

An S corporation must use Form M8, *S Corporation Return*.

If you are a single-member LLC, the form you must use depends on what kind of entity your business is for federal tax purposes.

Minimum Fee

A partnership is subject to a minimum fee if the sum of its Minnesota source property, payroll and sales or receipts is at least $970,000. However, the partnership is exempt from the minimum fee if more than 80 percent of its income is from farming.

The minimum fee is determined on M3A, which is page 3 of Form M3.

Large Partnerships

If you are a large partnership and, as a result of a federal audit, tax is assessed on additional income, you may elect to pay the federal tax on behalf of your partners. Even if you make the election, your partners remain responsible for paying Minnesota tax on the additional income.

If you made the election and paid federal tax as a result of a federal audit in a tax year after 1998, you must pass through the additional income to your partners.

File Electronically

Options are available to electronically prepare and file your partnership tax return. Electronic filing is a secure, fast and easy way to file. For more information, go to our website at www.revenue.state.mn.us.

Before You File

Complete Your Federal Return

Before you complete Form M3, complete federal Form 1065—or Form 1065-B if you are a large partnership—and supporting schedules. You will need to reference them.

If you are filing federal Form 1065-B, include the amount from:

Schedule K-1 (1065-B),	on Schedule KPI,
box 1	line 21
box 2	line 21
box 3	line 26
box 4a	line 28 or 29
box 4b	line 28 or 29

Minnesota Tax ID Number

Your Minnesota tax ID is the seven-digit number you're assigned when you register with the department. Generally, it is the same as your sales and use tax or Minnesota employer's withholding tax number.

It's important to include your Minnesota tax ID on your return so that any payments you make are properly credited to your account.

Continued

General Information (continued)

If you don't have a Minnesota tax ID, you must apply for one. To apply, go to our website at www.revenue.state.mn.us, or call 651-282-5225 or 1-800-657-3605.

Due Dates and Extensions

Due Date for Filing and Paying is March 15, 2018

File your return and pay the taxes payable as soon as possible after the end of the tax year, but no later than the following dates:

- Calendar year returns: March 15, 2018.
- Fiscal year returns: the 15th day of the third month after the end of the tax year.

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.

Extension of Time to File

All partnerships are granted an automatic six-month extension to file Form M3, if the tax payable for the year is paid by the regular due date.

However, if the IRS grants an extension of time to file your federal return that is longer than the Minnesota automatic six-month extension, 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* on this page for details.

Payment Options

If you're required to pay any Minnesota business tax electronically, you must pay all taxes electronically. A 5% penalty will be assessed if you fail to do so when required.

- **Pay Electronically**
  Go to **www.revenue.state.mn.us** and log in. To be timely, you must complete your transaction and receive a confirmation number on or before the due date for that payment. You can cancel a payment up to one business day before the scheduled date, if needed. When paying electronically, you cannot use a foreign bank.

  If you're using the system for the first time and need a temporary password, call 651-282-5225 or 1-800-657-3605.

- **Pay by Credit or Debit Card**
  Go to **www.revenue.state.mn.us**, and select **Make a Payment**. Select **Credit or Debit Card.** Your payment will be processed by a third-party vendor. The vendor charges a fee for the service.

- **Pay by Check**
  Go to www.revenue.state.mn.us and select Make a Payment. Select Check. Use the **Payment Voucher System** to create a voucher.

  Your check authorizes us to make a one-time electronic fund transfer from your account. You will not receive your canceled check.

Payments

There are four types of partnership tax payments—extension, estimated tax, tax return and amended return payments. You can pay electronically, by credit card or by check. (See Payment Options.*)*

Note: *If you're currently paying electronically using the ACH credit method, continue to call your bank as usual. If you wish to make payments using the ACH credit method, instructions are available on our website at www.revenue.state.mn.us.*

Extension Payment

Your tax is due by the regular due date, even if you are filing under an extension. Any tax not paid by the regular due date is subject to penalties and interest (see lines 11 and 12 on page 4).

If you're filing after the regular due date, you can avoid penalties and interest by making an extension payment by the regular due date. See *Payment Options* above. If you're not required to pay electronically and are paying by check, go to **www.revenue.state.mn.us** to create a voucher to print and submit with your check.

Estimated Tax Payments

A partnership must make quarterly estimated tax payments if the sum of its estimated minimum fee, nonresident withholding and composite income tax for all nonresident partners electing to participate in composite income tax, less any credits, is $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. If the due date lands on a weekend or legal holiday, payments electronically made or postmarked the next business day are considered timely.

If estimated tax is required for the minimum fee, composite income tax and/or nonresident withholding, include all on the same quarterly payments.

To make an estimated payment, see *Payment Options* above.

For additional information, see *Partnership Estimated Tax Instructions*.

Tax Return Payment

If line 14 of Form M3 shows an amount due, you must make a tax return payment (see *Payment Options* above). If you're not required to pay electronically and are paying by check, go to **www.revenue.state.mn.us** to create a voucher to print and submit with your check.

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 percent of the unpaid tax.

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. There is also a penalty if you file after the extended due date and owe tax. The late filing penalty is 5 percent of any tax not paid by the regular due date.

Interest. You must also pay interest on the penalty and tax you are sending in late. The interest rate for 2018 is 4 percent.

Other Penalties. There are also civil and criminal penalties for intentionally failing to file a Minnesota return, evading tax and for filing a frivolous, false or fraudulent return.

Filing Reminders

Accounting Period

You must use the same accounting period for Minnesota as you use for your federal return. If you change your federal accounting period, attach a copy of federal Form 1128, *Application to Adopt, Change or Retain a Tax Year,* to your short-period Min-

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nesota return.

Composite Income Tax

A partnership may pay composite Minnesota income tax on behalf of its nonresident individual partners or grantor trusts who elect to be included in lieu of each partner filing his or her own Minnesota return. The electing individuals must not have any Minnesota source income other than the income from this partnership and other entities electing composite filing.

Partners who receive a share of gross profit or income from an installment sale reported on line 7a or 7b of form KPI are not eligible to elect the partnership to pay composite income tax on their behalf.

If you are paying composite income tax for your electing partners, check the box for composite income tax on the front of Form M3 and see the line 2 instructions on page 4.

Nonresidents included in composite income tax are not subject to the nonresident withholding requirements (see the next section).

Nonresident Withholding

Partnerships are required to withhold and remit Minnesota income tax for a nonresident individual partner if the partner:

- has a legal residence that is not Minnesota;
- is not included in composite income tax;
- has Minnesota distributive income of $1,000 or more from this partnership; and
- has income that was *not* generated by a transaction related to the termination or liquidation of the partnership in which no cash or property was distributed in the current or prior taxable year.

Also, income recognized because of discharge of indebtedness or from the gain on the sale of property subject to a mortgage is excluded from withholding to the extent that no cash is received or the cash is required to pay the indebtedness or mortgage.

If you're required to pay nonresident withholding, see the line 3 instructions on page 4.

Note: Nonresident individual partners include grantor trusts that file or can file under IRC section 1.671-4(b) and single-member LLCs when the single member is an individual.

Exempt Partnerships: If the partnership's ownership interests are traded on a public exchange, the partnership is not required to withhold and remit Minnesota taxes for its nonresident partners.

Nonresident Entertainers: Compensation paid to a nonresident entertainment entity for performances in Minnesota is not subject to Minnesota income tax. Instead, the compensation is subject to a 2 percent withholding tax on the gross compensation the entertainment entity receives for performances in Minnesota.

A partnership is an entertainment entity if it is paid compensation for entertainment provided by entertainers who are partners. An entertainer includes, for example, a musician, singer, dancer, comedian, thespian, athlete or public speaker. If you are defined by law as an entertainment entity, file Form ETR, *Nonresident Entertainer Tax Return*, by April 15 of the following year the income was reported. For additional information, see Withholding Fact Sheet 11, *Nonresident Entertainer Tax*.

If you are an entertainment entity that received compensation for performances in Minnesota and have no other type of Minnesota income, you are not required to file Form M3.

Use of Information

All information on this form is private, except for your Minnesota tax ID number, which is public. Private information cannot be given to others except as provided by state law.

The identity and income information of the partners are required under state law so the department can determine the partner's correct Minnesota taxable income and verify if the partner has filed a return and paid the tax. The Social Security numbers of the individual partners are required under M.S. 289A.12, subd. 13.

Assembling Paper Tax Forms

Arrange your Minnesota schedules in the order they were completed and place them behind your Form M3. Then place your federal return and its schedules behind the Minnesota material. **Do not staple or tape any enclosures to your return.**

Where to File Paper Returns

Mail Form M3 and all completed Minnesota and federal forms and schedules using a mailing label (see page 12).

If you choose not to use the label, mail your forms to: Minnesota Partnership Tax, Mail Station 1760, St. Paul, MN 55145-1760.

Partnerships with more than 200 partners are asked to submit federal K–1 schedules and Minnesota KPI and KPC schedules (if applicable) on CDs. The department will continue to accept the filing of paper copies if this is not possible.

Reporting Federal Changes

If the Internal Revenue Service (IRS) changes or audits your federal return or you amend your federal return, you must amend your Minnesota return. File your Form M3X within 180 days after you were notified by the IRS or after you filed your federal amended return. Enclose a copy of the IRS report or your amended federal return with your amended Minnesota return.

If you fail to report as required, a 10 percent penalty will be assessed on any additional tax.

If you are amending solely due to the January 2023 Minnesota tax bill, write "Conformity" in red at the top of the Minnesota Form M3X. For more details, see page 14.

If you are amending your return to reduce your federal Section 179 addition as a result of Minnesota law 2020 5th Sp. Sess. Chap.3, write "Like-Kind Exchange" at the top of your Form M3X. Identify the property relinquished and received in the qualifying transactions, and the dates of disposition and receipt in the Explanation of Change on page 2 of Form M3X.

Before you complete Form M3, you must complete the following; you will need to reference them:

- *Federal Form 1065—or Form 1065-B if you are a large partnership—and supporting schedules;*
- *Schedule KPI for each nonresident partner and to any Minnesota partner who has adjustments to income (see page 8); and*
- *Schedule KPC for each corporate or partnership partner (see page 11).*

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Completing Form M3

Check Boxes

Initial Return. If this is the partnership's first return filed in Minnesota, check the box on the front of the form.

Composite Income Tax. If you are paying composite income tax for your electing partners, check the box for composite income tax on the front of Form M3 and see the instructions for line 2.

Farm Partnerships. If more than 80 percent of your income is from farming, you are not required to pay a minimum fee. Check the box on the front of Form M3.

Limited Liability Company (LLC). A limited liability company that is considered to be a partnership for federal income tax purposes is considered a partnership for Minnesota purposes, and the members are considered to be partners. If you are a limited liability company and are filing a partnership return, check the LLC box on the front of Form M3.

Out of Business (final return). If the partnership is out of business and/or is not required to file Form M3 in future years, check the "Out of Business" box on the front of the form.

Installment Sale of Pass-through Assets or Interests. Check the "Installment Sale of Pass-through Assets or Interests" box if the partnership:

1) executed an installment sale, after December 31, 2016, of partnership interests being reported on Form 6252; or
2) executed an installment sale, after December 31, 2016, of the assets of a partnership and is reporting the sale on form 6252; or
3) owns an interest in a partnership, or trust reporting installment sale gains on line 7 of Schedule KPI, or KF, or line 10 of Schedule KPC.

If you are required to check the Installment Sale of Pass-through Assets or Interests, also complete line 7 of all applicable Schedules KPI, and line 10 of all applicable Schedules KPC to report installment sale information to your partners.

If you checked the "technical termination" box on your federal Form 1065, you must attach a copy of your federal return to your Form M3.

Line Instructions

Round amounts to whole dollars. Decrease amounts less than 50 cents and increase amounts 50 cents or more to the next higher dollar.

***Partnership Partners:** When completing Form M3 and Schedules KPI and KPC, be sure to include any amounts reported on the Schedule KPC you received as a partner of a partnership (include Schedule KPC with your return).*

Line 1—Minimum Fee

Complete M3A of Form M3 to determine the minimum fee to enter on line 1. See the M3A instructions beginning on page 6.

You are exempt from the minimum fee if:

- more than 80 percent of your income is from farming

Line 2—Composite Income Tax

To determine line 2, you must first figure the amount of composite tax attributed to each electing partner. See the partnership instructions for lines 34 and 35 of Schedule KPI on page 10.

Add the composite income tax attributed to all electing partners (the total of lines 35 from all KPI schedules), and enter the result on line 2 of Form M3.

Line 3—Nonresident Withholding

To determine line 3, you must first figure the amount to withhold for each nonresident individual partner. See the partnership instructions for line 36 of Schedule KPI on page 10.

Add the withholding required for all nonresident partners (the total of lines 36 from all KPI schedules), and enter the result on line 3 of Form M3.

If you received a signed and dated Form AWC, *Alternative Withholding Certificate*, from one or more partners, check the box provided on line 3 of Form M3. You must include the certificate(s) when you file your return.

Line 5—Employer Transit Pass Credit

If you provided transit passes at a reduced cost to your employees for use in Minnesota, complete and enclose Schedule ETP, *Employer Transit Pass Credit*, to determine your credit.

Enter the amount of the credit that is being claimed directly by the partnership and not passed through to the partners. Line 5 cannot exceed the minimum fee on line 1.

Line 7—Enterprise Zone Credit

If your business has been certified and approved by the Department of Employment and Economic Development (DEED) as employment property in an enterprise zone, enter the credit that is being claimed directly by the partnership and not passed through to the partners.

For details about the zones, go to the DEED website at www.positivelyminnesota.com.

Line 8—Estimated Tax and Extension Payments

Enter your total prepayments, including:

- your total 2017 estimated tax payments made in 2017 and 2018, paid either electronically or by check;
- any 2017 extension payment, paid electronically or by check, that was made by the due date when filing under an extension; or
- the portion of your 2016 refund applied to your 2017 estimated tax.

Line 11—Penalty

Penalties are collected as part of the tax and are in addition to any additional charge for underpaying estimated tax. If you are paying your tax after the regular due date, include the appropriate penalties on line 11.

Late Payment. If the tax is not paid by the regular due date, a penalty is due of 6 percent of the unpaid tax on line 10.

Late Filing. If you are filing your return after the extended due date and owe tax, you must pay a late filing penalty. The late filing penalty is 5 percent of the unpaid tax on line 10.

Balance Not Paid. If you file your return after the regular due date and have a balance due, an additional penalty is assessed. The additional penalty is 5 percent of the unpaid tax on line 10.

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.

Line 12—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 2018 is 4 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 13—Additional Charge for Underpayment of Estimated Tax

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

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the sum of line 1 (less any credits on lines 7 through 8), composite income tax on line 2 or nonresident withholding on line 3, is more than **$1000**.

Complete Schedule EST, *Underpayment of Estimated Income Tax,* to determine the additional charge for underpaying estimated tax.

Enter the total charge, if any, on line 13. Enclose the schedule with your return.

Line 14—Amount Due
Add lines 10 through 13. This is the amount you owe. Be sure to check the appropriate box on line 14 to indicate your method of payment. See *Payment options* on page 2.

Line 15—Overpayment
If line 9 is less than the sum of lines 6 and 13, subtract line 9 from the sum of lines 6 and 13. Enter the result on line 14 and enter zero on line 15.

If you have an overpayment on line 15, you may choose to have it direct deposited into your bank account. You may also choose to apply all or a portion of your overpayment toward your 2018 estimated tax account.

Line 16—2018 Estimated Tax
Skip this line if you owe additional tax.

If you are paying 2018 estimated tax, you may apply all or a portion of your refund to your 2018 estimated tax. Enter the portion of line 16 you want to apply toward your 2018 estimated tax on line 16.

Line 17—Refund
If you want to request your refund to be direct deposited into your bank account, complete line 18. Your bank statement will indicate when your refund was deposited to your account. Otherwise, skip line 18 and your refund will be sent to you in the mail.

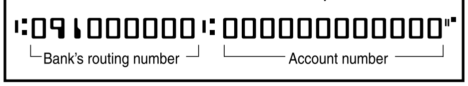
Line 18—Direct Deposit of Refund
If you want your refund to be directly deposited into your checking or savings account, enter the routing and account numbers. You must use an account not associated with any foreign banks.

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.

You can find your bank's routing number and account number on the bottom of your check.



By completing line 18, 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 a general partner of the firm.

If you paid someone to prepare your return, the preparer must also sign. The preparer's ID number and phone number should also be included.

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 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 a power of attorney or Form REV184 with the department.

Email Address
If the department has questions regarding your return and you want to receive correspondence electronically, indicate the email address below your signature. Check a box to indicate if the email address belongs to an employee of the partnership, the paid preparer or other contact person.

By providing an email address, you are authorizing the department to correspond with you or the designated person over the Internet 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 entity may incur as a result of an interception.

Completing M3A

Complete M3A to determine your Minnesota source income and minimum fee.

Apportionment Factor

Minnesota completed the transition to 100% sales apportioned state in 2014.

Under Minnesota Statute, the minimum fee still takes into account your Minnesota portioned property, payroll, and sales.

Petitioning to Use Another Method of Allocation

State law (M.S. 290.20, subd. 1a and Minnesota Rules 8020.0100, subp. 3) allows entities to request permission from the department to allocate all, or any part of, taxable net income in a manner other than the statutory single sales factor apportionment formula.

To request permission, complete Form ALT, *Petition to Use Alternative Method of Allocation* (see Revenue Notice 04-07).

Permission will be granted only if you can show that the sales-factor formula does not properly and fairly reflect your Minnesota income, and that the alternative formula you have chosen does.

Property Factor

If you are not required to complete federal Schedule L (Form 1065), you may want to do so to determine the property factor. Enclose the completed federal Schedule L (Form 1065) or a copy of the partnership's balance sheet with your Form M3.

The property factor consists of tangible property which includes land, buildings, machinery, equipment, inventories and other tangible personal property valued at original cost.

Original cost is your cost or original basis when you acquired the property. Depreciation and fair market value are not considered.

M3A, lines 1a–1c

Line 1a. Add the beginning and the ending year inventories, divide by 2 and enter the result on line 1a. This is your average value of inventory.

Line 1b. Add the beginning and ending year values of the buildings, machinery, equipment and other tangible property and divide by 2. Enter the result on line 1b.

Line 1c. Add the land's beginning and ending year values and divide by 2. Enter the result on line 1c.

M3A, line 2

Capitalized rents are rents paid by you for land, buildings, equipment, etc., during the tax year.

Multiply the rents you paid for property located or used in Minnesota by 8 and enter the result in column A. The rents you receive are included in the sales factor.

Payroll Factor

M3A, line 4

In column A, enter your total payroll paid (including guaranteed payments to partners for services) or incurred in Minnesota, or paid for labor performed in Minnesota in connection with the trade or business during the tax year.

Sales Factor

M3A, line 5

In column A, enter the amount of sales in Minnesota. In column B, enter total sales. Divide column A by column B and carry the result to five decimal places. Enter the result in column C. This is your sales factor.

The sales factor includes all sales, rents, gross earnings or receipts received in the ordinary course of your business, except:

- interest;
- dividends;
- sales of capital assets under IRC section 1221;
- sales of property used in the trade or business, except sales of leased property that is regularly sold as well as leased; and
- sales of stock or sales of debt instruments under IRC section 1275(a)(1).

Determining Minnesota Sales

Real Property

Sales, rents, royalties and other income from real property are attributed to the state in which the property is located.

Tangible Personal Property

Sales of tangible personal property are attributed to Minnesota if the property is received by the purchaser within Minnesota and the taxpayer is taxed in this state, regardless of the f.o.b. point, other conditions of the sale, or the ultimate destination of the property.

Tangible personal property delivered to a common or contract carrier or foreign vessel for delivery to a purchaser in another state or nation is a sale in that state or nation, regardless of f.o.b. point or other conditions of the sale.

Property is received by a purchaser in Minnesota if the recipient is located in this state, even if the property is ordered from outside Minnesota.

Sales of tobacco products, beer, wine and other alcoholic beverages to someone licensed to resell the products only within the state of ultimate destination is a sale in the destination state.

Receipts from leasing or renting tangible personal property, including finance leases and true leases, are attributed to the state in which the property is located. Receipts from the lease or rental of moving property are attributed to Minnesota to the extent the moving property is used in Minnesota.

The extent of use is determined as follows:

- A motor vehicle is used wholly in the state in which it is registered.
- Receipts from rolling stock are assigned to Minnesota in the ratio of miles traveled in Minnesota to total miles traveled.
- Receipts from aircraft are assigned to Minnesota in the ratio of landings in Minnesota to total landings.
- Receipts from vessels, mobile equipment and other mobile property are assigned to Minnesota in the ratio of days the property is in Minnesota to the total days of the tax year.

Intangible Property

Sales of intangible property are attributed to the state in which the property is used by the purchaser.

Royalties, fees and similar income not qualifying for the foreign royalty subtraction, received for the use of or the privilege of using intangible property (such as patents, copyrights, trade names, franchises or similar items) are attributed to the state in which the property is used by the purchaser.

Intangible property is attributed to Minnesota if the purchaser uses the property, or rights in the property, to conduct business within this state, regardless of the location of the purchaser's customers.

If the property is used in more than one state, then the sales or royalties must be apportioned to Minnesota pro rata based on the portion of use within this state. If you cannot determine the portion of use in Minnesota, then exclude the sales or royalties from both the numerator and the denominator of the sales factor.

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Personal Services
Receipts from the performance of personal services are attributed to the state in which the services are received.

Receipts from services provided to a corporation, partnership or trust may only be attributed to a state in which it has a fixed place of doing business.

If you can't determine where the service was received, or if it was received in a state where the corporation, partnership or trust doesn't have a fixed place of business, use the location of the office of the customer from which the service was ordered.

If you can't determine the ordering office, use the office location to which the service was billed.

M3A, lines 6–9—Minimum Fee
Partnerships are subject to the minimum fee if the sum of its Minnesota source property, payroll and sales or receipts is at least $970,000.

However, you are exempt from the minimum fee if:

- more than 80 percent of your income is from farming

If you are exempt from the minimum fee, enter zero on line 9 of M3A and on line 1 of Form M3. Also, be sure to check the appropriate box in the heading at the top of your return to indicate you are a farm partnership.

M3A, line 7—Adjustments
The minimum fee is determined by your total Minnesota property, payroll and sales.

In some cases the property, payroll and sales used for computing the minimum fee will be different than those used for apportionment. The following adjustments should be made to your Minnesota factors on line 7.

Add: All tangible property owned or rented that is not included on line 3 of M3A. Some examples include construction in progress, idle property, any nonbusiness property or rent expense. The amounts should be determined in the same manner as the amounts on lines 1 and 2.

Subtract:

- Any amounts included on lines 3, 4 or 5 that represent your share of the factors passed through from other partnerships.
- If the tax year is a short tax year, subtract the amount of the average value of tangible property that is excluded because of prorating for a short tax year. The amount excluded for a short tax year is determined by multiplying M3A, column A, line 1 by a fraction: the numerator is 365 minus the number of days in the tax year; the denominator is 365.

Enclose a schedule showing the computation and pass-through information of any adjustments listed on M3A, line 7.

Completing Schedule KPI

*Complete and provide Schedule KPI to each nonresident **individual, estate or trust partner** and any Minnesota individual, estate or trust partner who has adjustments to income.*

Enter the information associated with this partnership and partner. If the partner is a one-member LLC, a grantor or substantial owner of a grantor trust, also enter the federal ID or Social Security number of the partner who is ultimately taxed for Minnesota purposes.

Purpose

A partnership must provide each nonresident partner and any Minnesota partner with enough information regarding adjustments to income in order for the partner to complete a Minnesota income tax return and determine their correct Minnesota tax.

Use Schedule KPI to provide the necessary information to the partner. The schedule shows each partner their specific share of the partnership's income, credits and modifications. Be sure to provide the partner a copy of both the front and back of the completed Schedule KPI and the instructions.

If there are no modifications or credits, and there are no nonresident partners, you do not have to provide Schedule KPI.

Enclose copies of the Schedules KPI and attachments issued to partners with your Form M3. Also enclose copies of your federal Schedules K and K-1.

If you are required to amend your federal partnership return or you have been audited by the IRS, you must file an amended Minnesota return using Form M3X, *Amended Partnership Return*, and Schedules KPI and KPC, if appropriate, even if the partnership originally filed federal Form 1065-B.

Partner Ultimately Taxed

Enter the identifying number of the partner ultimately taxed. For example, if the partner is a trust and has one beneficiary, enter the beneficiary's Social Security number.

A $50 penalty will be assessed for each incorrect tax ID number used for a partner after being notified by the department that the number is incorrect.

Line Instructions

Calculate lines 1–19 the same for all resident and nonresident partners. Calculate lines 20–36 for nonresident partners only.

***Partnership Partners:** When completing Schedules KPI, be sure to include any amounts reported on the Schedule KPC you received as a partner of a partnership (include Schedule KPC with your return).*

KPI, line 1

Determine the interest the partnership received from non-Minnesota state and municipal bonds. **Include** the Minnesota portion of exempt-interest dividends if less than 95 percent of the exempt-interest dividends are from Minnesota state and municipal bonds. Enter the partner's distributive share of this amount on line 1.

KPI, line 2

Determine the state income taxes deducted in arriving at ordinary income or net rental income of the partnership. Do not include the minimum fee in this amount. Enter the partner's distributive share of this amount on line 2.

KPI, line 3

Expenses or interest deducted on your federal return that relate to income not taxed by Minnesota must be added back to the partners' Minnesota income.

Enter the partner's share of any federal deductions that are attributable to income not taxed by Minnesota, other than U.S. government bond interest or other federal obligations.

If you had expenses attributable to interest or mutual fund dividends from U.S. bonds, see line 9 of Schedule KPI. Do not include these expenses on line 3.

KPI, line 4

If, during the year, your total investment in qualifying property was more than $200,000 or if you elected more than $25,000 in section 179 expensing, your partners must add back to Minnesota 80 percent of the difference between the expensing allowed for federal and for state tax purposes. Your partners will be allowed to subtract their share of the addition in equal parts over the next five years when they file their state tax returns.

If you completed federal Form 4562 to claim the section 179 expensing for federal tax purposes, you must also complete lines 1 through 12 on a *separate* federal Form 4562 (referred to as your Minnesota Form 4562 below), to determine the amount to add back for Minnesota purposes.

Recalculate line 12 of your Minnesota Form 4562 using the same information from your federal Form 4562 and the following modifications:

- Subtract $485,000 from line 1 of your federal Form 4562, and enter the result on line 1 of your Minnesota Form 4562.
- Enter line 2 of federal Form 4562 on line 2 of your Minnesota Form 4562.
- Subtract $1,830,000 from line 3 of your federal Form 4562, and enter the result on line 3 of your Minnesota Form 4562.
- Enter the information from lines 6 and 7 of federal Form 4562 on lines 6 and 7 of your Minnesota Form 4562. However, if you have section 179 expensing from a flow through entity, use the amount from line **7** of Schedule KPC instead of the amount from line 12 of federal Schedule K-1.
- Enter line 10 of federal Form 4562 on line 10 of your Minnesota Form 4562.
- Recalculate lines 4, 5, 8, 9, 11 and 12 of your Minnesota Form 4562. The result on line 12 of Minnesota Form 4562 cannot be more than line 1 of that form.

Enter the partner's distributive share of the amount on line 12 of the Minnesota Form 4562 on line 4 of Schedule KPI.

Do not include property received as part of an exchange that would have qualified under Section 1031 of the Internal Revenue Code as amended through December 16, 2016 but not as amended through December 31, 2018.

KPI, line 5

If you chose on your federal return the special depreciation allowance for certain qualified property, your partners must add back 80 percent of the bonus depreciation to Minnesota.

Follow the steps below to determine the partner's share to enter on line 5:

1 Enter line 14 and line 25 of your federal Form 4562 . . . . . ________

2 Total of any bonus depreciation amounts passed through to the partnership as a partner of another partnership (from line 8 of Schedule KPC). . . . . ________

3 Add steps 1 and 2 . . . . ________

4 Multiply step 3 by the partner's percentage of ownership interest . ________

Enter the result from step 4 on line 5 of the partner's Schedule KPI.

Continued

Federal bonus depreciation subtraction. For five years following the addback year, your partners may be able to subtract one-fifth of the addback on their Minnesota income tax return. See the instructions for Form M1 or Form M2 for details.

KPI, line 6
Enter the partner's distributive share of any fines, fees and penalties that were deducted as business expenses paid to a government entity or nongovernment regulatory body as a result of a violation of law, or the investigation of any potential violation of law. This does not include amounts identified in a court order or settlement agreement as restitution or as an amount paid to come into compliance with the law.

KPI, line 7a
Enter each resident and nonresident individual partner's share of the gross profit from any installment sale of s corporation stock or assets, partnership interests or assets executed after December 31, 2016.

If the sale was completed by the partnership completing this schedule, the total gross profit to be allocated among the partners is reported on federal Form 6252, line 16. If the sale was executed by an entity owned by this entity, or another entity in a multi-tiered structure, this information is reported on Schedule KF, or KS on line 7a, or Schedule KPC line 10a.

If installment sale information is reported to this entity on informational schedules from other entities, the amount reported to the partners should equal the total amount reported to this entity on all Schedules KF, KS, and KPC.

If the partnership receives installment payments from multiple sales executed after December 31, 2016, attach a schedule to Form M3 detailing the different sales and distributive allocations.

KPI, line 7b
Enter each resident and nonresident individual partner's share of installment sale income the sale of s corporation stock, 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 partnership completing this schedule, the total installment sale income to be allocated to the partners is reported on Form 6252, line 24. If the sale was executed by an entity owned by this entity, or another entity in multi-tiered structure, this information is reported on Schedule KF, or KS on line 7b, or Schedule KPC line 10b.

If installment sale information is reported to this entity on informational schedules from other entities, the amount reported to the partners should equal the total amount reported to this entity on all Schedules KF, KS, and KPC.

If the partnership receives installment payments from multiple sales executed after December 31, 2016, attach a schedule to Form M3 detailing the different sales and distributive allocations.

KPI, line 8a
This instruction no longer applies.

KPI, line 8b
Enter the amount of the addition to federal taxable income that is required when you recompute your federal taxable income without regard to the provisions included in the TCDTR, FFCRA, and CARES Act (see the Federal Adjustments for Businesses on page 14).

KPI, line 9
Interest earned on certain direct federal obligations is taxable on the federal return, but is not taxable on the state return.

Determine the net interest you received from primary obligations issued by the U.S. government, such as savings bonds and treasury notes, that are held directly by the partnership. Do not include obligations where the U.S. government is only a guarantor. Be sure to subtract any investment interest and other expenses you deducted on the federal return that relate to this income.

Enter the partner's distributive share of this amount on line 9.

KPI, line 10a
Minnesota law allows a subtraction from federal taxable income for deferred foreign income (DFI) reported on your federal return. If you reported DFI, enter the shareholder's pro rata share of the net amount (2017 IRC section 965(a) inclusion amount reduced by 2017 IRC section 965(c) participation exemption amount allowed) as a subtraction on line 10a. Enter code 00 in the box provided.

KPI, line 10b
Enter the amount of the subtraction from federal taxable income that is required when you recompute your federal taxable income without regard to the provisions included in the TCDTR, FFCRA, and CARES Act (see the Federal Adjustments for Businesses on page 14).

KPI, line 11
Enter the partner's distributive share of the 2017 credit for increasing research activities. If the business qualifies, the credit cannot be claimed by the partnership and the full credit must be passed through to the partners.

KPI, line 12
If you operate a business in greater Minnesota and you hired a qualified student for an internship, you may be eligible for a tax credit.

For each intern hired through the Greater Minnesota Internship Program make the following calculations:

1 Wages paid to the intern during the tax year 1__________

2 Multiply line 1 by 0.4 2__________

3 Enter the amount on line 2 or $2,000, whichever is less 3__________

Add the amount for all interns. Pass the amount of credit through to each partner based on their pro rata share of the entity's income for the taxable year. Include a copy of the 2017 Internship Provider/Employer agreement you are required to file with the Minnesota Office of Higher Education with your return.

The Office of Higher Education (OHE) and eligible institutions certify eligible employers and determine the total credit each eligible employer may receive. For more information visit the OHE website: **www.ohe.state.mn.us/mPg.cfm?pageID=2099.**

KPI, line 13
Enter the partner's distributive share, if any, of the Historic Structure Rehabilitation Credit based on the partner's share of the partnership's assets, or as specifically allocated in the partnership's organizational documents, as of the last day of the taxable year.

You must also include the NPS project number, which is provided on the credit certificate you received from the State Historic Preservation Office of the Minnesota Historical Society when the project was completed and placed into service.

KPI, line 14
Enter the partner's share, if any, of the Employer Transit Pass Credit that is passed through to the partners.

KPI, line 15
Enter the partner's share, if any, of the Enterprise Zone Credit that is passed through to the partners.

Continued

KPI, line 16

If, for regular tax purposes, you elected the optional 60-month write-off under IRC section 59(e) for all property in this category, skip lines 16–19. No adjustments are necessary.

Intangible drilling costs (IDCs) from oil, gas and geothermal wells are a tax preference item to the extent that the excess IDCs exceed 65 percent of the net income from the wells. The tax preference item is computed separately for oil and gas properties and for geothermal properties.

Enter the partner's distributive share of the following: IDCs allowed for regular tax purposes under section 263(c), (but not including any section 263(c) deduction for nonproductive wells) less the amount that would be allowed had the IDCs been amortized over a 120-month period starting with the month the well was placed in production.

KPI, line 17

Gross income from oil, gas and geothermal properties are used in determining if the excess IDCs exceed 65 percent of the net income from the wells.

Enter the partner's distributive share of the aggregate amount of gross income [within the meaning of section 613(a)] from all oil, gas and geothermal properties that was received or accrued during the tax year.

KPI, line 18

Deductions allocable to oil, gas and geothermal properties are used in determining if the excess IDCs exceed 65 percent of the net income from the wells.

Enter the partner's distributive share of any deductions allocable to oil, gas and geothermal properties. Do not include deductions for nonproductive wells.

KPI, line 19

In the case of oil wells and other wells of nonintegrated oil companies, enter the partner's distributive share of the amount by which the depletion deduction exceeds the adjusted basis of the property at the end of the tax year.

In computing the year-end adjusted basis, use the rules of section 1016. However, do not reduce the adjusted basis by the current year's depletion. Figure the excess amount separately for each property. If the depletion deduction for any property does not exceed the adjusted basis at year-end, do not include a tax preference amount for that property.

Nonresident Individual, Estate or Trust Partners — Lines 20-36

KPI, line 20

The Minnesota source gross income is used to determine whether a nonresident partner is required to file a Minnesota income tax return or has the option to elect composite income tax.

Enter the partner's distributive share of the partnership's Minnesota source gross income. The Minnesota source gross income is the total of the amounts apportioned to Minnesota that are included on lines 3, 6, and 7 (other than losses) of federal Form 1065; lines 18a and 19 and 20 (other than losses) of Form 8825; line 9 of Schedule F (1040); line 3a, 5, 6a, 7, 8, 9a, 10 and 11 of Schedule K (1065, not reported elsewhere) plus Minnesota source gross income amounts from all partnerships, estates, and trusts in which the partnership is a partner or beneficiary.

KPI, lines 21-32

From the nonresident partner's federal Schedule K-1 (1065), enter the Minnesota portion of amounts on lines 21 through 32.

On line 31, include the Minnesota portion of any items from the Schedule K-1 that are not specifically labeled on lines 21-30 and 32.

Line 32 refers to the Minnesota apportioned amount of federal section 179 expense, not the amount calculated on line 4 of Schedule KPI for the Minnesota addition.

All income of a Minnesota individual resident is taxed by Minnesota, regardless of the source.

KPI, line 24

Guaranteed payments to partners (Including for services and use of capital) make up a portion of the partner's distributive share of partnership income. Accordingly, to determine the Minnesota portion of each partner's share of guaranteed payments, multiply the amount reported to the partner on Schedule K-1, line 4, to Minnesota using the same apportionment percentage or assignment ratio used to allocate the income from which the guaranteed payment was deducted federally.

Nonresident Individual Partners Only

KPI, line 34

When determining the partner's share of the partnership's Minnesota source distributive income, you must make adjustments for any items you passed through to the partner on lines 1 through 9 of the partner's Schedule KPI.

Follow the steps below to determine line 34:

1 The difference between the partner's federal section 179 deduction from box 12 of federal Schedule K-1 (1065) and line 4 of the partner's Schedule KPI . . . . ________

2 Federal bonus depreciation amount from line 5 of the partner's Schedule KPI . . . . . ________

3 Add step 1 and step 2 . . . . ________

4 Multiply step 3 by 80% (.80) ________

5 Enter the total amount from line 8 of Schedule KPI . . . . . . ________

6 Combine steps 4 and 5 . . . . . . ________

7 Multiply step 6 by apportionment factor from line 33 of partner's Schedule KPI . . . . ________

8 Combine lines 21-31 of the partner's Schedule KPI . . . . . ________

9 Add steps 7 and 8. . . . . ________

10 To the extent allowed by law, enter one-fifth of the partner's share of the federal bonus depreciation that was added back in a year the partner elected to be included in composite income tax . . . . ________

11 To the extent allowed by law, enter one-fifth of the partner's share of the section 179 expensing that was added back in a year the partner elected to be included in composite income tax . . . . ________

12 Enter the total amount from line 10 of Schedule KPI . . . . . ________

13 Add steps 10,11, and 12 . . . . . ________

14 Multiply step 13 by the apportionment factor from line 33 of the partner's Schedule KPI . . . . ________

15 Enter the amount from line 32 of the partner's Schedule KPI . ________

Continued

16 Add Steps 14 and 15 . . . . ________

17 Subtract step 16 from step 9 . . ________

Enter the result from step 17 on line 34 of the partner's Schedule KPI. This amount is the partner's adjusted Minnesota source distributive income.

KPI, line 35
Composite Income Tax

Nonresident individual partners must pay tax if their Minnesota gross income is more than the minimum filing requirement for the year ($10,400 for 2017).

Partners who receive a share of gross profit or income from an installment sale reported on line 7a or 7b of form KPI are not eligible to elect the partnership to pay composite income tax on their behalf.

Skip this line if the nonresident partner *did not* elect the partnership 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 partner, follow the steps below:

1 Multiply line 34 of Schedule KPI by 9.85% (.0985) . . . . ________

2 Add lines 12-15 of Schedule KPI . . . . ________

3 Subtract step 2 from step 1 . . . ________

The result in step 3 is the amount you are required to pay on behalf of the electing individual partner. Enter this amount on line 35 of the partner's Schedule KPI and check the box to indicate the partner's election to be included.

If the individual elects to be included in composite income tax but has zero tax due, enter zero on line 35. Even though the amount may be zero, be sure to check the box to indicate the election.

Once you have completed all the KPI schedules for your electing nonresident individual partners, add the amounts on line 35 of all the schedules and enter the total on line 2 of Form M3. This is the amount of composite income tax you are required to pay on behalf of your electing partners.

KPI, line 36—Nonresident Withholding

Nonresident individual partners who are not included in the composite income tax may be subject to withholding. See *Nonresident Withholding* on page 3 to determine if your nonresident partners are subject to Minnesota withholding.

To determine the amount of tax to withhold for each nonresident partner, follow the steps below:

1 Multiply line 34 of Schedule KPI by 9.85% (.0985) . . . . ________

2 Add lines 12-15 of Schedule KPI . . . . ________

3 Subtract step 2 from step 1 . . . ________

The result in step 3 is the amount you are required to withhold from the nonresident partner, unless the individual submits Form AWC, *Alternative Withholding Certificate*.

If the individual submits Form AWC, withhold the amount from line 6 of the certificate. Check the box provided on line 36 of the partner's Schedule KPI and also on line 3 of Form M3. Be sure to enclose a copy of the certificate when you file your return.

If the individual submits a false or fraudulent Form AWC, the department may require you to withhold the maximum percentage from that individual in the future, even if an exemption certificate is submitted.

Be sure to inform your partners that they must include their Schedule KPI when they file their Form M1 to claim the Minnesota withholding. If the schedule is not included, the department will disallow the withholding and assess the tax or reduce their refund.

Completing Schedule KPC

Complete and provide Schedule KPC to each ***corporate or partnership partner****.*

Enter the information associated with this partnership and partner. If the partner is a one-member LLC, also enter the federal ID or Social Security number of the partner who is ultimately taxed for Minnesota purposes.

Purpose

A partnership must provide each partner with enough information for them to complete a Minnesota income tax return and determine their correct Minnesota tax. Schedule KPC is used to show each corporate and partnership partner their specific share of the partnership's credits, modifications and apportionment factors. The pro rata share of the apportionment factors are used in two different ways (depending on if the relationship between partner and partnership is unitary) in computing the corporate or partnership partner's Minnesota income.

There may be other items that a corporate partner would need to know in order to complete its Form M4, *Corporation Franchise Tax Return*. If applicable, you should pass that information through to the corporate partners. For more information, see the instructions for Form M4.

Be sure to provide the partner a copy of both the front and the back of the completed Schedule KPC and the instructions.

Enclose copies of the Schedules KPC and attachments issued to partners with your Form M3. Also enclose copies of federal Schedules K and K-1 with your partnership return.

Partner Ultimately Taxed

Enter the identifying number of the partner ultimately taxed. For example, if the partner is an LLC and its one member is a C corporation, enter the C corporation's FEIN.

A $50 penalty will be assessed for each incorrect tax ID number used for a partner after being notified by the department that the number is incorrect.

Line Instructions

Partnership Partners: *When completing Schedules KPC, be sure to include any amounts reported on the Schedule KPC you received as a partner of a partnership (include Schedule KPC with your return).*

KPC, lines 1 and 2

Generally, all of the income of a partnership is apportionable. If you have nonapportionable income, the corporate and partnership partners need to know their share of the nonapportionable income. Provide the partner with a schedule describing the type of income.

Enter the partner's share of Minnesota source nonapportionable income on line 1. On line 2, enter the partner's share of total nonapportionable income.

KPC, line 3

Enter the partner's distributive share of the minimum fee from line 1 of the partnership's Form M3.

KPC, line 4

Enter the partner's distributive share of the partnership's interest income exempt from federal tax. Provide the partner with a schedule listing how much is from Minnesota municipal bonds.

KPC, line 5

Enter the partner's distributive share of any state income tax (other than the minimum fee) the partnership deducted in arriving at the partnership's net income.

KPC, line 6

Skip this line for all corporate partners.

Expenses or interest deducted on your federal return that relate to income not taxed by Minnesota must be added back to the individual partners' Minnesota income.

Enter the partner's share of any federal deductions that are attributable to income not taxed by Minnesota, other than U.S. government bond interest or other federal obligations.

If you had expenses attributable to interest or mutual fund dividends from U.S. bonds, see line 12 of Schedule KPC. Do not include these expenses on line 6.

KPC, line 7

If, during the year, your total investment in qualifying property was more than $200,000 or if you elected more than $25,000 in section 179 expensing, your partners must add back to Minnesota 80 percent of the difference between the expensing allowed for federal and for state tax purposes. Your partners will be allowed to subtract their share of the addition in equal parts over the next five years when they file their state tax returns.

If you completed federal Form 4562 to claim the section 179 expensing for federal tax purposes, you must also complete lines 1 through 12 on a *separate* federal Form 4562 (referred to as your Minnesota Form 4562 below) to determine the amount you need to add back for Minnesota purposes.

Recalculate line 12 of your Minnesota Form 4562 using the same information from your federal Form 4562 and the following modifications:

- Subtract $485,000 from line 1 of your federal Form 4562, and enter the result on line 1 of your Minnesota Form 4562.
- Enter line 2 of federal Form 4562 on line 2 of your Minnesota Form 4562.
- Subtract $1,830,000 from line 3 of your federal Form 4562, and enter the result on line 3 of your Minnesota Form 4562.
- Enter the information from lines 6 and 7 of federal Form 4562 on lines 6 and 7 of your Minnesota Form 4562. However, if you have section 179 expensing from a flow through entity, use the amount from line 7 of Schedule KPC instead of the amount from line 12 of federal Schedule K-1.
- Enter line 10 of federal Form 4562 on line 10 of your Minnesota Form 4562.
- Recalculate lines 4, 5, 8, 9, 11 and 12 of your Minnesota Form 4562. The result on line 12 of Minnesota Form 4562 cannot be more than line 1 of that form.

Enter the partner's distributive share of the amount on line 12 of the Minnesota Form 4562 on line 7 of Schedule KPC.

Do not include property received as part of an exchange that would have qualified under Section 1031 of the Internal Revenue Code as amended through December 16, 2016 but not as amended through December 31, 2018.

KPC, line 8

If you chose on your federal return the special depreciation allowance for certain qualified property, your partners must add back 80 percent of the bonus depreciation to Minnesota.

Follow the steps below to determine the partner's share to enter on line 8:

1 Add line 14 and line 25 of your federal Form 4562 . . . . ________
2 Total of any bonus depreciation amounts passed through to the partnership as a partner of another partnership (from line 8 of Schedule KPC) . . . . ________
3 Add steps 1 and 2 . . . . ________
4 Multiply step 3 by the partner's percentage of ownership interest . . . . ________

Enter the result from step 4 on line 8 of the partner's Schedule KPC.

Continued

KPC (continued)

Federal bonus depreciation subtraction. For five years following the addback year, your partners may be able to subtract one-fifth of the addback on their Minnesota income tax return. See the instructions for Form M3, M4 or M8 for details.

KPC, line 9

Enter the partner's distributive share of any fines, fees and penalties that were deducted as business expenses paid to a government entity or nongovernment regulatory body as a result of a violation of law, or the investigation of any potential violation of law. This does not include amounts identified in a court order or settlement agreement as restitution or as an amount paid to come into compliance with the law.

Line 10a

Enter each corporate or partnership partner's share of the gross profit from any installment sale of partnership interests or assets executed after December 31, 2016.

If the sale was completed by the partnership completing this schedule, the total gross profit to be allocated among the partners is reported on federal Form 6252, line 16. If the sale was executed by an entity owned by this entity, or another entity in a multi-tiered structure, this information is reported on Schedule KF, line 7a, or Schedule KPC, line 10a.

If installment sale information is reported to this entity on informational schedules from other entities, the amount reported to the partners should equal the total amount reported to this entity on all schedules KF, KS, and KPC.

If the partnership receives installment payments from multiple sales executed after December 31, 2016, attach a schedule to Form M3 detailing the different sales and distributive allocations.

Line 10b

Enter each corporate or partnership partner's share of installment sale income from the sale of partnership interests or assets executed after December 31, 2016.

If the sale was completed by the partnership completing this schedule, the total installment sale income to be allocated to the partners is reported on Form 6252, line 24. If the sale was executed by an entity owned by this entity, or another entity in multi-tiered structure, this information is reported on Schedule KF, or KS, on line 7b, or Schedule KPC line 10b.

If installment sale information is reported to this entity on informational schedules from other entities, the amount reported to the partners should equal the total amount reported to this entity on all schedules KF, KS, and KPC.

If the partnership receives installment payments from multiple sales executed after December 31, 2016, attach a schedule to Form M3 detailing the different sales and distributive allocations.

Use a mailing label if filing a paper return

Use this mailing label on your own envelope to mail Form M3 and copies of your federal return and schedules.
(Cut and tape to your envelope.)

DEPARTMENT OF REVENUE
Partnership Tax
Mail Station 1760
600 N. Robert Street
St. Paul, MN 55145-1760

KPC, line 11a

This instruction no longer applies.

KPC, line 11b

Enter the amount of the addition to federal taxable income that is required when you recompute your federal taxable income without regard to the provisions included in the TCDTR, FFCRA, and CARES Act (see the Federal Adjustments for Businesses on page 14).

KPC, line 12

Skip this line for all corporate partners.

Interest earned on certain direct federal obligations is taxable on the federal return, but is not taxable on the state return.

Determine the net interest you received from primary obligations issued by the U.S. government, such as savings bonds and treasury notes, that are held directly by the partnership. Do not include obligations where the U.S. government is only a guarantor. Be sure to subtract any investment interest and other expenses you deducted on the federal return that relate to this income.

Enter the partnership partner's distributive share of this amount on line 12.

KPC, line 13a

Minnesota law allows a subtraction from federal taxable income for deferred foreign income (DFI) reported on your federal return. If you reported DFI, enter the shareholder's pro rata share of the net amount (2017 IRC section 965(a) inclusion amount reduced by 2017 IRC section 965(c) participation exemption amount allowed) as a subtraction on line 13a. Enter code 00 in the box provided.

KPC, line 13b

Enter the amount of the subtraction from federal taxable income that is required when you recompute your federal taxable income without regard to the provisions included in the TCDTR, FFCRA, and CARES Act (see the Federal Adjustments for Businesses on page 14).

KPC, line 14

Enter the partner's distributive share of the 2017 credit for increasing research activities. If the business qualifies, the credit cannot be claimed by the partnership and the full credit must be passed through to the partners.

KPC, line 15

Enter the partner's distributive share of the Greater Minnesota Internship Credit being passed through to partners. For more information on the credit amount allowed please see page 9 of the instruction, KPI, line 12.

KPC, line 16

Enter the partner's distributive share, if any, of the Historic Structure Rehabilitation Credit based on the partner's share of the partnership's assets, or as specifically allocated in the partnership's organizational documents, as of the last day of the taxable year.

You must also include the NPS project number, which is provided on the credit certificate you received from the State Historic Preservation Office of the Minnesota Historical Society when the project was completed and placed into service.

KPC, line 17

Enter the partner's distributive share of the Employer Transit Pass Credit being passed through to partners.

KPC, line 18

Enter the partner's distributive share of the Enterprise Zone Credit being passed through to partners.

KPC, lines 19

Enter the partner's Pro Rata Share of Minnesota Source Gross Income.

KPC, lines and 20 and 21

Enter the partner's pro rata share of the partnership's apportionment factors determined on M3A.

Federal Adjustments for Businesses for Tax Year 2017

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.

How to Report the Federal Adjustments

If any of the federal provisions that are in these instructions affect the amount of taxable income reported on your 2017 federal Form 1065, U.S. Return of Partnership Income, you must adjust your 2017 Minnesota return. The adjustment should reflect the change to your Minnesota return as a result of the retroactive Minnesota modifications.

If you have to amend as a result of conformity within the January 2023 Minnesota tax bill, only adjust your amended return to update composite income tax for electing partners.

You do **not** need to update nonresident withholding amounts. You may need to amend, and issue updated Schedules KPI and KPC if your partner(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 partner'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 M3X.

Subtotal all nonconformity adjustments (positive and negative) calculated from the provisions listed below. If the net of all adjustments results in an increase of your federal taxable income (FTI), enter the shareholder's share of the net adjustment as a positive number on line 8b of Schedule KPI or line 11b of Schedule KPC. If the net of all adjustments results in a reduction of your FTI, enter the shareholder's share of the net adjustment as a positive number on line 10b of Schedule KPI or line 13b of Schedule KPC. Enter the following codes in the box that corresponds with the line on which you included the appropriate adjustment:

- Code 17: TCDTR section 203

Not Applicable

- Code 18: All FFCRA sections
- Code 20: CARES Act section 2307
- Code 21: All other CARES Act sections

To report the differences for Minnesota tax purposes, you must attach to your Form M3 or Form M3X a list of the federal provisions affecting your taxable income by section number and show how you calculated each adjustment amount.

Provisions that May Require an Income Adjustment

TCDTR Sections

These instructions no longer apply.

Section 124. Qualified Fuel Cell Motor Vehicles

If you claimed the credit for Qualified Fuel Cell Motor Vehicle 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.

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 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 line 5 of Schedule KPI or line 8 of Schedule KPC.