

2025 Form M706Q, Election to Claim the Qualified Small Business and Farm Property Deduction

To be completed by the executor of the estate with a date of death in 2025, and qualified heirs.

Decedent's first name, middle initial		Last name		Decedent's Social Security number	
Last home address (street, apartment, route)				Date of death	
City		State	Zip code	Minnesota probate county and file number	

Executor's first name, middle initial		Last name		Executor's Social Security number	
Name of firm (if applicable)				Executor's phone	
Address (street, apartment, route)		City	State	Zip code	

Part 1 — Qualified Small Business Property Requirements

Complete Part 1 to determine if the estate meets the qualified small business property requirements. If the answer is "No" for any of the questions, the estate is not eligible to claim the small business property deduction.

- 1 Is the value of the property included in the decedent's federal adjusted taxable estate, which is after federal allowable deductions, including debts, expenses and bequests to a surviving spouse? 1 ☐ Yes ☐ No
- 2 Does the property consist of assets of a trade or business (or shares of stock or other ownership interests in a corporation or other entity that is engaged in a trade or business and is not publicly traded)? 2 ☐ Yes ☐ No
- 3 Did the decedent or the decedent's spouse materially participate in the trade or business during the taxable year that ended before the decedent's death? 3 ☐ Yes ☐ No
- 4 Did the trade or business have gross annual sales of \$10 million or less during the last taxable year that ended before the decedent's death? 4 ☐ Yes ☐ No
- 5 Did the decedent or the decedent's spouse continuously own the property for the three-year period ending at the decedent's death? 5 ☐ Yes ☐ No

If you answered yes to all of the Part 1 questions, the estate may be eligible to claim the small business property deduction.

Complete Part 3 to determine if the estate has qualified heirs.

Part 2 — Qualified Farm Property Requirements

Complete Part 2 to determine if the estate meets the qualified farm property requirements. If the answer is "No" for any of the questions, the estate is not eligible to claim the farm property deduction.

- 6 Is the value of the property included in the decedent's federal adjusted taxable estate, which is after federal allowable deductions, including debts, expenses and bequests to a surviving spouse? 6 ☐ Yes ☐ No
- 7 Does the property consist of agricultural land and is owned by a person or entity that is either not subject to or is in compliance with M.S. 500.24? 7 ☐ Yes ☐ No
- 8 Was the property classified for property tax purposes in the taxable year of death as agricultural homestead, agricultural relative homestead, or special agricultural homestead under M.S. 273.124? 8 ☐ Yes ☐ No
- 9 Was the property classified for property tax purposes in the taxable year of death as class 2a property under M.S. 273.13, subd. 23? 9 ☐ Yes ☐ No
- 10 Did the decedent or the decedent's spouse continuously own the property for the three-year period ending at the decedent's death? 10 ☐ Yes ☐ No

If you answered yes to all of the Part 2 questions, the estate may be eligible to claim the farm property deduction.

Complete Part 3 to determine if the estate has qualified heirs.

11 Are each of the persons who acquired the qualified property from the decedent family members (see instructions)? **11** ☐ Yes ☐ No

Trade or business

NAICS Code

13 Do the persons from question 11, the qualified heirs, agree that a family member will maintain the 2a classification for the farm property deduction or materially participate in the operation of the trade or business described in question 12 for the small business property deduction for the three years following the decedent's death? **13** ☐ Yes ☐ No

14 Do the persons from question 11, the qualified heirs, agree not to dispose of any interest in the qualified property other than to a family member during the three years following the decedent's death?..... **14** ☐ Yes ☐ No

Important: If, within three years following the decedent's death, the qualified heir(s) do not adhere to the agreement signed on page 3 of the M706, a recapture tax will be imposed.

15 Enter the name of each qualified heir from question 11, their relationship to the decedent, the Federal schedule and item number where the properties are reported on Federal Form 706, and the fair market value of the properties received.

[illegible]

Decedent's first name, middle initial, last name

Decedent's Social Security number

Executor's first name, middle initial, last name

Executor's Social Security number

Part 4 — Agreement (Must be completed and signed by each and every qualified heir and the executor)

Heirs: All persons signing below agree and attest to the following:

I am a “family member” as provided by M.S. 291.03, subd. 8.

I am a “qualified heir” as provided by M.S. 291.03, subd. 8(c).

Each and every qualified heir who acquired the qualified property or an interest in the qualified property described on Line 1, Parts 5 and 6 is listed below.

If any qualified heir or family member disposes of any interest in the qualified property described on Line 1, Parts 5 and 6, other than by a disposition to a family member, during the three-year period following decedent’s death, I am personally responsible for filing and paying the recapture tax equal to the value (as allowed for federal estate tax purposes) of qualified property ceasing to satisfy the three-year holding period requirements, multiplied by 16%. The filing and payment due date is no later than six months from the date of the disqualifying disposition.

I, a qualified heir/family member, have exercised all due diligence on whether the decedent had applied for any tax programs with the County Assessor.

If a family member does not maintain the 2a classification for the qualified property described on Line 1, Part 6 for the farm property deduction or a family member does not materially participate in the operation of the trade or business described on Line 12, Part 3 for the qualified property described on Line 1, Part 5 for the small business property deduction during the three-year period following decedent’s death, I am personally responsible for filing and paying the recapture tax equal to the value (as allowed for federal estate tax purposes) of qualified property ceasing to satisfy the three-year holding period requirements, multiplied by 16%. The filing and payment due date is no later than six months from the date of the disqualifying cessation of the trade or business.

This schedule is correct and complete to the best of my knowledge and belief.

Name	Address	City	State	Zip code
Signature of qualified heir	Date	Social Security number	Phone number	
Name	Address	City	State	Zip code
Signature of qualified heir	Date	Social Security number	Phone number	
Name	Address	City	State	Zip code
Signature of qualified heir	Date	Social Security number	Phone number	
Name	Address	City	State	Zip code
Signature of qualified heir	Date	Social Security number	Phone number	

Executor: I agree and attest to the following:

I am the executor of the decedent’s estate.

Each and every qualified heir who acquired the qualified property or an interest in the qualified property described on Line 1, Parts 5 and 6 signed the agreement above.

I, the executor, have exercised all due diligence on whether the decedent had applied for any tax programs with the County Assessor.

If any qualified heir or family member disposes of any interest in the qualified property described on Line 1, Parts 5 and 6, other than by a disposition to a family member, during the three-year period following decedent’s death, I hereby agree that the estate is liable for the payment of the recapture tax equal to the value (as allowed for federal estate tax purposes) of qualified property ceasing to satisfy the three-year holding period requirements, multiplied by 16%. The filing and payment due date is no later than six months from the date of the disqualifying disposition. Additionally, I understand that I am personally responsible for making arrangements for the filing of the recapture tax return and the payment of the recapture tax.

If a family member does not maintain the 2a classification for the qualified property described on Line 1, Part 6 for the farm property deduction or a family member does not materially participate in the operation of the trade or business described on Line 12, Part 3 for the qualified property described on Line 1, Part 5 for the small business property deduction during the three-year period following decedent’s death, I hereby agree that the estate is liable for the payment of the recapture tax equal to the value (as allowed for federal estate tax purposes) of qualified property ceasing to satisfy the three-year holding period requirements, multiplied by 16%. The filing and payment due date is no later than six months from the date of the disqualifying cessation of the trade or business. Additionally, I understand that I am personally responsible for making arrangements for the filing of the recapture tax return and the payment of the recapture tax.

This schedule is correct and complete to the best of my knowledge and belief.

Name	Address	City	State	Zip code
Signature of executor	Date			

Decedent's first name, middle initial, last name

Decedent's Social Security number

Executor's first name, middle initial, last name

Executor's Social Security number

Part 5 — Deduction Calculation for Qualified Small Business Property

1

Value of assets. For each asset elected to be deducted from the decedent's Minnesota adjusted taxable estate as qualified small business property, provide a description, indicate the Schedule and item number from the Federal Form 706 where the asset is reported, and report the asset's fair market value at the valuation date.

Description of Asset (entity name and FEIN, if applicable)	Federal Schedule and Item Number Where Reported	Fair Market Value At Valuation Date

Subtotal from additional sheets attached to this schedule, if any

Total value of assets

1

2

Noneligible property. List property included on your Federal Form 706 and on line 1 above that is not eligible for the qualified small business deduction (see instructions).

Noneligible Property	Value Included in Federal Gross Estate	Amount Not Allowed in Deduction

Subtotal from additional sheets attached to this schedule, if any

Total amount not allowed in deduction

2

3

Federal allowable deductions. Report allowable deductions that are related to the assets included on line 1 above and indicate the Schedule and item number from the Federal Form 706 where the allowable deduction is reported.

Description of Deduction	Federal Schedule and Item Number Where Reported	Amount Claimed as a Deduction

Subtotal from additional sheets attached to this schedule, if any

Total allowable deductions

3

4

Add line 2 and line 3

4

5

Tentative Deduction. Subtract line 4 from line 1. If you are also claiming a deduction for qualified farm property, continue to Part 6. If not, continue to Part 7.

5

Decedent's first name, middle initial, last name

Decedent's Social Security number

Executor's first name, middle initial, last name

Executor's Social Security number

Part 6 — Deduction Calculation for Qualified Farm Property

1 Value of assets. For each asset elected to be deducted from the decedent’s Minnesota adjusted taxable estate as qualified farm property, provide a description, indicate the Schedule and item number from the Federal Form 706 where the asset is reported, and report the asset’s fair market value at the valuation date.

Description of Asset (parcel ID number and legal description)	Federal Schedule and Item Number Where Reported	Fair Market Value At Valuation Date

Subtotal from additional sheets attached to this schedule, if any 1

Total value of assets 1

2 Noneligible property. List property included on your Federal Form 706 and on line 1 above that is not eligible for the qualified farm property deduction (see instructions).

Noneligible Property	Value Included in Federal Gross Estate	Amount Not Allowed in Deduction

Subtotal from additional sheets attached to this schedule, if any 2

Total amount not allowed in deduction 2

3 Federal allowable deductions. Report allowable deductions that are related to the assets included on line 1 above and indicate the Schedule and item number from the Federal Form 706 where the allowable deduction is reported.

Description of Deduction	Federal Schedule and Item Number Where Reported	Amount Claimed as a Deduction

Subtotal from additional sheets attached to this schedule, if any 3

Total allowable deductions 3

4 Add line 2 and line 3 4

5 Tentative Deduction. Subtract line 4 from line 1. Continue to Part 7 5

Decedent's first name, middle initial, last name

Decedent's Social Security number

Executor's first name, middle initial, last name

Executor's Social Security number

Part 7 — Deduction Calculation for Qualified Small Business Property and Qualified Farm Property

1

Enter the amount from Part 5, Line 5

1

2

Enter the amount from Part 6, Line 5

2

3

Add line 1 and line 2

3

4

Enter the amount from line 5 of Form M706

4

5

Enter the amount from line 6a of Form M706

5

6

Subtract line 5 from line 4

6

7

Enter the lesser of line 3 or line 6

7

8

Deduction. Enter the lesser of line 7 or \$2,000,000. Also, enter the amount on line 6b of Form M706

8

You must attach the following to the Form M706Q:

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

2025 Schedule M706Q Instructions

Purpose of Schedule M706Q

Schedule M706Q allows the estate of a decedent dying in 2025 to make an election to deduct qualified small business or qualified farm property from the Minnesota adjusted taxable estate. The deduction cannot exceed \$2,000,000 for estates of decedents dying in 2025. Qualified heirs must pay a recapture tax if a qualified heir fails to own the property or if a family member fails to use the property for a qualified use during the three years after the decedent's death.

Who Should File

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

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

When to File

File Schedule M706Q with Form M706.

Required Attachments

You must attach the following to Form M706Q:

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

Assembly Required

See Form M706 instructions for details.

Line Instructions

Part 1 - Qualified Small Business Property Requirements

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

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

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

Part 2 - Qualified Farm Property Requirements

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

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

Continued **1**

2025 M706Q Instructions (*continued*)

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

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

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

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

Part 3 - Qualified Heirs and Family Members Requirements

A “family member” means any of the following:

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

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

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

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

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

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

The recapture tax is equal to 16% of the value (as allowed for federal estate tax purposes) of qualified property ceasing to satisfy the three-year holding period requirements. The recapture tax and return are due no later than six months from the date of the disqualifying cessation of the trade or business or the disqualifying disposition of the qualified property. (*M.S. 291.03, subd. 11*)

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

Part 4 – Agreement

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

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

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

Parts 5 and 6 – Deduction Calculation

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

2025 M706Q Instructions (continued)

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

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

Subtotal all amounts as line 2.

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

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

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

Recapture Tax

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

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

The recapture tax equals 16 percent of the value (as allowed for federal estate tax purposes) of qualified property ceasing to satisfy the three-year holding period requirements. The return must be filed and the recapture tax must be paid to the Minnesota Department of Revenue within six months after the date of disqualifying disposition or cessation of use.

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

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

Informational Returns

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

Forms and Information

Website: www.revenue.state.mn.us

Email: BusinessIncome.tax@state.mn.us

Phone: 651-556-3075

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

Mail: Minnesota Department of Revenue

Mail Station 1315

600 N. Robert St.

St. Paul, MN 55146-1315

2025 M706Q Part 4 - Continuation Page

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