



# Introduction to S Corporations and Partnerships

Minnesota Business Tax Education Program

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If you have any questions, contact us at [businessincome.tax@state.mn.us](mailto:businessincome.tax@state.mn.us), 651-556-3075, or consult a tax professional.

- Phone lines muted
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Today we will cover:

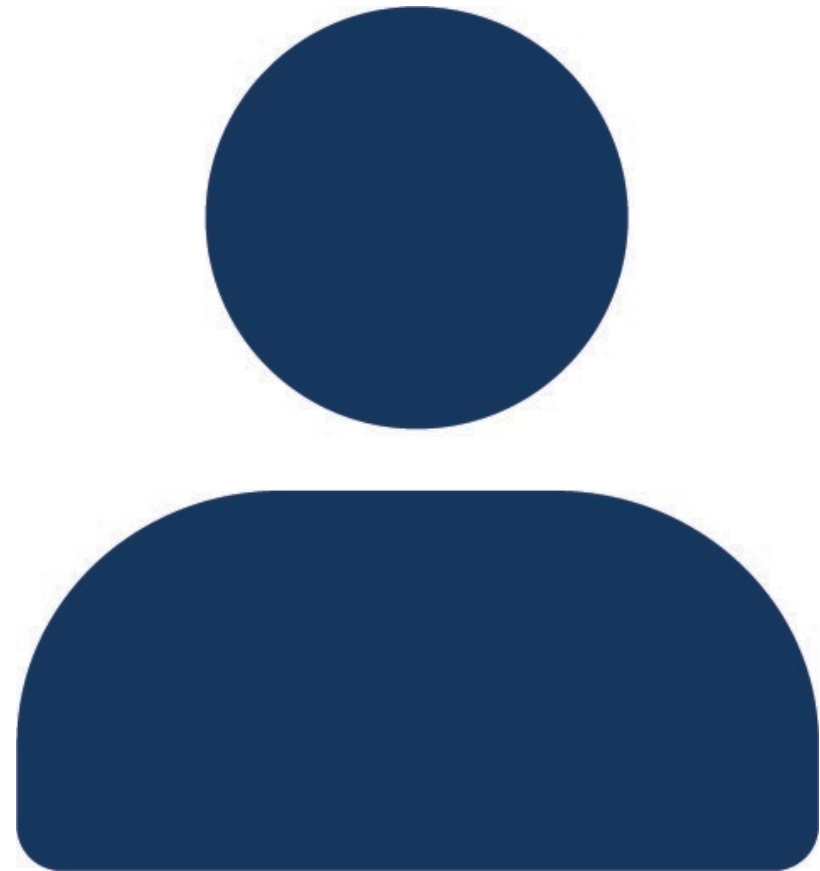
- Basic types of business entities
- The steps needed to start a partnership or S corporation
- Common forms and issues of partnerships and S corporations
- Partnership and S corporation resources
- Navigating and update account information in e-Services

# Business Entities

- Sole Proprietor
- Limited Liability Company (LLC)
- Partnership
- S corporation
- C corporation

# Sole Proprietor

- Unincorporated business
- Single owner
- Liability is **not** limited



# Limited Liability Company (LLC)

- An LLC is a business structure allowed by state law.
- No member limit
- Members can include:
  - Individuals
  - Corporations
  - Partnerships
  - Other LLCs
  - Foreign Entities



# Limited Liability Company (LLC) Taxes

- Same return with Minnesota as the IRS
- File based on member's status
- Can be a corporation for tax purposes
- Default filing statuses:
  - Multiple-member LLC: Partnership
  - Single-member LLC: Sole Proprietor
- Owners report income on their individual tax returns

# Partnership



- Two or more partners
- Partners can be an individual or an entity
- Share in the profits and losses of the business

# Partnership and Taxes

- Partnerships are responsible for certain state taxes:
  - Minimum Fee
  - Composite Income Tax
  - Pass-Through Entity Tax
  - Nonresident Withholding

# S corporation

- Located in Minnesota
- Have a business presence in Minnesota
- Have Minnesota gross income



# S corporation and Taxes

S Corporations are responsible for certain state taxes:

- Minimum Fee
- Composite Income Tax
- Pass-Through Entity Tax
- Nonresident Withholding
- Other Federal Taxes calculated at the state tax rate

# C corporation

- Located in Minnesota
- Have a business presence in Minnesota
- Have Minnesota gross income



# C corporation Structure

- One or more shareholders
- Exchange money or property, or both, for capital stock
- Generally, has the same deductions as a sole proprietorship to determine taxable income
- Can take special deductions

# C corporation vs. S corporation

- Entity level vs. shareholder level



- Internal Revenue Service
- Secretary of State
- Department of Revenue

# Register for a Minnesota Tax ID Number

Online, phone, or paper form

You will need:

- Federal employer ID number (FEIN)
- Legal name and business address
- Business name, doing business as (DBA)
- North American Industry Classification System (NAICS) code
- Officer information
- Business Begin Date

# Partnership Business Tax Forms

- Federal Form 1065
- Associated Federal Forms and Schedules
- Minnesota Form M3 and M3A
- Minnesota Form KPI or KPC

# S corporation Business Tax Forms

- Federal Form 1120S
- Associated Federal Forms and Schedules
- Minnesota Form M8 and M8A
- Minnesota Form KS

# Minnesota Filing Dates and Requirements

## S corporations and Partnerships

- Calendar Year returns due March 15
- Fiscal year returns due the 15<sup>th</sup> day of the third month after the end of the tax year
- Automatic six-month extension to file

All partnerships or S corporations that have nexus in Minnesota are required to file a return

# Nonresident Withholding Requirements

Must remit and withhold Minnesota Income Tax when:

- Legal residence is outside of Minnesota
- Composite tax is not elected
- Receives more than \$1,000 on Minnesota sourced distributive income
- Income is not from the termination or liquidation of the entity

See Minnesota Statute 290.92, subdivisions 4b and 4c.

- Election for non-residents of Minnesota
- Election made by the individual not entity
- The entity is responsible for filing the return
- The entity will make the payment for the individual

See M.S. 289A.08, subd. 7.

## Minnesota Modifications

- Federal Bonus Depreciation
- Pass-Through Entity Tax (PTE)

# Minnesota Modifications

- Not fully conformed
- Bonus Depreciation



# Bonus Depreciation

- Federal tax deduction
- Reported on Form 4562
- Schedules:
  - KPI
  - KF
  - KS
- 80% addback, 20% subtraction over 5 years

# Bonus Depreciation Example

Form **4562** **Depreciation and Amortization**  
 (Including Information on Listed Property)  
 Attach to your tax return.  
 Go to [www.irs.gov/Form4562](http://www.irs.gov/Form4562) for instructions and the latest information.

OMB No. 1545-0172  
**2022**  
 Attachment Sequence No. **179**

Department of the Treasury  
 Internal Revenue Service

Name(s) shown on return \_\_\_\_\_ Business or activity to which this form relates \_\_\_\_\_

Identifying number \_\_\_\_\_

**Part I Election To Expense Certain Property Under Section 179**  
 Note: If you have any listed property, complete Part V before you complete Part I.

- 1 Maximum amount (see instructions) . . . . .
- 2 Total cost of section 179 property placed in service (see instructions) . . . . .
- 3 Threshold cost of section 179 property before reduction in limitation (see instructions) . . . . .
- 4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- . . . . .
- 5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions . . . . .

6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7	Listed property. Enter the amount from line 29 . . . . .		<b>7</b>
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7 . . . . .		
9	Tentative deduction. Enter the <b>smaller</b> of line 5 or line 8 . . . . .		
10	Carryover of disallowed deduction from line 13 of your 2021 Form 4562 . . . . .		
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5. See instructions . . . . .		
12	Section 179 expense deduction. Add lines 9 and 10, but don't enter more than line 11 . . . . .		<b>12</b>
13	Carryover of disallowed deduction to 2023. Add lines 9 and 10, less line 12 . . . . .		<b>13</b>

Note: Don't use Part II or Part III below for listed property. Instead, use Part V.

**Part II Special Depreciation Allowance and Other Depreciation (Don't include listed property. See instructions.)**

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year. See instructions . . . . .	<b>14</b>	\$50,000
15	Property subject to section 168(f)(1) election . . . . .	<b>15</b>	
16	Other depreciation (including ACRS) . . . . .	<b>16</b>	

Form 4562 (2022)

**Part V Listed Property** (Include automobiles, certain other vehicles, certain aircraft, and property used for entertainment, recreation, or amusement.)  
 Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete **only** 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

**Section A—Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)**

24a Do you have evidence to support the business/investment use claimed? <input type="checkbox"/> Yes <input type="checkbox"/> No		24b If "Yes," is the evidence written? <input type="checkbox"/> Yes <input type="checkbox"/> No						
(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/Convention	(h) Depreciation deduction	(i) Elected section 179 cost
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use. See instructions . . . . .				<b>25</b>			\$50,000	

# Bonus Depreciation Example, continued



## 2022 Schedule M1MB, Business Income Additions and Subtractions

See instructions for more information and worksheets to complete Schedule M1MB.

Your First Name and Initial     
  Your Last Name     
  Your Social Security Number

### Additions to Income

- 1 Federal bonus depreciation addition *(determine from worksheet in the instructions)* ..... 1 ■
- 2 State income taxes passed through to you as a partner, shareholder, or a beneficiary of a pass-through entity ..... 2 ■



## 2023 Schedule M1MB, Business Income Additions and Subtractions

See instructions for more information and worksheets to complete Schedule M1MB.

Your First Name and Initial     
  Your Last Name     
  Your Social Security Number

### Additions to Income

- 1 Federal bonus depreciation addition *(determine from worksheet in the instructions)* ..... 1 ■
- 2 State income taxes passed through to you as a partner, shareholder, or a beneficiary of a pass-through entity ..... 2 ■
- 3 Foreign-derived intangible income deduction *(see instructions)* ..... 3 ■
- 4 Suspended loss from bonus depreciation ..... 4 ■
- 5 Net operating loss carryover adjustment from WHBA of 2009 ..... 5 ■
- 6 Accelerated recognition of nonresident installment sales *(enclose Schedule M1AR)* ..... 6 ■
- 7 This line intentionally left blank ..... 7 ■
- 8 This line intentionally left blank ..... 8 ■
- 9 Add lines 1 through 8. Include the result on line 2 of Form M1 ..... 9

### Subtractions from Income

- 10 Federal bonus depreciation subtraction ..... 10 ■

# Pass Through Entity Tax (PTE)

- PTE expiration



# Business Records



- Maintain books and records (Internal Revenue Code, section 6001)
- Personal, living, or family expenses (I.R.C., section 262a)
- Ordinary and necessary expenses (I.R.C., section 162)

- Late Payment
  - First Increment 6%
  - Second Increment 5%
- Late Filing-5%
- Late Tax Order-5%
- Payment Method-5%

How much do I have to pay?

Each required payment is one-quarter of the lesser of either:

- The previous year's total taxes
- 90% of the taxes of the current year minus any credits against the tax

# Estimated Payments Example

For example, if ABC Inc has \$1,000 tax liability for previous year:

- Payments would be:
  - April 15 - payment of \$250
  - June 15 - payment of \$250
  - September 15 - payment of \$250
  - January 15 - payment of \$250



### Businesses Resources

Calculate payroll withholdings and more.

- > [Withholding Calculator](#)
- > [Find Sales Tax Rates](#)



### Support

e-Services help topics and system requirements.

- > [Go to e-Services Help Topics](#)
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# Questions



If you have any questions, contact us by:

- Phone: 651-556-3075 or 1-800-657-3666
- Email: [businessincome.tax@state.mn.us](mailto:businessincome.tax@state.mn.us)

# Thank You!

**Halle Rotty**

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