



Understanding Minnesota Estate Tax Elections

Minnesota Business Tax Education Program

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If you have any questions, contact us:

- Phone: 651-556-3075 or 1-800-657-3666
- Email: businessincome.tax@state.mn.us

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- Questions taken by chat
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Information we will cover today:

- Qualified Terminable Interest Property Election
- Alternative Valuation Election
- Special Valuation Election
- Request for payment extension
- Request for installment payments
- Qualified Small Business and Farm Property Election
- Form M706Q, Estate Tax Return

Qualified Terminable Interest Property

- Surviving spouse gets all the income or use until death
- Applies if specific election is made
- Irrevocable and can't be amended



Purpose of the QTIP Election



- Tax deferral
- Control of asset
- Provides for spouse

QTIP Example



- Kelly and Tracy – Married
- Kelly owns home
- \$3 million in stock assets

QTIP Example, Continued

If Kelly dies before Tracy:

- Estate may want to elect QTIP
- Tracy's estate may owe tax on the home
- QTIP removes tax due on Kelly's estate

QTIP – Common Errors

- Federal filing when not required
 - Delays closing letter
- Reporting property incorrectly on federal Form 706



Alternative Valuation Election



- Six-month valuation
- Irrevocable
- Applies to all assets

To Qualify for Alternative Valuation Election

Election must:

- Reduce gross estate and tax liability
- Be required to file federally



Alternative Valuation – Common Errors



- Cash value
- Tax reduction

Special Valuation

- Specific types of farm and small business property
- Must elect and file federally



Request for Payment Extension

- Six-month extension
- Reasonable cause
- If federally approved, Minnesota will approve



Estate Tax Installment Payments



- Minnesota Estate tax is more than \$5,000
- Must have IRS-approved plan
- Commissioner of Revenue was notified
- Installments in equal amounts

Qualified Small Business and Farm Property Deduction

Eligibility:

- Date of death after June 30, 2011
- Owned qualified property at death
- Property passed to heir



Allowed Estate Exemption and Qualified Small Business or Farm Property Deduction

	Amount
Estate Exemption	\$3 million
Qualified Small Business and Farm Property Deduction	\$2 million maximum
Total Allowed	\$5 million

Qualified Small Business Deduction Requirements

- Include value of property
- Trade or business property
- Material participation



Material participation – Example



- Business owner died December 15, 2024
- The business owner or their spouse
- Material participation tax year ending December 31, 2023

Qualified Small Business Deduction Requirements, Continued

- Include value of property
- Trade or business property
- Material participation
- Gross annual sales were \$10 million or less



Annual Sales– Example



- Business owner died May 2, 2025
- Gross annual sales for tax year ending December 31, 2024
- \$10 million or less

Requirements Continued



- Assets not used in operation cannot be claimed
- Three-year property ownership
- Family member material participation
- Pay Recapture Tax

Qualified Farm Property Deduction Requirements

- Three-year property ownership



Three-year ownership – Example



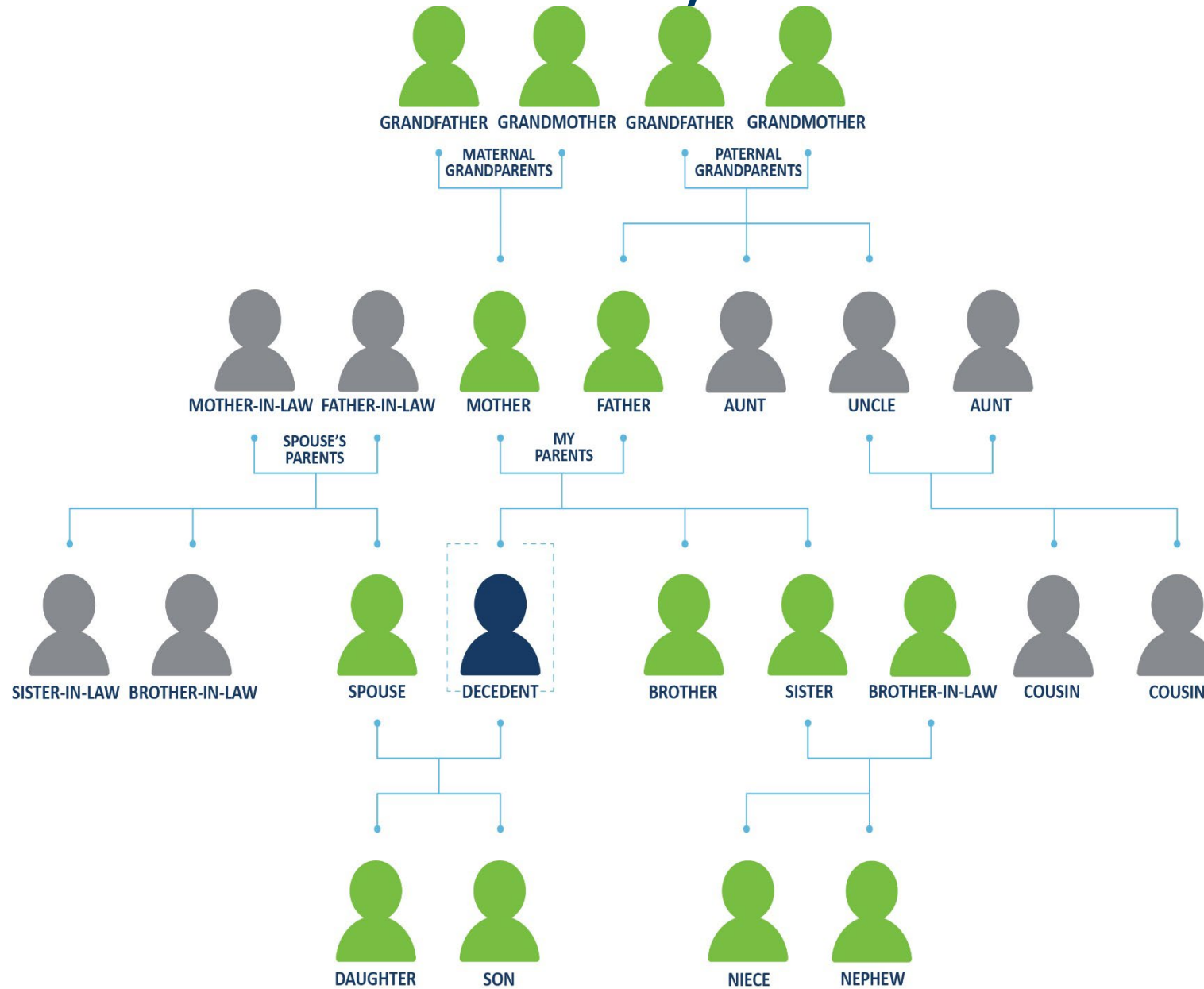
- A farmer died on February 15, 2025
- The farmer or their spouse
- Owned the property
 - February 15, 2022, to February 15, 2025

Qualified Farm Property Deduction Requirements, Continued

- Three-year property ownership
- Include value of property
- Agricultural land and family farm
- Agricultural property classification
- Pay Recapture Tax



Heirs and Family Members



Three-Year Holding Period

Qualified Small Business Property

- Qualified heir owns all interest
- Family member materially participates

Qualified Farm Property

- Qualified heir or family member owns property
- Maintains property classification

Informational Returns



One return is due 36 to 39 months after death

Confirms no Recapture Tax is due

- Fail to meet requirements of holding period
- 16% tax
- Property and value cannot be altered



Recapture Tax Exceptions for Farm Property



- Eminent domain
- Reclassification from 2a to 2b
- Reclassification from 2a to 4bb

Recapture Tax Example

	Amount
Estate value	\$4 million
Estate exclusion	\$3 million
Farm property value	\$2 million
Farm property deduction	\$1 million

The Bean & Bauble Coffee Shop

- Owner: Luna Mendez, age 40
- Business established 2015
- Business value \$500,000
- Divorced, no children
- Luna hired her mother, Sofia, in 2020
- Luna died January 12, 2025



The Bean & Bauble Coffee Shop, continued



- Sofia – Qualified heir
- Property transferred upon Luna's death
- Informational returns due:
 - January 12, 2028, to April 12, 2028

Meyer Family Farm Example

- Owners: Roy and Jen Meyer, ages 71 and 70
- Established in 1973
- Five children, one works on the farm
- Roy died on April 30, 2025



Meyer Family Farm Example, Continued



- Jen will continue to homestead
- Erik will farm the land
- Informational returns due:
 - April 30, 2028, to July 30, 2028

Election to Claim the Qualified Small Business and Farm Property Deduction

- Form walk-through
- Common errors



Questions



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Thank You!

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