DEPARTMENT OF REVENUE

2022 Partnership Form M3 Instructions

Contents

General Information 1–4
Filing Requirements 1–2
Before You File 1
Due Dates and Extensions 1–2
Payment Options 2
Penalties and Interest 3
Filing Reminders 3–4
M3 Instructions 5–7
M3A Instructions 8–9
KPI Instructions 10–15
KPC Instructions 16–18
Nonconformity Adjustments . . . 19–20
Mailing Label 20

Questions?

You can find forms and information, including answers to frequently asked questions and options for filing and paying electronically, on our website at:

www.revenue.state.mn.us

Send us an email at:
businessincome.tax@state.mn.us

Call us at **651-556-3075**

Need Forms?

Go to **www.revenue.state.mn.us.**

This information is available in alternate formats.

Before You File

Complete Your Federal Return

Before you complete Form M3, complete federal Form 1065 and supporting schedules. You will need to reference them.

Minnesota Tax ID Number

Your Minnesota tax ID is the seven-digit number you're assigned when you register with the department. Generally, this 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.

If you don't have a Minnesota tax ID, apply for one online at **www.revenue.state.mn.us** and type **Business Registration** in the search box or call 651-282-5225 or 1-800-657-3605.

What's New for 2022

For taxpayers affected by federal tax law passed after December 31, 2018

During the 2026 Minnesota legislative session, Minnesota law was updated to recognize the Internal Revenue Code as amended through May 1, 2026. The 2022 Minnesota income tax forms incorporate federal law through this IRC date.

Section 179 Expensing Addition

For tax years beginning after December 31, 2019, there is no Minnesota addition required for federal Section 179 expensing claimed on business property that qualifies for federal and Minnesota Section 179 expensing.

For tax year 2022, the Minnesota subtraction for federal Section 179 added back to Minnesota taxable income in a prior year is based off additions made on the entity's returns for tax years 2017, 2018, and 2019.

Form TPD – Tax Position Disclosure

The new Form TPD can be used by taxpayers and tax return preparers to disclose items or positions that are not otherwise adequately disclosed on a Minnesota tax return to avoid certain penalties. If you file Form TPD, check the box on the front of Form M3. See Form TPD for more details.

Filing Requirements

All entities required to file a federal Form 1065, *U.S. Return of Partnership Income*, 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 $1,080,000. However, the partnership is exempt from the minimum fee if more than 80% of its income is from farming.

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

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.

Due Dates and Extensions

Your Minnesota return and payment are due the same date your federal return and payment are due.

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.

Continued

General Information (Continued)

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* below.)

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* below.)

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.

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 t**o 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.

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 15 and 16 on page 6).

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, pass-through entity tax, and composite income tax for all nonresident partners electing to participate in composite income tax, less any credits, is $500 or more. A partnership is not required to pay estimated taxes the first year it is subject to tax in Minnesota.

The required annual payment is the lesser of:
- 90% of the current year's tax liability
- 100% of the prior year's liability.

The required annual payment must be paid in four equal installments unless certain exceptions apply (see the instructions for Schedule EST, *Additional Charge for Underpayment of Estimated Tax*).

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.

Installments for a short tax year are due in equal payments on the 15th day of the third, sixth, ninth, and final months of the tax year of the tax year depending on the number of months in the short tax year. No installments are required are due for a tax year of fewer than four months.

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

To make an estimated payment, see *Payment Options* on page 2.

Tax Return Payment

If line 18 of Form M3 shows an amount due, you must make a tax return payment (see *Payment Option*s on page 2). 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.

Continued

General Information (Continued)

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% of the unpaid tax.

If you file your return after the regular due date with a balance due, and you do not pay that balance, an additional 5% 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% 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 2023 is 5%.

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 Minnesota return.

Pass-Through Entity Tax

A partnership may elect to file and pay income tax, on behalf of its partners, based on the entity's income at the entity level. See Schedule PTE, *Pass-through Entity Tax*, for information on the election.

If you are filing and paying PTE tax at the entity level, check the box for the PTE tax on the front of Form M3 and see the line 2 instructions on page 5.

Composite Income Tax

A partnership, not making a PTE election, may pay composite Minnesota income tax on behalf of its eligible nonresident individual partners or grantor trusts who elect to be included in lieu of each partner filing their own Minnesota return. The electing individuals must not have any Minnesota source income other than the income from this partnership and other entities for which they are electing composite tax or are a part of a PTE tax return.

Partners who receive a share of gross profit or income from an installment sale reported on line 7a or 7b of Schedule KPI, *Partner's Share of Income, Credits and Modifications,* 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 3 instructions on page 5.

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 in Minnesota
- The partner is not included in composite income tax
- The partnership is not electing to file and pay PTE tax
- The partner has Minnesota distributive income of $1,000 or more from this partnership
- The partner 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

If the partnership elected PTE tax, the partnership is not required to withhold for a nonresident partner. The nonresident partner may still be required to file an income tax return if they meet the minimum filing requirement ($12,900 for 2022) and the PTE tax does not satisfy their filing requirement.

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 4 instructions on page 5.

Note: Nonresident individual partners include grantor trusts that file or can file under Treasury Regulation 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% withholding tax on the gross compensation the entertainment entity reported for performances in Minnesota.

Continued

General Information (Continued)

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 received. 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

Your return should be assembled in the following order: Form M3, Schedule PTE, Schedules KPI, Schedules KPINC, Schedules KPC, Schedules KPCNC, finally your Federal return and its schedules. All schedules of the same type should be grouped together. **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 22).

If you choose not to use the label, mail your forms to:

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

Partnerships with more than 200 partners are asked to submit federal Schedules K–1 and Minnesota Schedules KPI and KPC (if applicable) on CDs or flash drives. 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, *Amended Partnership Return,* withinn 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 want to elect to report and pay the Minnesota income tax, penalty, and interest resulting from a federal BBA centralized partnership audit change on behalf of your partners, see Schedule M3BBA for more details.

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

Before you file Form M3, you must complete the following:

- Federal Form 1065 and supporting schedules
- Schedule KPI for each nonresident partner, any Minnesota resident partner who has adjustments to income, and all partners if the partnership elected PTE tax (see page 10)
- Schedule KPC for each corporate or partnership partner (see page 16)
- Schedules KPINC and KPCNC for all partners if the partnership has nonconformity adjustments (see pages 19-22).

Conformity 2023. 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 pages 19 and 20.

Conformity 2026. If you are amending solely due to the 2026 Minnesota tax bill, write "Conformity" in red at the top of the Minnesota Form M3X and the amended Schedules KPI and KPC you issue to partners.

Continued

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 3.

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.

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 did any of the following:

1) executed an installment sale, after December 31, 2016, of partnership interests being reported on federal Form 6252
2) executed an installment sale, after December 31, 2016, of the assets of a partnership and is reporting the sale on federal Form 6252
3) owns an interest in a partnership, or trust reporting installment sale gains on line 7 of Schedule KPI, line 6 of Schedule 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.

Public Law 86-272. Check this box to indicate you are claiming to be exempt from Minnesota income tax under Public Law 86-272.

Pass-Through Entity (PTE) Tax. Check this box if the partnership is electing to pay PTE tax at the entity level on behalf of their partners. Include Schedule PTE with Form M3.

Tax Position Disclosure. If you filed Form TPD to disclose items or positions that are not otherwise adequately disclosed on your return. See Form TPD for more details.

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, 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 8.

You are exempt from the minimum fee if more than 80% of your income is from farming.

Line 2—Pass-Through Entity Tax

Complete Schedule PTE to elect and determine the amount of tax to enter on line 2. Include Schedule PTE with your return filing.

Line 3—Composite Income Tax

To determine line 3, you must first figure the amount of composite tax attributed to each electing partner. See the partnership instructions for lines 50 and 51 of Schedule KPI on page 14 and 15.

Add the composite income tax attributed to all electing partners (the total of lines 51 from all KPI schedules), and enter the result on line 3 of Form M3.

Line 4—Nonresident Withholding

To determine line 4, you must first figure the amount to withhold for each nonresident individual partner. See the partnership instructions for line 52 of Schedule KPI on page 15.

Add the withholding required for all nonresident partners (the total of lines 52 from all KPI schedules), and enter the result on line 4 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 4 of Form M3. You must include the certificate(s) when you file your return.

Line 6—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 partners. Line 6 cannot exceed the minimum fee on line 1.

Line 7 - Film Production Tax Credit

Continued

Completing Form M3 (Continued)

If you received a credit certificate from the Department of Employment and Economic Development (DEED) for eligible production costs, enter the credit amount on line 7 and the certificate number in the space provided.

Enter the amount of the credit that is being claimed directly by the partnership and not passed through to partners. Line 7 cannot exceed the minimum fee on line 1.

If you have multiple credits, enter the certificate number your partnership received directly from DEED within the certificate number box. If you have multiple credits and received all credits from other pass-through entities, enter the certificate number relating to the largest credit amount within the certificate number box. Subtotal all credit amounts on line 7. Include a statement showing the certificate number and corresponding credit amounts for all credits you included on line 7.

For more details regarding this tax credit, go to the DEED website at mn.gov/deed.

Line 8—Tax Credit for Owners of Agricultural Assets

If you received a credit certificate from the Minnesota Rural Finance Authority for selling or leasing agricultural assets to a beginning farmer, enter the certificate number in the space provided and credit amount on line 8.

If you have multiple credits, enter the certificate number your partnership received directly from the Rural Finance Authority within the certificate number box. If you have multiple credits and received all credits from other pass-through entities, enter the certificate number relating to the largest credit amount within the certificate number box. Subtotal all credit amounts on line 8. Include a statement showing the certificate number and corresponding credit amounts for all credits you included on line 8.

Line 11—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. Attach the certification document received from the DEED.

For details about the zones, go to the DEED website at mn.gov/deed.

Line 12—Estimated Tax and Extension Payments

Enter your total prepayments, including any of the following:

- your total 2022 estimated tax payments made in 2022 and 2023, paid either electronically or by check
- any 2022 extension payment, paid electronically or by check, that was made by the due date when filing under an extension
- the portion of your 2021 refund applied to your 2022 estimated tax

Line 15—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 15.

Late Payment. If the tax is not paid by the regular due date, a penalty is due of 6% of the unpaid tax on line 14.

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% of the unpaid tax on line 14.

Balance Not Paid. If you file your return after the regular due date and have a balance due, and that tax is not remitted with the return, an additional penalty is assessed. The additional penalty is 5% of the unpaid tax on line 14.

Payment Method. If you are required to pay electronically and do not, an additional 5% penalty applies to payments not made electronically, even if your paper check is sent on time.

If, during the 12 months ending June 30 of the tax year, you paid $10,000 or more in estimated tax payments, you are required to make all future estimate tax payments electronically beginning January 1 of the following tax year. Once you meet the electronic payment threshold, you are required to pay electronically for all future periods.

You must also pay electronically if you're required to pay any Minnesota business tax electronically, such as sales or withholding tax.

Line 16—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 2023 is 5%.

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 17—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 the following is more than $500:

- Line 5
- Less any credits on lines 6, 7, 8, and 11

Continued

Completing Form M3 (Continued)

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 17. Enclose the schedule with your return.

Line 18—Amount Due
Add lines 14 through 17. This is the amount you owe. Check the appropriate box on line 18 to indicate your method of payment. See *Payment options* on page 2.

Line 19—Overpayment
If line 13 is more than the sum of lines 10 and 15 through 17, subtract the sum of lines 10 and 15 through 17 from line 13.

If you have an overpayment on line 19, 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 2023 estimated tax account.

Line 20—2023 Estimated Tax
Skip this line if you owe additional tax.

If you are paying 2023 estimated tax, you may apply all or a portion of your refund to your 2023 estimated tax. Enter the portion of line 19 you want to apply toward your 2023 estimated tax on line 19.

Line 21—Refund
If you want to request your refund to be direct deposited into your bank account, complete line 22. Your bank statement will indicate when your refund was deposited to your account. Otherwise, skip line 22 and your refund will be sent to you in the mail.

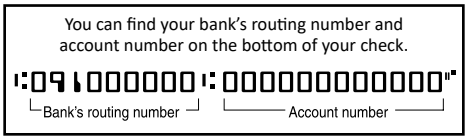
Line 22—Direct Deposit of Refund
If you want your refund to be directly deposited into your checking or savings account, enter the routing and account numbers. You must use an account not associated with any foreign banks.

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.

By completing line 22, 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 partner or LLC member of the firm.

If you paid someone to prepare your return, the preparer must also sign and provide their Preparer Tax Identification Number (PTIN) and phone number. Check the box to authorize the department to discuss this return with the preparer. This authority allows us to discuss with your preparer these items from this return: line item details; tax due on original and adjustments made during processing; penalty or interest due; documents received or sent like a tax order or bill; and dates and amounts of payments, credits, or refunds. The authority also allows your preparer to cancel direct deposit or debit payments and submit an abatement request.

The authority granted by a marked return checkbox is valid for one year after the due date for current original returns, or one year from the date the form was submitted for amended and noncurrent original returns.

Checking the box does not give your preparer the authority to sign any tax documents on your behalf, represent you at any audit or appeals conference, or discuss abatement progress. For these types of authorities, you must file Form REV184b, Business Power of Attorney, 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 Form M3A

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

Apportionment Factor

Minnesota is a 100% sales apportionment state.

The minimum fee still takes into account your Minnesota portion of 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

Enclose the completed federal Schedule L (federal 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

In column A, lines 1a-1c, enter the total property items for your entire business in Minnesota.

Line 1a. Add the beginning and the ending year inventories, divide by two 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 two. Enter the result on line 1b.

Line 1c. Add the land's beginning and ending year values and divide by two. 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 eight 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
- 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.

Continued

Completing Form M3A (Continued)

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 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.

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.

Minimum Fee

M3A, lines 6–9

Partnerships are subject to the minimum fee if the sum of its Minnesota source property, payroll and sales or receipts is at least $1,080,000.

However, you are exempt from the minimum fee if more than 80% 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 and sales used for computing the minimum fee will be different than the amounts reported on lines 1-6. 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 and 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 year is determined by multiplying M3A, column A, line 1 by a fraction:

$$\frac{365 - \text{number of days in the tax year}}{365}$$

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

Completing Schedule KPI

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

Complete and provide Schedule KPI to:

- All nonresident individual, estates, or trust partners
- Any Minnesota individual, estate, or trust partners who have adjustments to income
- All partners if the partnership is electing PTE Tax

A partnership must provide each 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. Provide the partner a copy of all pages of the completed Schedule KPI and the instructions.

You do not have to provide Schedule KPI if all the following are true:

- There are no modifications or credits
- The individual partner is a full-year Minnesota resident
- The partnership did not elect PTE Tax

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. You may also elect to pay the additional tax at the partnership level if the amended return is a result of a federal BBA centralized partnership audit and you make the election on Schedule M3BBA. See Schedule M3BBA for more details.

Partner's Federal Tax ID or Social Security Number

Enter the partner's Social Security number or Federal ID. If the partner or member is a disregarded entity or grantor trust, enter the partner's information as reported on Federal Schedule K-1 Item E.

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 1–35 the same for all resident and nonresident partners. Calculate lines 36-49 for estate, trust, and nonresident individual partners, and resident individual partners if the partnership elected PTE tax. Calculate lines 50-52 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).

All Partners - Lines 1-35

KPI, line 1

If you received federally tax-exempt interest dividends from a mutual fund, you may have to enter an amount on line 1. To determine the amount, if any, use the following instructions:

- If 95% or more of the federally tax-exempt dividends from a mutual fund came from bonds issued by Minnesota, include only the portion of the federally tax-exempt dividend generated by non-Minnesota bonds.
- If less than 95% of the federally tax-exempt interest dividends from a mutual fund came from bonds issued by Minnesota, include all of the federally tax-exempt interest dividend from that fund.

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 14 of Schedule KPI. Do not include these expenses on line 3.

Continued

Completing Schedule KPI (Continued)

KPI, line 4

If you claimed federal bonus depreciation, your partners must add back 80% of the bonus depreciation to Minnesota.

Follow the steps below to determine the partner's share to enter on line 4:

1. Add line 14 and line 25 of your federal Form 4562.. . . . . _____
2. Total of any bonus depreciation amounts passed through to you as a partner of a partnership (from line 7 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 4 of the partner's Schedule KPI.

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, *Individual Income Tax,* and Form M2, *Income Tax Return for Estates and Trusts,* for details.

KPI, line 5

Determine the amount of foreign-derived intangible income (FDII) you deducted from net income under Internal Revenue Code (IRC) section 250 for the taxable year. Enter the partner's distributive share of this amount on line 5.

KPI, line 6

Determine the amount of any special deduction you deducted from net income under IRC section 965(c) for the taxable year. Enter the partner's distributive share of this amount on line 6.

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, line 6a
- Schedule KS, line 7a
- 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, line 6b
- Schedule KS, line 7b
- 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 8

Enter the amount from Schedule KPINC, line 32. If the amount is a negative, leave line 8 blank and enter it as a positive number on line 18.

KPI, lines 9 - 13

These lines are intentionally left blank.

Continued

Completing Schedule KPI (Continued)

KPI, line 14
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 14.

KPI, line 15
Determine the amount of deferred foreign income included in net income under IRC section 965 for the taxable year. Enter the partner's distributive share of this amount on line 15.

KPI, line 16
Determine the amount of global intangible low-taxed income (GILTI) included in net income under IRC section 951A for the taxable year. Enter the partner's distributive share of this amount on line 16.

KPI, line 17
For medical cannabis manufacturers registered with the Minnesota Department of Health, include any expenses that are disallowed on your federal return due to IRC section 280E. Enter the partner's distributive share of the disallowed section 280E expenses on line 17.

KPI, line 18
Enter the amount from Schedule KPINC, line 32. If the amount is a positive, leave line 18 blank and enter it as a positive number on line 8.

KPI, line 19
Determine the state income tax refund included in ordinary income or net rental income. Enter the partner's distributive share of this amount on line 19.

KPI, lines 20 - 23
These lines are intentionally left blank.

KPI, line 24
Enter the partner's distributive share of the 2022 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 25
If you received a credit certificate from DEED for eligible production costs, enter the certificate number in the space provided and the partner's share of the credit on line 25.

KPI, line 26
If you received a credit certificate from the Minnesota Rural Finance Authority for selling or leasing agricultural assets to a beginning farmer, enter the certificate number in the space provided and the partner's share of the credit on line 26.

If the partner has multiple credits, enter the certificate number your partnership received directly from the Rural Finance Authority within the certificate number box. If the partner has multiple credits and received all credits from other pass-through entities, enter the certificate number relating to the largest credit amount within the certificate number box. Subtotal the partner's share of all credit amounts on line 26. Provide a statement to the partner showing credit numbers and the partner's distributive share of the credit for all amounts included on line 26.

KPI, line 27
For partnerships who receive a Historic Structure Rehabilitation Credit Certificate from the Minnesota State Historic Preservation Office (SHPO):

- If the partnership's initial application for allocation certificate was submitted to SHPO on or before December 31, 2017, use the credit amount shown on the credit certificate.
- If the partnership's initial application for allocation certificate was submitted to SHPO after December 31, 2017, use one-fifth of the credit amount shown on the credit certificate.

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 SHPO of the Minnesota Historical Society when the project was completed and placed into service.

KPI, line 28
Enter the partner's share, if any, of the Employer Transit Pass Credit that is passed through to the partners.

Continued

Completing Schedule KPI (Continued)

KPI, line 29
Enter the partner's share, if any, of the Enterprise Zone Credit that is passed through to the partners.

KPI, line 30
If you elected PTE Tax on Schedule PTE, enter the partner's share of the credit from Part 2 of Schedule PTE.

If payment of the PTE tax satisfies the partner's filing requirement, check the box on line 30.

KPI, line 31
Enter the partner's share, if any, of the Minnesota backup withholding.

KPI, Lines 32-35
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 32-35. No adjustments are necessary.

KPI, line 32
Intangible drilling costs (IDCs) from oil, gas and geothermal wells are a tax preference item to the extent that the excess IDCs exceed 65% 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 IRC 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 33
Gross income from oil, gas and geothermal properties are used in determining if the excess IDCs exceed 65% of the net income from the wells.

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

KPI, line 34
Deductions allocable to oil, gas and geothermal properties are used in determining if the excess IDCs exceed 65% 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 35
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 IRC 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.

Minnesota Portion of Amounts From Federal Schedule K-1 (1065) — Lines 36-49
KPI, line 36
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 20a (other than losses) of federal 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. Partners are provided this information on line 34 of Schedule KPC.

KPI, lines 37-48
From the partner's federal Schedule K-1 (1065), enter the Minnesota portion of amounts on lines 37-48.

On line 47, include the Minnesota portion of any items from the Schedule K-1 that are not specifically labeled on lines 37-46 and 48.

Line 48 refers to the Minnesota apportioned amount of federal section 179 expense from the federal Schedule K-1.

Unless the partnership elects PTE tax, lines 36-52 do not need to be completed for Minnesota individual residents. All income of a Minnesota individual resident is taxed by Minnesota, regardless of the source.

Continued

Completing Schedule KPI (Continued)

KPI, line 40

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 50

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 23 of the partner's Schedule KPI.

Follow the steps below to determine line 41:

1. Federal bonus depreciation amount from line 4 of the shareholder's Schedule KPI . . . . . _____
2. Multiply step 1 by 80% (0.80). . . . . _____
3. Combine lines 5, 6*, and 8 of the partner's Schedule KPI . . . . . _____
4. Add step 2 and step 3 . . . . . _____
5. Multiply step 4 by apportionment factor from line 49 of the partner's Schedule KPI . . . . . _____
6. Combine lines 37-47 of the partner's Schedule KPI . . . . . _____
7. Add steps 5 and 6 . . . . . _____
8. 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 . . . . . _____
9. 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. . . . . _____
10. Combine lines 15, 16, and 18 of the partner's Schedule KPI . . . . . _____
11. Add steps 8, 9, and 10 . . . . . _____
12. Multiply step 11 by the apportionment factor from line 49 of the partner's Schedule KPI . . . . . _____
13. Enter amount from line 48 of partner's Schedule KPI . . . . . _____
14. Add Steps 12 and 13 . . . . . _____
15. Subtract step 14 from step 7. . . . . _____

Enter the result from step 15 on line 50 of the partner's Schedule KPI. This amount is the partner's adjusted Minnesota source distributive income.

*Only include an amount from line 6 of Schedule KPI if the partner is an estate or trust.

KPI, line 51

Composite Income Tax

Nonresident individual partners must pay tax if their Minnesota gross income is more than the minimum filing requirement for the year ($12,900 for 2022).

Nonresident partners who are included in a PTE tax election should not elect composite income tax.

Partners who receive a share of gross profit or income from an installment sale reported on line 7a or 7b of Schedule 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 their behalf or if the partnership elected PTE tax.

To determine the amount of composite income tax to pay on behalf of each electing partner, follow the steps below:

1. Multiply line 50 of Schedule KPI by 9.85% (0.0985) . . . . . _____
2. Add lines 25-29 and 31 of Schedule KPI . . . . . _____
3. Subtract step 2 from step 1 . . . . . _____

Continued

Completing Schedule KPI (Continued)

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 51 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 51. Even though the amount may be zero, you must check the box to indicate the election.

Once you have completed all the Schedules KPI for your electing nonresident individual partners, add the amounts on line 51 of all the schedules and enter the total on line 3 of Form M3. This is the amount of composite income tax you are required to pay on behalf of your electing partners.

KPI, line 52—Nonresident Withholding

Nonresident individual partners who are not included in the composite income tax or PTE tax may be subject to withholding. See *Nonresident Withholding* on pages 3 through 5 to determine if your nonresident individual partners are subject to Minnesota withholding.

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

1. Multiply line 50 of Schedule KPI by 9.85% (0.0985) . . . . . _____
2. Add lines 25-29 and 31 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 individual 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 52 of the partner's Schedule KPI and also on line 4 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

Enter the information associated with this partnership and partner.

Purpose

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

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.

Enter the partners Federal ID. If the partner or member is a disregarded entity enter the partner's information as reported on federal schedule K-1 Item E.

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, 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. Enter the partner's share of total nonapportionable income on line 2.

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 partners filing as a C corporation.

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 17 of Schedule KPC. Do not include these expenses on line 6.

KPC, line 7

If you claimed federal bonus depreciation, your partners must add back 80% of the bonus depreciation to Minnesota.

Continued

Completing Schedule KPC (Continued)

Follow the steps below to determine the partner's share to enter on line 7:

1. Add line 14 and line 25 of your federal Form 4562. . . . . _____
2. Total of any bonus depreciation amounts passed through to you as a partner of a partnership (from line 7 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 7 of the partner's Schedule KPC.

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 8

Determine the amount of foreign-derived intangible income (FDII you deducted from net income under IRC section 250 for the taxable year. Enter the partner's distributive share of this amount on line 8.

KPC, line 9

Determine the amount of any special deduction you deducted from net income under IRC section 965(c for the taxable year. Enter the partner's distributive share of this amount on line 9.

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 6a, 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 federal 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 line 6b, Schedule KS 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.

KPC, line 11

Include eighty percent (80%) of the amount of the immediate deduction you claimed for domestic research or experimental expenditures under IRC Section 174A(a) as a positive number on line 11.

Only include the pro rata share of the adjustment on Schedules KPC. Do not include any pro rata share of the adjustment on Schedules KPI.

KPC, lines 12 - 16

These lines are intentionally left blank.

KPC, line 17

Skip this line for all partners filing as a C corporation.

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. 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 17.

Continued

Completing Schedule KPC (Continued)

KPC, line 18
Determine the amount of deferred foreign income included in net income under IRC section 965 for the taxable year. Enter the partner's distributive share of this amount on line 18.

KPC, line 19
Determine the amount of global intangible low-taxed income (GILTI) included in net income under IRC section 951A for the taxable year. Enter the partner's distributive share of this amount on line 19.

KPC, line 20
For medical cannabis manufacturers registered with the Minnesota Department of Health, include any expenses that are disallowed on your federal return due to IRC section 280E. Enter the partner's distributive share of the disallowed section 280E expenses on line 20.

KPC, line 21
Determine the state income tax refund included in ordinary income or net rental income. Enter the partner's distributive share of this amount on line 21.

KPC, lines 22 - 26
These lines are intentionally left blank.

KPC, line 27
Enter the partner's distributive share of the 2022 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 28
If you received a credit certificate from DEED for eligible film production costs, enter the certificate number in the space provided and the partner's share of the credit on line 28.

KPC, line 29
Enter the partner's distributive share of the Tax Credit for Owners of Agricultural Assets being passed through to partners. For more information on the credit amount allowed please see page 12 of the instruction, KPI, line 26.

If the partner has multiple credits, enter the certificate number your partnership received directly from the Rural Finance Authority within the certificate number box. If the partner has multiple credits and received all credits from other pass-through entities, enter the certificate number relating to the largest credit amount within the certificate number box. Subtotal the partner's share of all credit amounts on line 29. Provide a statement to the partner showing credit numbers and the partner's distributive share of the credit for all amounts included on line 29.

KPC, line 30
For partnerships who receive a Historic Structure Rehabilitation Credit Certificate from the Minnesota State Historic Preservation Office (SHPO):

- If the partnership's initial application for allocation certificate was submitted to SHPO on or before December 31, 2017, use the credit amount shown on the credit certificate.
- If the partnership's initial application for allocation certificate was submitted to SHPO after December 31, 2017, use one-fifth of the credit amount shown on the credit certificate.

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 SHPO of the Minnesota Historical Society when the project was completed and placed into service.

KPC, line 31
Enter the partner's distributive share of the Employer Transit Pass Credit being passed through to partners.

KPC, line 33
Enter the partner's distributive share of Minnesota Backup Withholding.

KPC, lines 34
Enter the partner's distributive share of Minnesota Source Gross Income. See the instructions for line 36 of Schedule KPI on page 13.

KPC, lines and 35 and 36
Enter the partner's distributive share of the partnership's apportionment factors determined on M3A.

Nonconformity Adjustment Instructions

For taxpayers affected by federal tax law passed after December 31, 2018.

Purpose of This Schedule

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.

Who Must File Schedule KPINC or KPCNC

If any of the federal provisions in these instructions affect the amount of taxable income reported on your 2022 federal Form 1065, U.S. Return of Partnership Income, you must adjust your 2022 Minnesota return using Schedules KPINC or KPCNC.

Use these instructions to complete Schedules KPINC and KPCNC for your partners' pro rata share of each adjustment. The adjustment for each line should reflect the change to your Minnesota return as a result of the retroactive Minnesota modifications. Each line will also include the net adjustments received from Schedule(s) KPCNC for your pro rata share in a partnership(s).

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

1. To update composite income tax for electing partners, or
2. To update Schedule PTE. See Schedule PTE for more details.

You do **not** need to update nonresident withholding amounts. You may need to amend, and issue updated Schedules KPI and KPC, or Schedules KPINC and KPCNC 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.

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

Save your entire 2022 Minnesota Form M3 and all worksheets you use in determining the adjustments.

Line 1

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Line 2

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Line 3

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Line 4

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Line 5 – Modification of Business Interest Limitation (CARES Act Section 2306)

The CARES Act created a special rule increasing the amount of business interest that can be deducted for the tax year for federal purposes from 30% to 50%. The Minnesota limitation has not changed. You must calculate a nonconformity adjustment if:

- Your business interest expense deduction exceeds the sum of 30% of your adjusted taxable income, your business interest income, and your floor plan financing interest; or
- You have Minnesota-only excess business interest expense carried forward from your 2019, 2020, and 2021 Minnesota returns.

Determine the difference between your federal deduction and the deduction allowable using 30% of your adjusted taxable income. Use the federal Form 8990 as a worksheet to recalculate the Minnesota interest expense limitation under 2018 IRC. Write "Minnesota" at the top of this Form 8990 (referred to as Minnesota Form 8990 and include it with your return.

If your interest expense allowable under 2018 IRC is less than your federal interest expense, enter the difference as a positive number on line 5. If your interest expense allowable under 2018 IRC is more than your federal interest expense, enter the difference as a negative number on line 5.

Line 6

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Continued

Nonconformity Adjustment Instructions (Continued)

Line 7 – Employer Credit for Paid Medical Leave (FFCRA Section 7001; ARPA Section 9641) and Employer Payroll Credit for Required Paid Family Leave (FFCRA Section 7003; ARPA Section 9641)

Section 7001. Employer Credit for Paid Medical Leave

If you claimed the Employer Credit for Paid Medical Leave, include the amount of the credit which was included in your federal gross income as a negative amount.

Section 7003. Employer Payroll Credit for Required Paid Family Leave

If you claimed the Employer Payroll Credit for Required Paid Family Leave, include the amount of the credit which was included in your federal gross income as a negative amount.

Line 8

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Line 9

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Line 10

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Line 11

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Line 12

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Line 13 – Temporary Allowance of Full Deduction for Business Meals (COVIDTRA Section 210)

If you deducted more than 50% of the cost for food or beverages provided by a restaurant under this provision, enter the amount of the deduction that exceeds 50% of the cost as a positive number on line 13.

Line 14

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Line 15

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Line 16

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Line 17

If you claimed the credit for continuation coverage under section 9501(a)(1) of ARPA, include the amount of the credit which was included in your federal gross income as a negative number.

Lines 18 through 30

These lines are intentionally left blank.

Line 31

This line is intentionally left blank.

Line 32 - Total of lines 1 through 31

Add lines 1 through 31 for each partners' pro rata share on Schedules KPINC or KPCNC. If the result is positive, also enter the number on Schedule KPI, line 8 for your individual, estate, or trust partners' pro rata share of nonconformity adjustments. If the result is negative, enter it as a positive number on Schedule KPI, line 18 for your individual, estate, or trust partners' pro rata share of nonconformity adjustments.

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