MN STATE BAR ASSOCIATION

SF1113: Tax Fairness for Single Member LLCs

LLCs with multiple members may be classified as either S Corporations or Partnerships for tax purposes. In addition, an LLC with only one member is known as a Single Member LLC (SMLLC) and is considered a "disregarded entity" which the IRS ignores for tax purposes (the LLC's operations are treated as a division or sole proprietorship on the owner's income tax return).

This bill would eliminate two tax traps for unwary SMLLC owners and allow them to receive tax benefits already available to other forms of LLCs.

1. Minn. Stat. §297A.68 **exempts from Minnesota sales tax the sale of tangible personal property primarily used in a trade or business**, but the current interpretation of the law is that transfers to federally-disregarded LLCs do ***not*** qualify for this exemption.
    - There is no meaningful policy justification for granting an exemption for transfers of property in only certain "tax-free" transactions and not in others.
    - This creates a trap for **unwary sole proprietors** who will likely first learn of it during a Minnesota income tax audit and potential assessment.

2. For decades, Minnesota has allowed residents to **claim credits for income taxes imposed by other states** upon entities residents own when the entities are federally taxed as S corporations or partnerships; however, this same credit is ***not*** granted to federally-disregarded entities.
    - There are at least two states (NH and TN) that impose such taxes.
    - Denying the tax credit to disregarded SMLLCs creates a trap for the unwary that **largely burdens sole proprietors** who frequently use the federal disregarded entity classification for LLCs.
    - The bill would expand Minn. Stat. §290.06 to permit Minnesota residents who are the sole member of a federally-disregarded SMLLC to claim credits against their Minnesota individual income tax for income taxes imposed upon the SMLLC by another state.