

S.F. No. 2443 – Pass-through entity (PTE) tax modifications

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This bill amends provisions of the PTE tax, which was first enacted in 2021 to allow individual owners of pass-through businesses to avoid the \$10,000 federal limitation on itemized deductions for state and local taxes (SALT), which applies to individual filers. PTE income is passed through to individual owners, who would be subject to the federal SALT limitation if they itemize. Under the PTE tax, tax is paid at the entity level and the full amount of Minnesota tax paid is deducted at the entity level for federal deduction purposes, therefore avoiding the SALT limitation for individual owners.

Section 1. Pass-through entity tax. Provides that for resident owners of a partnership or LLC taxed as a partnership, all income is allocated to Minnesota, and for nonresidents and qualifying owners of an S-corp, income is allocated as under current law.

Specifies that for purposes of a “qualifying entity” eligible to make the PTE election, an LLC qualifies if it is taxed as a partnership or S-corp, and that a qualifying entity must have at least one qualifying owner.

Adds a disregarded entity that has a qualifying owner as its single owner to the definition of “qualifying owner.”

Removes the requirement that at least one qualifying owner of the PTE is limited by the federal SALT deduction.

Specifies that the PTE election must exclude partners, members, shareholders, or owners who are not qualifying owners. The election may only be made by qualifying owners who collectively hold more than 50 percent of ownership interests in the qualifying entity held by qualifying owners (as opposed to 50 percent of total interest in the PTE, under current law).

Sunsetts the PTE election at the same time the federal SALT limitation expires (currently, after 2025) but that the commissioner’s audit, examination, and assessment powers are not affected by the sunset date.

Effective retroactively to taxable years beginning after December 31, 2021.

Section 2. Reporting and payment requirements for partnerships and tiered partners.

Requires partnerships to file an amended return for all direct partners if it was subject to a federal audit. Effective retroactively to taxable years beginning after December 31, 2021.