



**INDIVIDUAL INCOME TAX
SALES AND USE TAX
Disregarded LLCs**

March 31, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 3852 (Johnson) / H.F. 4318 (Agbaje)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
Individual Income Tax				
Credit for Taxes Paid to another State	\$0	(\$200)	(\$200)	(\$300)
Sales and Use Tax				
Sales of Tangible Personal Property	<u>\$0</u>	<u>(\$660)</u>	<u>(\$710)</u>	<u>(\$760)</u>
General Fund Total	\$0	(\$860)	(\$910)	(\$1060)
Natural Resources and Arts Funds				
Sales of Tangible Personal Property	\$0	(\$40)	(\$40)	(\$40)
Total—All Funds	\$0	(\$900)	(\$950)	(\$1,100)

The income tax credit is effective beginning with tax year 2022.
The sales and use tax exemption is effective for sales made after June 30, 2022.

EXPLANATION OF THE BILL

Current Law:

Credit for Taxes Paid to Another State

A Minnesota resident may claim a credit for income tax paid to another state or a Canadian province on income also taxed by Minnesota. The credit is generally limited to the amount of Minnesota tax on that income or the tax paid to the other state, whichever is less. For taxes paid to Wisconsin on personal service income, the credit is equal to the Wisconsin tax even if it is larger than the Minnesota tax and is refundable.

Sales of Tangible Personal Property

Under current administrative rules, the transfer of sales taxable property between a disregarded single member limited liability company (LLC) and the single member do not qualify for an exemption.

Proposed Law:

Credit for Taxes Paid to Another State

For purposes of the credit for taxes paid to another state, A Minnesota resident who is the sole member of a disregarded LLC would be considered to have paid any net income tax paid by the disregarded LLC to another state. Net income tax means any tax imposed on or measured by a disregarded LLC's net income.

EXPLANATION OF THE BILL (Cont.)

Sales of Tangible Personal Property

The bill creates a sales tax exemption for sales between the sole member of a disregarded LLC and the disregarded LLC.

REVENUE ANALYSIS DETAIL

Credit for Taxes Paid to Another State

- Department of Revenue records show that 145,000 single member limited liability companies were registered in 2021 and about 17% of those are disregarded entities.
- About 95% of disregarded entities are assumed to be owned by Minnesota residents or part-year residents.
- Most disregarded entities are expected to have 100% Minnesota sales. This estimate assumes that 10% of disregarded LLCs have out-of-state sales, and that for those, about 2.5% of sales are to states that directly tax disregarded entities.
- Based on the average credit for taxes paid to other states by sole proprietorships, the total credit for disregarded LLCs is estimated at about \$240,000.
- The estimate was reduced by 10% since the credit is nonrefundable.
- Annual growth is based on the number of SMLLCs registered each year.
- Tax year impacts were allocated to the following fiscal year.

Sales of Tangible Personal Property

- Department of Revenue records show that 145,000 single member limited liability companies were registered in 2021 and about 17% of those are disregarded entities.
- Department of Revenue records show that about 12,600 single member LLCs are formed each year.
- It was assumed that the number of new single member LLCs formed each year is constant.
- It is assumed that 7% of the LLCs would have taxable sales between the company and the member with an average value of \$5,000.

Number of Taxpayers: About 1,900 disregarded LLCs will qualify for the sales tax exemption. An unknown number will claim the credit for taxes paid to another state.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
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