

MN State Bar Association: HF3697 – Claim for Refund Modification

Federal alignment: HF3697 aligns Minnesota’s statute of limitations for tax refund claims with a key portion of the federal statute of limitations.

- **Current MN Statute of Limitations.** Taxpayers are precluded from requesting a refund of overpaid taxes unless they file the claim:
 - Within 3½ years from the date on which the relevant tax return was due; or
 - Within 1 year from the date of a tax order, appeals order, or a Commissioner-filed return, if the taxpayer pays the full amount of taxes, interest, and penalties due within that 1-year period.
- **Federal Statute of Limitations.** Taxpayers are precluded from filing a claim for refund of taxes unless they file the claim:
 - Within 3 years from the time the relevant tax return was filed; or
 - Within 2 years from the time tax is *paid*.
- **Proposed Change:** HF3697 would keep the 3½-year limitations period in the current Minnesota statute, but would discard the current 1-year limitations period and replace it with language aligned with federal law so that taxpayers would be allowed to file a refund claim within 2 years from the time a tax is *paid*.

Why is this bill necessary?

- **Confusion.** Taxpayers may be barred from receiving state refunds to which they are entitled because they mistakenly assume Minnesota has the same statute of limitations as the federal government.
- **Outlier.** Most other states have refund provisions similar to the proposal in this bill. Only a handful of states, including Minnesota, do not provide the right to file a refund claim within a specified period after full payment.
- **Fairness.** Taxpayers should be able to have overpaid taxes refunded within a specified period after those taxes were erroneously paid. This will help ensure that taxpayers pay the correct amount – no more and no less.

Example #1: In 2026, a taxpayer files late personal income tax returns for 2020 and 2024 and pays the taxes shown on the returns. The next day she realizes that she miscalculated the amount of tax due on her 2020 return and overpaid.

- Current Minnesota law would bar her from receiving a refund because more than 3½ years have passed since her 2020 tax return was due, and no tax order, appeals order, or Commissioner filed return has been issued.
- HF3697 would allow her to file a claim for refund within 2 years from the time she *paid* her 2020 taxes, just like she can with the IRS.

Example #2: An erroneous audit results in a tax order that assesses taxes in excess of the amount a taxpayer is legally required to pay. The taxpayer cannot afford to fully pay the assessed taxes within the 1-year period after the order was issued.

- Under current MN law, if the taxpayer does not pay the assessed amount in full within one year after the tax order was issued, the taxpayer loses the right to ever claim a refund *even if the taxpayer later paid the entire assessed amount and even if the assessment was entirely erroneous*.
- This bill would allow the taxpayer to claim a refund of any tax erroneously paid within two years after payment of the tax.