

Subject Partnership audits  
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## Overview

H.F. 1486 modifies Minnesota's reporting and payment requirements generated by federal audits and assessments in response to federal changes enacted in 2015. The federal changes provided for conducting audits at the partnership, rather than the partner, level.

By default, this bill would require a partnership to file an adjustment report and send the report to its partners, who would be required to pay additional tax. However, a partnership may also elect to pay the additional tax at the entity level.

H.F. 1486 also includes provisions related to the assessment of tax, interest, and penalties due by a taxpayer as a result of a federal audit, and refunds. Lastly, this bill updates a number of cross-references to correspond with the new sections.

## Article 1: Partnership tax; policy changes

Section	Description
1	<p><b>Definitions; partnerships; federal adjustments.</b></p> <p>Defines various terms relating to the reporting of federal adjustments, and federal adjustments to partnership returns that are used in sections 2 to 4.</p> <p><b>Effective date:</b> Final determinations of federal adjustments after June 30, 2019.</p>
2	<p><b>Reporting federal adjustments; general rule.</b></p> <p>Recodifies the general requirement that taxpayers report federal audit adjustments, and amended federal returns to Minnesota within 180 days. Partnerships having undergone entity level audits are exempt from this provision and are required to report adjustments to Minnesota under section 3.</p> <p><b>Effective date:</b> Final determinations of federal adjustments after June 30, 2019.</p>

Section	Description
3	<p data-bbox="354 275 1422 302"><b>Reporting and payment requirements (adjustments following a partnership level audit).</b></p> <p data-bbox="354 317 1422 380">Provides for the reporting of federal adjustments following a partnership level audit by the IRS.</p> <p data-bbox="354 422 1422 558">By default, each partnership will be required to file a federal adjustments report related to federal changes, and submit the report to both Minnesota and its direct partners within 90 days. Each partnership reporting changes must also file amended composite and withholding reports for partners.</p> <p data-bbox="354 600 1422 695">Each direct partner, other than tiered partners, receiving an adjustment report as described above is also required to make a federal adjustment report and pay any additional tax due within 180 days of the final determination date.</p> <p data-bbox="354 737 1422 905">Each partnership, including a tiered partnership, reporting federal adjustments after a partnership level audit is also eligible to make an election to pay the additional tax due to Minnesota at the entity level. A partnership making the election is required to do so on a federal adjustment report filed with the commissioner within 90 days of the final determination date.</p> <p data-bbox="354 947 1422 1083">A partnership making the election must be able to determine and report the residency status of all direct and indirect partners, and pay tax on the properly allocated and apportioned share of all income at the highest marginal rate for its individual and corporate partners.</p> <p data-bbox="354 1125 1422 1220">The commissioner may also enter into an agreement with a partnership to provide for an alternative payment and reporting method and may adopt rules to establish a de minimis exception to the proposed reporting and payment rules in sections 2 and 3 of the bill.</p> <p data-bbox="354 1251 1422 1283"><b>Effective date:</b> Final determinations of federal adjustments after June 30, 2019.</p>
4	<p data-bbox="354 1335 1422 1362"><b>Assessment of tax, interest, penalties, and additional amounts (statute of limitations).</b></p> <p data-bbox="354 1377 1422 1482">Provides that when a taxpayer reports federal adjustments under sections 2 and 3, the commissioner may only impose additional tax, interest, and penalties that are related to the federal adjustments.</p> <p data-bbox="354 1524 1422 1692">For a taxpayer who files a federal adjustment report as required in section 2 or 3, the statute of limitations on assessments is the later of the general rule (generally, 3-½ years from the date the return is filed) or one year from the date the adjustment report is filed with the commissioner. For taxpayers who do not file a federal adjustment report, the statute of limitations is extended to six years from the final determination date.</p> <p data-bbox="354 1734 1422 1829">This section also requires the commissioner to prescribe a process for making estimated payments of underpayment of tax prior to a final determination, which stops the accrual of interest on the amount ultimately determined to be due.</p> <p data-bbox="354 1871 1422 1894"><b>Effective date:</b> Final determinations of federal adjustments after June 30, 2019.</p>

Section	Description
5	<p><b>Statute of limitations on refund claims.</b></p> <p>Provides that the statute of limitations on refund claims related to adjustments made by the IRS is equal to the extended period for additional assessments under section 4.</p> <p><b>Effective date:</b> Final determinations of federal adjustments after June 30, 2019.</p>
6	<p><b>Consent to extend refunds.</b></p> <p>Makes changes to correct cross references and generally comport with the changes in other sections.</p> <p>This section also allows for an automatic 60 day extension for audited partnerships with 10,000 or more direct partners.</p> <p>In addition, this section eliminates the authority to make assessments for an additional six-month period when no federal changes are made.</p> <p><b>Effective date:</b> Final determinations of federal adjustments after June 30, 2019.</p>
7	<p><b>Repealer.</b></p> <p>Repeals section 289A.38, subdivisions 7, 8, and 9, which are replaced by sections 2 through 4.</p> <p><b>Effective date:</b> Final determinations of federal adjustments after June 30, 2019.</p>

## Article 2: Partnership tax; technical changes

Section	Description
1	<p><b>Enforcement; administrative order; penalties; cease and desist.</b></p> <p>Updates a cross-reference.</p>
2	<p><b>Individual income, fiduciary income, mining company, corporate franchise, and entertainment taxes.</b></p> <p>Updates a cross-reference.</p>
3	<p><b>Erroneous refunds.</b></p> <p>Updates a cross-reference.</p>
4	<p><b>Incorrect determination of federally adjusted gross income.</b></p> <p>Updates a cross-reference.</p>

Section	Description
5	<b>Penalty for failure to notify of federal change.</b> Updates a cross-reference.
6	<b>Partners, not partnership, subject to tax.</b> Updates a cross-reference.
7	<b>Time limit for bad debt refund.</b> Updates a cross-reference.
8	<b>Time limit for a bad debt deduction.</b> Updates a cross-reference.
9	<b>JOBZ repayment procedures.</b> Updates a cross-reference.



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