

**Subject** Pass-through entity tax

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## Overview

H.F. 2256 would modify the state's pass-through entity tax (PTE tax) by requiring 100 percent of a resident pass-through owner's income to be used in the calculation of the tax and allowing tiered pass-through entities to elect to file and pay the tax. (The PTE tax allows pass-through business owners to avoid the federal limit for the deduction of state and local taxes by allowing the full amount of the PTE tax paid in Minnesota as an entity-level federal deduction rather than an itemized deduction that is subject to the limit.)

This bill would also clarify and modify certain provisions related to LLCs, including single-member LLCs treated as disregarded entities.

In addition, H.F. 2256 would clarify and modify the election requirements, remove the requirement that a qualifying owner be subject to the federal state and local tax (SALT) deduction cap, and sunset the tax when the SALT deduction cap expires.

## Summary

Section	Description
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<b>1</b>	<b>Pass-through entity tax.</b>
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Except for a resident shareholder of an S corporation, requires that the tax be calculated using the entire amount of a resident owner's income instead of the resident owner's share of income apportioned to Minnesota under the apportionment rules.

Clarifies that an LLC is a qualifying entity only if it is taxed as a partnership or S corporation and that a publicly traded partnership is not a qualifying entity.

Section	Description
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Clarifies that a qualifying entity must have at least one qualifying owner and allows a disregarded entity (a single-member LLC not taxed as a partnership or corporation) to be a qualifying owner.

Allows tiered pass-through entities to elect to file and pay the PTE tax. A tiered pass-through entity is a pass-through that has an owner that is another pass-through entity or corporation.

For purposes of the election requirement, requires the exclusion of any owner of a pass-through entity that is not a qualifying owner and clarifies that the election must be made by the owners who collectively hold a majority of the total ownership interests of qualifying owners.

Removes the requirement that the election may only be made if a qualifying owner's SALT deduction is limited federally and sunsets the PTE tax when the federal SALT deduction cap expires.

Effective date: retroactive to tax years in 2022.

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

Requires a partnership subject to a federal partnership-level audit to report adjustments and file a new PTE tax return to account for the changes.

Effective date: retroactive to tax years in 2022.



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