TaxNewsFlash

United States

No. 2023-187
May 25, 2023

Minnesota: Omnibus tax package with revenue raisers enacted

Governor Tim Walz on May 24, 2023, signed House File 1938, a comprehensive Minnesota tax package, into law.

The bill enacts numerous tax changes, including individual income tax relief for low to middle income individuals, revisions to the state's credits and incentives, and changes to the elective passthrough entity tax. The bill also updates the state's conformity to the Internal Revenue Code (IRC) to adopt the Code as of May 1, 2023, and includes certain revenues raisers. Key changes are discussed below.

Taxation of global intangible low-taxed income (GILTI)

Under prior law, 100% of the gross GILTI amount was excluded in computing Minnesota taxable income. Effective for tax years beginning after December 31, 2022, GILTI included in taxable income under IRC section 951A is treated as dividend income eligible for the dividends received deduction. No IRC section 250 deduction is allowed.

Reduced dividends received deduction (DRD)

Previously, an 80% DRD was allowed for dividends received by a corporation from another corporation in which the recipient owned 20% or more of the stock by vote and value. Effective for tax years beginning after December 31, 2022, that deduction is reduced to 50% for dividends received from a 20% or more-owned corporation. The deduction is further reduced to 40% (from 70%) for dividends received from a corporation when less than 20% of the stock is owned.

Net operating loss (NOL) limitations

Previously, the Minnesota NOL deduction could not exceed 80% of taxable net income in a single taxable year. Effective for tax years beginning after December 31, 2022, NOL carryovers in a given year cannot exceed 70% of taxable income.

Passthrough entity tax (PTET) changes

Under current law, a PTET election may be made by a qualifying entity to file and pay taxes at the entity level. A qualifying entity included passthrough entities such as partnerships or S corporations but excluded a passthrough entity if it had even one owner that was a corporation, partnership, or limited liability company other than a disregarded entity. Each partner or shareholder can claim a refundable credit for their share of the taxes paid by the qualifying entity.

Minnesota House File 1938 adjusts the definition of a qualifying entity to expand the eligibility for electing PTET to passthrough entities that have an entity, such as a corporation or partnership, as an owner. The updated definition of qualifying entity requires the entity to have at least one qualifying owner. The definition of qualifying owner continues to include a resident or nonresident individual or estate that was a partner, member, or shareholder of the qualifying entity, or a resident or nonresident trust that was a shareholder of a qualifying S corporation. In addition, the definition of qualifying owner includes a disregarded entity that has a qualifying owner as its single owner. In computing the amount of PTET, a qualifying entity must exclude the income of partners, members, shareholders, or other owners that are not qualifying owners. The general impact of these changes is that a passthrough entity is able to elect PTET even if it has an entity owner but the passthrough entity would exclude the income of the entity owners from its computation of PTET due.

House File 1938 provides that, in computing the PTET base, all of the income of a resident individual partner in a partnership (or limited liability company treated as a partnership) is subject to tax in Minnesota. Nonresident owners of partnerships and both resident and nonresident shareholders would continue to include only income allocated to Minnesota in the PTET base.

The bill also provides a credit for pass-through entity tax paid to another state, which is allowed against PTET for the pass-through entity and may only be claimed as a credit by a qualifying owner.

These PTET changes are effective for taxable years beginning after December 31, 2022.

New net investment income tax

Minnesota House File 1938 creates an additional tax on individuals, estates, and trusts at a 1% rate on their net investment income exceeding $1,000,000. Net investment income is defined the same for Minnesota purposes as this term is defined by IRC section 1411(c), adjusted to exclude net gain attributable to certain agricultural property. The Minnesota net investment income tax base for a nonresident or part-year resident individual, estate or trust is computed by applying a ratio of net investment income sourced to Minnesota divided by the total net investment income. The Minnesota net investment income tax is effective for taxable years beginning after December 31, 2023.

Credit for taxes paid to another state

Another provision in the bill relates to the credit for taxes paid to another state and is effective for taxable years beginning after December 31, 2022. The bill provides that a resident who is a sole member of a disregarded limited liability company (LLC) is considered to have paid the net income taxes that were imposed by other states on the disregarded LLC.

For more information, contact a KPMG State and Local Tax professional:

Caroline Balfour | cbalfour@kpmg.com

Dale Busacker | dbusacker@kpmg.com

John O’Mahoney | johnomahoney@kpmg.com

Miriam Sahouani | msahouani@kpmg.com

kpmg.com/socialmedia

Direct comments, including requests for subscriptions, to Washington National Tax. For more information, contact KPMG's Federal Tax Legislative and Regulatory Services Group at + 1 202.533.3712, 1801 K Street NW, Washington, DC 20006-1301.

To unsubscribe from TaxNewsFlash-United States, reply to Washington National Tax.

Privacy | Legal

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.