

## **S.F. No. 2169 – Partnership audits (as proposed to be amended by the A-1 amendment)**

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This bill modifies Minnesota’s reporting and payment requirements generated by federal audits and assessments in response to federal changes enacted in 2015, which provided for conducting audits at the partnership level, rather than at the partner level. The bill requires state reporting of federal adjustments from a partnership-level audit and allows assessments to be paid at the entity level.

**Section 1. Enforcement, administrative order; penalties; cease and desist.** Adds a cross reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 2. Individual income, fiduciary income, mining company; corporate franchise, and entertainment taxes.** Adds a cross reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 3. Erroneous refunds.** Adds a cross reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 4. Federal tax changes.** Adds a cross reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 5. Failure to report change or correction of federal return.** Adds a cross reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 6. Report made of change or correction of federal return.** Adds a cross reference to the changes made in section 9. Allows taxpayers to make estimated payments due to a pending IRS audit. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 7. Incorrect determination of federal adjusted gross income.** Adds a cross reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 8. Definitions; partnerships; federal adjustments.** Provides definitions applicable to reporting of federal adjustments and to federal adjustment of a partnership return. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 9. Reporting and payment requirements.**

**Subd. 1. State partnership representative.** Provides that a state representative of the partnership has sole authority to act on the partnership's behalf, and that the state representative is the federal representative unless the partnership formally designates another representative.

**Subd. 2. Reporting and payment requirements for partnerships and tiered partners.** Requires partnerships reporting adjustments to file a federal adjustments report related to federal changes and submit the report to both Minnesota and its direct partners within 90 days of the final determination date. Each partnership reporting changes must also file amended composite and withholding reports for nonresident partners within 180 days. Within 180 days of the final determination date of a federal audit adjustment, direct partners other than tiered partners must file a federal adjustments report of their distributive share of federal adjustments and pay any additional tax due including penalties and interest but excluding withholdings or overpayments.

**Subd. 3. Election; partnership or tiered partners pay.** Allows audited partnerships the election to pay tax at the entity level. Partnerships making this election are required to do so on a federal adjustments report filed with the commissioner within 90 days of the final determination date. Within 180 days after the final determination date, a partnership making the election must be able to determine and report the residency status of all direct partners and pay tax on the properly allocated and apportioned share of all income at the highest marginal rate for its individual and corporate direct and tiered partners.

**Subd. 4. Tiered partners and indirect partners.** Requires that direct and indirect tiered partners of an audited partnership are subject to the reporting and payment requirements in this section and may also elect to pay their tax at the entity level.

**Subd. 5. Effects of election by partnership or tiered partner and payment of amount due.** Requires that the election under subdivision 3 is irrevocable unless otherwise determined by the commissioner. Allows properly reported and paid taxes determined under subdivision 3 to be treated as paid in lieu of taxes owed by direct and indirect partners on the same final federal adjustments, if applicable.

**Subd. 6. Failure of partnership or tiered partner to report or pay.** Allows the commissioner to assess direct or indirect partners for taxes owed if a partnership or tiered partner fails to timely report or pay as required.

Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 10. Consent to extend statute.** Adds a cross reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 11. Penalty for failure to notify of federal change.** Adds a cross reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 12. Partners, not partnership, subject to tax.** Adds a cross reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 13. Time limit for bad debt refund.** Adds a cross reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 14. Time limit for bad debt deduction.** Adds a cross reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.

**Section 15. Repayment procedures.** Adds a cross reference to the changes made in section 9. Effective retroactively to tax year 2018 or earlier tax periods, if applicable.