

## Pass-Through Entity (PTE) Tax

The Pass-Through Entity (PTE) Tax allows an entity to pay a tax on behalf of their partners, members, or shareholders.

### Electing PTE

Qualified entities may elect to pay PTE tax if owners who collectively control more than 50% of the entity decide to do so, and the entity meets all other election requirements. Once made, the election is binding on all owners and cannot be revoked after the original due date.

PTE tax is calculated by multiplying the entity's Minnesota source income by the highest Minnesota individual income tax rate, which is currently 9.85%.

The PTE tax election is available for an entity's tax years beginning after December 31, 2020.

### Qualifying Entities

These entities qualify to make the PTE election if no partner, member, or shareholder is a partnership, limited liability company (LLC), or corporation, other than a disregarded entity:

- Partnerships
- S corporations
- LLCs taxed as an S corporation or partnership

Single-member LLCs not taxed as a partnership or S corporation are not eligible to make the PTE tax election.

One or more owners of the entity must be subject to the federal SALT deduction limit. Because that limit may cause the owner's federal itemized deductions to be below the federal standard deduction for their filing status, they do not need to file federal Schedule A, Itemized Deductions, to be affected by the limit.

An entity is not eligible to make the PTE tax election if one or more owners is not a qualified owner at any time during the entity's tax year.

### Qualifying Owners

A qualifying owner must be either:

- A resident or nonresident individual or estate that is a partner, member, or shareholder of a qualifying entity
- A resident or nonresident trust that is a shareholder of a qualifying entity that is an S corporation

A grantor trust is a qualifying owner for the purposes of the PTE tax election if it is both:

- A disregarded entity
- Owned by an individual who is a U.S. citizen

### How to Elect PTE

#### For Partnerships and S corporations

You must complete Schedule PTE, Pass-Through Entity Tax, if you are a partnership or S corporation that is electing to pay income tax at the entity level on behalf of your owners.

You must make the election by the due date or extended due date of the entity's income tax return. The PTE tax election cannot be revoked once made.

**Note:** For the purposes of the PTE election, the terms "partnership" and "S corporation" include LLCs taxed as a partnership or S corporation, and "partner" and "shareholder" refer to a member if the entity is an LLC.

#### For Resident Partners and Shareholders

Partners and shareholders who are Minnesota residents at any time during the tax year must file Form M1, Individual Income Tax, or Form M2, Income Tax Return for Estates and Trusts, if they are required to file a federal income tax return.

### **For Nonresident Partners and Shareholders**

Partners and shareholders who are not Minnesota residents at any time during the tax year may have the entity level tax fulfill their Minnesota income tax filing requirement.

To qualify, the nonresident partner or shareholder must not have Minnesota source income other than from:

- Entities that file Schedule PTE
- Entities for which the partner or shareholder elects to be included in the entity's composite income tax return.

Use our [forms search](#) to find forms or schedules.

### **Estimated Tax Payments and Additional Tax Charge (ATC)**

PTE estimated tax payments are made in our e-Services system using the same method as estimated tax payments for nonresident withholding, composite income tax, and other entity level income taxes.

To calculate the entity's estimated PTE tax liability, complete Schedule PTE, Pass-Through Entity Tax, for the most recent tax year available.

Learn more about estimated tax payments for [partnerships](#) or [S corporations](#).

ATC does not apply if the entity's payments during the year are equal to or greater than the lesser of either:

- 90% of the entity's current year's original tax liability reduced by certain credits
- 100% of the entity's prior year's total Minnesota tax liability

PTE estimated tax payments must be in four equal installments and made by the applicable due date. If Form EST results in ATC and you believe you have reasonable cause for the underpayment, you may [request abatement](#) of the ATC.

**Note:** You cannot transfer estimated payments made to your individual tax account to your pass-through entity's business tax account.

Use our [forms search](#) to find forms or schedules.

### **PTE Tax Credit**

Partners and shareholders may claim a refundable credit equal to the PTE tax paid by the entity on their behalf. These credits are reported on Schedule M1REF, Refundable Credits, or Form M2, Income Tax Return for Estates and Trusts.

Use our [forms search](#) to find forms or schedules.

### **Resources**

- [PTE Example](#)
- [Frequently Asked Questions](#)