

## 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. The PTE tax election is available for entity's tax years beginning after December 31, 2020, and before December 31, 2025.

### For Tax Year 2023 and After

#### Qualifying Entities

Only these entities qualify to make the PTE election:

- Partnerships
- S corporations
- Limited liability companies (LLCs) taxed as an S corporation or partnership

Qualified entities may elect to pay PTE tax if their qualifying owners who, as a group, control more than 50% of the portion of the entity owned by qualifying owners choose to elect it. Ownership is determined by the owner's capital account percentage unless the entity's agreement specifies how ownership is calculated.

Once made, the election cannot be revoked after the original due date.

#### 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 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

A non-grantor trust is not a qualifying owner of a partnership. A qualifying owner cannot be a partnership, LLC, or corporation. A qualifying owner can be a disregarded entity that has a qualifying owner as its single owner.

Only qualifying owners can make the election, which is binding on all qualifying owners.

#### Federal State and Local Tax (SALT) Deduction Limit

For S corporations, PTE taxable income is the entity's Minnesota source income.

For partnerships, PTE taxable income is the sum of the entity's:

- Minnesota source income for nonresident partners
- Total distributive income of Minnesota resident partners

### For Tax Years 2021 and 2022

#### Qualifying Entities

Only these entities qualify to make the PTE election:

- Partnerships
- S corporations
- Limited liability companies (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.

Qualified entities may elect to pay PTE tax if their owners who, as a group, control more than 50% of the entity choose to elect it. Ownership is determined by the owner's capital account percentage unless the entity's agreement specifies how ownership is calculated.

Once made, the election cannot be revoked after the original due date.

## 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 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

A non-grantor trust is not a qualifying owner of a partnership. A qualifying owner cannot be a partnership, LLC, or corporation, other than a disregarded entity.

The election is binding on all owners.

## Federal State and Local Tax (SALT) Deduction Limit

One or more owners 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.

## PTE Taxable Income

PTE taxable income is the entity's Minnesota source income.

## Resources

[PTE Example](#)

### How to Elect PTE

### For Partnerships and S corporations

Partnerships and S corporations must complete Schedule PTE, Pass-Through Entity Tax, if they elect to pay income tax at the entity level on behalf of their owners.

Starting in tax year 2023, partnerships must also complete Schedule PTE-RP, Pass-Through Entity Tax for Resident Partners, if any partners are Minnesota residents.

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

You must make the election by the due date or extended due date of the entity's income tax return. The election may be made on an amended return filed on or before the extended due date for the entity's return.

If the original due date has not passed, you may file another return to revoke the election. The election cannot be revoked after the original due date.

**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 elect to have the PTE tax fulfill their Minnesota income tax filing requirement.

Owners who receive a share of gross profit or income from an installment sale reported to them by a partnership or S corporation are not eligible to have the PTE tax satisfy their filing requirement.

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

- Entities that file Schedule PTE and the partner or shareholder elected to have the PTE tax fulfill their filing requirement
- 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

### Estimated Tax Payments

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.

PTE estimated tax payments must be in four equal installments and made by the applicable due date.

**Note:** You cannot transfer estimated payments made to your individual tax account to your pass-through entity's business tax account. The entity is not required to make the election even when they have made estimated tax payments for PTE tax.

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

### Additional Tax Charge

Additional tax charge (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

If Form EST, Additional Charge for Underpayment of Estimated Tax, results in ATC and you believe you have reasonable cause for the underpayment, you may [request abatement](#) of the ATC.

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.