

2016 Minnesota Income Tax for Estates and Trusts (Fiduciary) Form M2 Instructions

What's New for 2016

Federal Changes Not Adopted by

Update as of January 2017

A bill signed into law on January 13, 2017, conforms Minnesota law to federal law when determining federal taxable income for tax year 2016. As a result, taxpayers are no longer required to recompute Minnesota taxable income for Minnesota tax purposes.

Continue to check our website for further updates.

Questions?

You can find forms and information, including answers to frequently asked questions and options for filing and paying electronically, on our website at:

www.revenue.state.mn.us

Send us an e-mail at:

businessincome.tax@state.mn.us

Call us at 651-556-3075

Need Forms?

Go to www.revenue.state.mn.us.

We'll provide information in another format upon request to persons with disabilities.

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Filing Requirements

An estate or trust - regardless if it is considered a resident - must file Form M2 when:

1. There is \$600 or more of gross income allocable to Minnesota; or
2. There is a nonresident alien as a beneficiary.

[M.S. 289A.08.subd. 2]

Income allocable to Minnesota includes:

- Income earned from a resident trust or estate;
- Income earned from Minnesota real or tangible property of a nonresident trust or estate; or
- Business income apportioned to Minnesota from a nonresident trust or estate.

[M.S. 290.17]

When required, the trustee of a trust or the personal representative of an estate is responsible for filing the Minnesota Form M2, *Income Tax Return for Estates and Trusts (Fiduciaries)* and for paying the tax.

Bankruptcy estates. If the fiduciary of a bankruptcy estate of a Minnesota resident filed a federal return, a Minnesota return must also be filed. Use Form M1, *Individual Income Tax Return*, to determine the Minnesota tax and attach it to Form M2. File it in the same way you file federal returns.

Resident estates. An estate is considered a Minnesota estate if:

- the decedent was a resident of Minnesota at the time of death, or
- the personal representative or fiduciary was appointed by a Minnesota court—or the court administration was performed in Minnesota—in other than an ancillary proceeding.

File the first Form M2 covering the period from the date of the decedent's death to the end of the tax year. Be sure to check the box to indicate it is the fiduciary's initial return.

File subsequent returns for later years until the end of the estate's administration period.

Resident trusts. The definition of a resident trust differs depending on the date—before or after December 31, 1995—the trust becomes irrevocable or is first administered in Minnesota.

For trusts that became irrevocable or were first administered in Minnesota after December 31, 1995: A resident trust means a trust, except a grantor type trust, that either:

1. was created by a will of a decedent who at his or her death was a Minnesota resident, or
2. is an irrevocable trust, and at the time the trust became irrevocable, the grantor was a Minnesota resident. A trust is considered irrevocable if the grantor is not treated as the owner as defined in sections 671 to 678 of the IRC.

For trusts that became irrevocable or were first administered in Minnesota before January 1, 1996: A resident trust means any trust administered in Minnesota.

To be considered a resident trust administered in Minnesota, you must meet two of the following three criteria:

- A majority of the discretionary investment decisions are made in Minnesota,
- The majority of discretionary distribution decisions are made in Minnesota, and
- The trust's official books and records are kept in Minnesota.

[M.S. 290.01, subd. 7b]

Before You File Complete a Federal Return

Before you complete Form M2, complete federal Form 1041, *U.S. Income Tax Return for Estates and Trusts*, and supporting schedules. You will need to reference them.

Complete federal Form:

If you are a:

Charitable remainder (*enter zero on Form M2, lines 1 and 9*) 1041A
or charitable lead trust or 5227

Designated or qualified settlement fund (under IRC section 468B) 1120-SF

Qualified funeral trust 1041-QFT
Electing small business trust (ESBT) .. 1041

Minnesota Tax ID Number

Your Minnesota tax ID is the seven-digit number you're assigned when you register with the department. It's important to include your Minnesota tax ID on your return so that any payments you make are properly credited to your account.

If you don't have a Minnesota tax ID, you must apply for one. Go to www.revenue.state.mn.us and type **Business Registration** on the search box or call 651-282-5225 or 1-800-657-3605.

General Information (continued)

Due Dates and Extensions

Due Date for Filing and Paying is April 18, 2017

The regular due date for filing Form M2 and paying the tax due is April 18, 2017. If you file your return according to a fiscal year, your return and payment are due the 15th day of the fourth month following the end of the tax year.

Short-year returns are due by the 15th day of the fourth month following the month in which the short year ends. **Example:** If the fiscal year end is May 31, the due date would be September 15.

Extension of Time to File

All estates and trusts are granted an automatic six-month extension to file Form M2, if the tax is paid in full by the regular due date. **If the tax is not paid by the regular due date, the extension of time to file is invalid.**

This is a filing extension only. To avoid penalties, you must make an extension tax payment by the regular due date. See *Extension payment* in the next section for details.

Payments

There are four types of fiduciary income tax payments—extension payments, estimated tax payments, tax return payments, and amended return payments. (See Payment options above.)

Note: If you are currently paying electronically using the ACH credit method, continue to call your bank as usual. If you wish to make payments using the ACH credit method, instructions are available at www.revenue.state.mn.us.

Extension Payment

Your tax is due by the regular due date, even if you're filing under an extension. Any tax not paid by the regular due date is subject to penalties and interest (see lines 17 and 18 instructions on pages 5 and 6).

If you're filing after the regular due date, you can avoid penalty and interest by making an extension payment for the full amount of the tax owed by the regular due date. For information about payment options see *Payment options* above. **If you administer 100 or more trusts, you are required to pay all fiduciary income taxes electronically.** [M.S. 289A.20, subd. 1c]

Payment Options

If you administer 100 or more trusts, you are required to pay all the fiduciary income taxes electronically. A 5 percent penalty will be assessed if you fail to do so when required.

■ Pay electronically using e-Services

- To pay over the Internet—go to www.revenue.state.mn.us, and click on “Login to e-Services,” or
- To pay by phone—call **1-800-570-3329**.

Both options are free and there's no need to preregister. If you're using the system for the first time and need a temporary password, call 651-282-5225 or 1-800-657-3605.

To be timely, you must complete your transaction and receive a confirmation number on or before the due date for that payment.

■ Pay by credit or debit card

For a fee, you can use your credit or debit card to make a payment through Value Payment Systems, a national company that partners with federal, state and local governments to provide credit and debit card payment services.

To do so:

- Go to payMNTax.com; or
- Call 1-855-9-IPAY-MN.

The Department of Revenue does not have any financial agreement with Value Payment Systems and does not receive any of its fees.

■ Pay by check

- Go to our website at www.revenue.state.mn.us and click on **Make a Payment**.
- Click **By Check** to create and print a payment voucher. Write your check to Minnesota Revenue and mail together to the address on the voucher.

Your check authorizes us to make a one-time electronic fund transfer from your account. You may not receive your cancelled check.

Forms are available from our website at www.revenue.state.mn.us.

Estimated Payments

Minnesota may require an estate to make estimated tax payments.

A trust must make quarterly estimated tax payments if it has either:

- an estimated tax of \$500 or more, or
- any nonresident beneficiary's share of estimated composite income tax of \$500 or more.

Payments are due by the 15th day of the fourth, sixth, and ninth months of the tax year and the first month following the end of the tax year. If estimated tax is required for both the estimated tax and the composite income tax, include both on the same quarterly payment. [M.S. 289A.25]

To make an estimated tax payment, see *Payment options* above. If you're paying by check, send a completed payment voucher with your payment. For additional information, see *Fiduciary Estimated Tax instructions*.

Tax Return Payment

If there is an amount due on line 20 of Form M2, you must make a tax return payment (see *Payment options* above). If you're paying by check, you must send a completed payment voucher with your payment.

Penalties and Interest

Late payment. A late payment penalty is assessed on any tax not paid by the regular due date. The penalty is 6 percent of the unpaid tax.

If you file your return after the regular due date with a balance due, an additional 5 percent penalty will be assessed on the unpaid tax. [M.S. 289A.60, subd. 1]

Late filing. There is also a penalty if you file after the extended due date and owe tax. The late filing penalty is 5 percent of any tax not paid by the extended due date. [M.S. 289A.60, subd. 2]

Interest. You must also pay interest on the penalty and tax you are sending in late. The interest rate for 2016 is 3 percent. [M.S. 270C.40]

General Information (continued)

Other penalties. There are also civil and criminal penalties for intentionally failing to file a Minnesota return, evading tax and for filing a false, fraudulent or frivolous return. [M.S. 289A.60 and 289A.63]

Reporting Federal Changes

If the Internal Revenue Service (IRS) changes or audits your federal return and it affects your Minnesota return or distributions to beneficiaries, you must file a Form M2X, *Amended Income Tax Return for Estates and Trusts*, with the department within 180 days after you were notified by the IRS.

To file an amended return, use Form M2X. Enclose a copy of the IRS report or your amended federal return with your amended Minnesota return.

If the changes do not affect your Minnesota return or Schedules K-1, you have 180 days to send a letter of explanation to the department. Send your letter and a complete copy of your amended federal return or the correction notice to: Minnesota Fiduciary Income Tax, Mail Station 5140, St. Paul, MN 55146-5140.

If you fail to report as required, a 10 percent penalty will be assessed on any additional tax. [M.S. 289A.60, subd. 24]

Filing Reminders

Composite Income Tax

Minnesota allows estates and trusts to file composite Minnesota income tax on behalf of their beneficiaries who are nonresident individuals and who elect to be included. As a result, the electing beneficiary is not required to file Form M1, *Minnesota Individual Income Tax Return*.

The electing individuals must not have any Minnesota source income other than the income from this trust or estate and other entities electing composite filing.

If you are paying composite income tax for your electing beneficiaries, check the box for composite income tax on the front of Form M2 and see the line 13 instructions on page 5.

Request for Early Audit

You may request an early audit of the return of a decedent, estate, terminating trust, or other fiduciary entity on Form M22, *Request for Early Audit of Minnesota Income Tax Return*. Filing Form M22 reduces the time limit the department has to assess any additional taxes from 3½ years after you file an income tax return to 18 months.

Use of Information

Your Minnesota tax ID number is public information. All other information on this form is private, and cannot be given to others except as provided by state law. The identity and income information of the beneficiaries are required under state law so the department can determine the beneficiary's correct Minnesota taxable income and verify if the beneficiary has filed a return and paid the tax. The Social Security numbers of the beneficiaries are required under M.S. 289A.12, subd. 13.

When Filing a Paper Return

How to Assemble

Arrange your Minnesota schedules in the order they were completed and place them behind your Form M2. Then place your federal return and its schedules behind the Minnesota material.

Where to Send

Mail your completed Minnesota and federal forms and schedules, using the mailing label below. Cut on the dotted line and tape to your envelope.

Or mail your forms to:

 MINNESOTA • REVENUE Fiduciary Income Tax St. Paul, Minnesota 55145-1310
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Minnesota Revenue
Fiduciary Income Tax
Mail Station 1310
St. Paul, MN 55145-1310.

Form M2

Before you complete Form M2, you must first complete Federal Form 1041 and supporting schedules.

Tax Year

If you are filing on a fiscal year basis, be sure to enter the beginning and ending dates. Without the dates, your filing and payments may not be considered timely.

Minnesota Tax ID Number

Be sure to put your Minnesota tax ID number on Form M2. Without it, processing of the return is delayed, and your estimated tax and extension prepayments cannot be verified and credited properly.

Check Boxes

Place an X in all boxes that apply to the return that you are filing.

Final return. For income tax purposes, Minnesota follows federal law on termination of estates and trusts. All income, deductions and credits are passed through to the beneficiaries. If this is your final return, check the box on the front of Form M2.

Initial return. If this is the fiduciary's first return filed in Minnesota, check the box on the front of the form.

Bankruptcy estate. A separate and distinct taxable entity created when an individual debtor files for bankruptcy under Chapter 7 or 11 of Title 11 of the United States Code. If bankruptcy estate is checked, enter the Bankruptcy debtor's SSN in the Bankruptcy debtor SSN box and, if filing jointly, enter the second debtor's SSN in the corresponding box).

Composite income tax. If you are paying composite income tax for your electing nonresident beneficiaries, check the box on the front of Form M2 and see the instructions for line 13 on page 5.

ESBT (Electing Small Business Trust). A non-grantor trust that has income from one or more S corporations. The portion of an ESBT that consists of stock of one or more S corporations is treated as a separate trust.

Irrevocable Trust. A trust is considered irrevocable if the grantor no longer has control over the trust assets and administration. Enter the date the trust became irrevocable.

Grantor Trust. A trust is a grantor trust if the grantor retains certain powers or ownership benefits.

QSST. Check the box if a Qualified Subchapter S Trust.

Section 645 Election. Allows a qualified revocable trust to be treated and taxed as part of the related estate during the election period. If the election is made for federal income tax purposes, it also applies for Minnesota. Enclose a copy of federal Form 8855 or letter making the election.

Nonresident. Check the Nonresident box if a nonresident trust/estate. Refer to the definitions of a resident trust/estate on page 1 of the Form M2 instructions to determine whether your trust/estate qualifies.

Owns or Operates Business. Check the box if the trust/estate owns or operates a business through the trust/estate. Provide the Federal Identification Number (FEIN) of the business in the box provided. If the trust/estate owns or operates more than one business, provide a list of all FEINs of the businesses in an attachment.

Form M706 Filed. Check the box if the decedent's estate or grantor's trust had a M706 estate tax return filed and enter the gross value of the estate on the line provided.

Line Instructions

Trust and estate income is based on income from Minnesota sources only. Therefore, any non-Minnesota losses that are allocated to the fiduciary must be added back to federal taxable income, and non-Minnesota income and gains must be subtracted from federal taxable income.

Income allocable to Minnesota includes:

- *Income earned from a resident trust or estate;*
- *Income earned from Minnesota real or tangible property of a nonresident trust or estate; or*
- *Business income apportioned to Minnesota from a nonresident trust or estate.*

Round amounts to whole dollars. Drop amounts less than 50 cents and increase amounts 50 cents or more to the next higher dollar.

Line 2

Deductions and Losses not Allowed

Direct expenses should be allocated to the income to which it is associated. Indirect expenses should be allocated to each class of income in the proportion that each class of

income bears to the total income. Only those expenses that relate to the non-Minnesota income should be added back on line 2 of Form M2.

Deductions not allowed by Minnesota.

Interest and other expenses deducted on your federal return which relate to income or gains from non-Minnesota sources must be added to your taxable income.

Include administration fees and expenses, interest, taxes, depletion and other deductions (including the charitable deduction) that are connected with or allowed against income or gains not taxed by Minnesota. An example of this would be expenses incurred in connection with a probate proceeding in another state. [M.S. 290.17, subd. 1(b)].

Losses not allowed by Minnesota. Include your total losses from non-Minnesota sources to the extent the losses are deducted in determining your federal taxable income or loss.

Common examples of losses to include on line 2 are:

- losses deducted on the sale or other disposition of real or tangible property outside Minnesota,
- casualty losses deducted on property outside Minnesota,
- losses deducted on the operation of a farm outside Minnesota,
- out-of-state losses from partnerships, S corporations and other fiduciaries,
- losses deducted on the operation of a trade or business from sources outside Minnesota, and
- losses deducted on the sale or other disposition of stocks, bonds, securities and other intangible property by nonresident estates and trusts.

Line 3

Capital Gain of Lump Sum Distribution

If you received a qualifying lump-sum distribution in 2016 and chose the capital gain election on federal Form 4972, enter the capital gain from line 6 of federal Form 4972. Include a copy of federal Form 4972 when you file Form M2.

Lines 4 and 6

Additions and Subtractions

Read the instructions under *Allocation of adjustments* on page 9.

Line 7

Income from Non-Minnesota Sources

Enter the total income from sources outside Minnesota to the extent the amounts are

M2, Lines 10–17

included in your federal taxable income. Do not include, however, any income or gains that are being distributed to the beneficiary.

Examples of income not subject to Minnesota tax include:

- gains from the sale or other disposition of real or tangible property outside Minnesota,
- income or gains from the operation of a farm outside Minnesota,
- profit from a trade or business outside Minnesota (enter the name and location of the trade or business under line 7),
- out-of-state income from partnerships, S corporations and other fiduciaries (enter the name and location of the partnership or other fiduciary under line 7),
- rents and royalties from land, buildings, machinery or other tangible property outside Minnesota (enter the name and location of the property producing the rents and royalties under line 7), and
- interest, dividends, income and gains from stocks, bonds and other securities for nonresident estates and trusts, unless the income was generated by a trade or business (S corporations and partnerships) and was apportioned to Minnesota.

Enclose a separate schedule, if needed.

Line 10 Minnesota Tax

Use the table starting on page 10 to determine the amount to enter on line 10.

Line 11 Tax from S portion of an Electing Small Business Trust

If you are filing as an Electing Small Business Trust (ESBT), you must file Schedule M2SB to report all items relating to the S portion of the trust. Enter the tax calculated on the M2SB on line 11 of Form M2. Include Schedule M2SB when you file Form M2.

Line 12 Additional Tax

Schedule M1LS—Tax on a Lump-Sum Distribution. If you received a lump-sum distribution from a qualified pension plan, profit sharing plan or stock bonus plan and the 10-year averaging method on federal Form 4972 was used, you must complete Minnesota Schedule M1LS, *Tax on Lump-Sum Distribution*.

Include the amount from line 11 of Schedule M1LS on line 12 of Form M2. Be sure

to check the box for Schedule M1LS and include a copy of the schedule when you file your return.

Schedule M2MT—Alternative Minimum Tax. If you had to complete federal Schedule I, *Alternative Minimum Tax*, you must complete Minnesota Schedule M2MT, *Alternative Minimum Tax for Estates and Trusts*.

Include the amount from line 17 of Schedule M2MT on line 12 of Form M2. Be sure to check the box for Schedule M2MT and include a copy of the schedule with your return.

Line 13 Composite Income Tax

Add the composite income tax attributed to all electing beneficiaries (the total of lines 27 from all KF schedules), and enter the result on line 13 of Form M2.

Lines 15a-15d and 15 Total Payments and Credits

Line 15a. Enter your total estimated tax and extension payments paid for the tax year, including:

- your total 2016 estimated tax payments made in 2016 and 2017, either paid electronically or by check,
- the portion of your 2015 refund applied to your 2016 estimated tax, and
- any 2016 extension payment, paid electronically or by check, that was made by the due date when filing under an extension.

Line 15b. Enter the total of any 2016 Minnesota tax withheld, including:

- backup withholding on income retained by the estate or trust,
- Minnesota income tax withheld in error (and not repaid) by an employer on wages and salaries of a decedent that was received by the decedent's estate (enclose a copy of federal Form W-2, *Wage and Tax Statement*), and
- the fiduciary's share of any Minnesota income tax withholding from Schedule KS or KPI not passed through to the beneficiaries.

If you are including withholding on line 15b, you must include with your Form M2 a copy of the 1099, Schedule KPI, Schedule KS or other documentation showing the amount withheld. If the documentation is not included, the department will disallow the amount and assess the tax or reduce your refund.

Line 15c. If you are including an amount on this line you must include a statement indicating which credit(s) are being claimed as well as any required forms.

Include on line 15c only credits that are being retained by the fiduciary.

Line 15d. If you are including an amount on this line you must include a statement indicating which credit(s) are being claimed as well as any required forms. If you have nonrefundable credits available calculate the amount to enter on line 15d as follows:

- If the amount of nonrefundable credits available is less than or equal to the amount on line 14 enter the full amount on line 15d,
- If the amount of nonrefundable credits available is more than the amount on line 14 enter on line 15d the amount of line 14.

Credit for Taxes Paid to Another State

You may claim a nonrefundable credit on line 15 for taxes paid to another state if you were a resident trust or estate and you paid 2016 income tax (including tax withheld) to Minnesota and to another state on the same income. For purposes of this credit, a Canadian province or territory and the District of Columbia are considered a state. The credit cannot exceed the tax shown on line 10.

Use Schedule M1CR, *Credit for Income Tax Paid to Another State*, as a worksheet to determine the credit. When you file Form M2, include the M1CR worksheet or a statement showing how you arrived at the amount.

Line 17 Penalty

Penalties are collected as part of the tax and are in addition to any charge for underpaying estimated tax. If you are paying your tax after the regular due date, include the appropriate penalties on line 17. Include a statement showing how you arrived at the penalty amount.

Please note: An extension of time to file is not an extension to pay. Therefore, if payment in full is not made by the original due date, an extension of time is invalid and both late-filing and late-payment penalties become applicable.

Late Payment. If the tax is not paid by the original due date, a penalty is due of 6 percent of the unpaid tax on line 16.

M2, Lines 18–25

If you file your return after the regular due date with a balance due, an additional 5 percent penalty will be assessed on the unpaid tax.

Late Filing. If you are filing your return after the extended due date, you must pay a late filing penalty. The late filing penalty is 5 percent of the unpaid tax on line 16.

Payment Method. If you are required to pay electronically and do not, an additional 5 percent penalty applies to payments not made electronically, even if your paper check is sent on time.

Line 18 Interest

You must pay interest on the unpaid tax and penalty from the regular due date until the total is paid. The interest rate for calendar year 2016 is 3 percent.

To figure how much interest you owe, use the following formula with the appropriate interest rate:

Interest =
(tax + penalty) x # of days late x interest rate ÷ 365

Line 19 Trusts Only

Skip this line if you are an estate.

Trusts: In addition to any penalties you may owe on line 17, you may also owe an additional charge for underpaying or not paying estimated tax. You may owe this additional charge if:

- line 16 of Form M2 is \$500 or more,
- any nonresident beneficiary's share of the composite income tax on line 13 is \$500 or more, or
- you did not pay the required amount of estimated tax by the due dates. This is true even if you have a refund.

Complete Schedule EST, *Additional Charge for Underpayment of Estimated Tax (for Trusts, Partnerships and S Corporations)*, to determine the additional charge for underpaying estimated tax, if any, to enter on line 19. Include Schedule EST with your return.

Line 20 Amount Due

Add lines 16 through 19. This is the amount of tax you owe.

Be sure to check the appropriate box on line 20 to indicate your method of payment. See *Payment options* on page 2.

Line 21 Overpayment

If you have an overpayment, you may choose to have it directly deposited into your bank account. You may also choose to apply all or a portion of your overpayment toward your 2017 estimated tax account.

Line 22 2017 Estimated Tax

Skip this line if you owe additional tax or you will be electing to have your entire refund directly deposited (see line 24).

If you are paying 2017 estimated tax, you may apply all or a portion of your refund to your 2017 estimated tax. Enter the portion of line 21 you want to apply toward your 2017 estimated tax.

Line 23 Minnesota Income Tax Refund

Subtract line 22 from line 21. The result is the amount of your 2016 Minnesota income tax refund that will be refunded to you.

If you want to request your refund to be direct deposited into your bank account, complete line 24. Your bank statement will indicate when your refund was deposited to your account. Otherwise, skip line 24 and your refund will be sent to you in the mail.

Line 24 To Request Direct Deposit of Refund

If you want your refund to be directly deposited into your checking or savings account, enter the routing and account numbers.

You can find your bank's routing number and account number on the bottom of your check.

⑆09 100000000⑆ 000000000000⑈

└─ Bank's routing number ─┐ └─ Account number ─┐

The **routing number** must have nine digits. The **account number** may contain up to 17 digits (both numbers and letters). Enter the number and leave out any hyphens, spaces and symbols.

If the routing or account number is incorrect or is not accepted by your financial institution, your refund will be sent to you in the form of a paper check.

By completing line 24, you are authorizing the department and your financial institution to initiate electronic credit entries, and if necessary, debit entries and adjustments for any credits made in error.

Line 25 State and Municipal Bond Interest

Enter the amount of interest or dividends received from bonds or a bond mutual fund which invests in non-Minnesota state or municipal securities.

For dividends received from a bond mutual fund, determine the amount to include using the following instructions:

- If 95 percent or more of the federally tax-exempt dividends from a mutual fund came from bonds issued by Minnesota, only the portion of the dividend generated by non-Minnesota bonds must be included.

Line instructions continued on page 7.

Signature

The return must be signed by the fiduciary or authorized officer of the organization receiving, controlling or managing the income of the estate or trust. The person must also include his or her ID number.

If someone other than the fiduciary prepared the return, the preparer must also sign. The preparer's ID number and phone number should also be included.

You may check the box in the signature area to give us your permission to discuss your return with the paid preparer. This authorization remains in effect until you notify the department in writing (either by mail or fax) that the authorization is revoked.

Checking the box does not give your preparer the authority to sign any tax documents on your behalf or to represent you at any audit or appeals conference. For these types of authorities, you must file Form REV184, *Power of Attorney*.

E-mail Address

If the department has questions regarding your return and you want to receive correspondence electronically, indicate the e-mail address below your signature. Check a box to indicate if the e-mail address belongs to the fiduciary or paid preparer.

By providing an e-mail address, you are authorizing the department to correspond with you or the designated person over the Internet and you understand that the entity's nonpublic tax data may be transmitted over the Internet.

You also accept the risk that the data may be accessed by someone other than the intended recipient. The department is not liable for any damages that the fiduciary may incur as a result of an interception.

M2, Lines 26–36

- If less than 95 percent of all federally tax-exempt interest dividends from a mutual fund came from bonds issued by Minnesota, all of the federally tax-exempt interest dividend from that fund must be included.

Nonresident estates and trusts: Non-Minnesota interest or dividends received from bonds or a bond mutual fund do not have to be added back to Minnesota income. [M.S. 290.01, subd. 19a(1)]

Line 26

State Income Tax

Enter the amount of state income tax deducted on the federal return. State income tax deductions are not allowed on the Minnesota return. [M.S. 290.01, subd. 19a(2)]

Line 27

Expenses Related to Income Not Taxed by Minnesota, Other Than From U.S. Bond Obligations

Expenses deducted on your federal return that relate to income not taxed by Minnesota must be added to your taxable net income. [M.S. 290.01, subd. 19a(5)]

If you had expenses attributable to interest or mutual fund dividends from U.S. bonds, see line 35.

Line 28

Suspended Loss of Bonus Depreciation

If you're claiming a suspended loss from 2001-2005 or 2008-2015 on your federal return that was generated by bonus depreciation, and you did not add back 80 percent of the bonus depreciation in those years, complete the following steps:

- 1 Bonus depreciation from 2001–2005 or 2008–2015 not added back on Form M2 _____
- 2 Total suspended loss from activity remaining after 2016 _____
- 3 Subtract step 2 from step 1 (if a negative amount, enter zero) _____
- 4 Multiply step 3 by 80 percent (.80) _____
- 5 Total of the 80 percent bonus depreciation addition passed through to you as a beneficiary of another estate or trust (from line 4 of Schedule KF) _____
- 6 Add steps 4 and 5. Enter here and on line 28 _____

Line 29

Federal Bonus Depreciation Addition

If you chose on your federal return the special depreciation allowance for certain qualified property, you must add back 80 percent of the bonus depreciation to Minnesota.

Follow the steps below to determine line 29:

- 1 Add line 14 and line 25 of your federal Form 4562* _____
- 2 Total of bonus depreciation passed through to you as a shareholder of an S corporation (from line 5 of Schedule KS), or as a partner of a partnership (from line 5 of Schedule KPI) _____
- 3 Add steps 1 and 2 _____
- 4 Multiply step 3 by 80% (.80) _____
- 5 Total of any 80% federal bonus depreciation addition you received as a beneficiary of another estate or trust (from line 5 of Schedule KF) _____
- 6 Add steps 4 and 5. Enter here and on line 29 _____

* If bonus depreciation included in step 1 or 2 generated a loss in an activity that cannot be deducted in 2016 (e.g., a passive activity loss or a loss in excess of basis), you may reduce step 1 or 2 by the amount of loss not allowed from the activity for 2016, up to the bonus depreciation claimed by the activity.

In a future year when the 2016 suspended loss is allowed, you must include the bonus depreciation as an addition. The bonus depreciation is treated as the last suspended loss allowed.

Line 30

Fines, Fees and Penalties Deducted on your Federal Return

You must add fines, fees and penalties that were deducted as business expenses paid to a government entity or nongovernment regulatory body as a result of a violation of law, or the investigation of any potential violation of law. This does not include amounts identified in a court order or settlement agreement as restitution or as an amount paid to come into compliance with the law.

Line 32

Net Operating Loss (NOL) Carryover Adjustment

The Minnesota Legislature did not adopt the provisions of the Worker, Homeownership, and Business Assistance Act of 2009 (WHBA). Under this Act, taxpayers are allowed to carryback 3, 4, or 5 years an NOL generated in 2008 or 2009. For federal purposes, any remaining NOL that was not fully absorbed in the carryback years can be carried forward for up to 20 years, beginning in 2010. If you claimed the deduction in 2016, you must add back the federal NOL amount as a positive number on line 32.

Line 33

Domestic Production Activities Deduction

If you are claiming a portion of the domestic production activities deduction on the estate's or trust's federal return, add back this amount on line 33.

Line 35

Net Interest from U.S. Bonds

Interest earned on certain direct federal obligations is taxable on the federal return, but is not taxable on the state return. You may reduce your taxable income if you reported interest on your federal return that is exempt from state income tax.

Include the interest you received from certain U.S. bonds, bills, notes and other debt instruments, reduced by any related investment interest and other expenses you deducted on your federal return that relate to this income.

You may also include the portion of dividends from mutual funds that are attributable to such bonds, bill or notes, reduced by any related expenses you deducted on your federal return.

Enclose a statement from the fund indicating the proportionate interest earned on the above securities. [M.S. 290.01, subd. 19b(1)]

Line 36

State Income Tax Refunds

Income tax refunded by Minnesota or any other taxing jurisdiction that was included as income on the federal return is not taxed by Minnesota. [M.S. 290.01, subd. 19b(2)]

Lines 37–42

Line 37

Federal Bonus Depreciation Subtraction

You may be able to reduce your taxable income if you:

- deducted bonus depreciation on your 2011 through 2015 federal return, and
- reported 80 percent of the federal bonus depreciation as an addition to income on your 2011 through 2015 Form M2, or
- received a federal bonus depreciation subtraction in 2016 from another estate or trust.

To determine the amount, see *Worksheet for Line 37*.

Line 39

Subtraction for Prior Addback of Reacquisition of Indebtedness Income

If you included in this year's federal taxable income any discharge of indebtedness income from reacquisition of business debt which you elected to defer federally in a prior year, enter that amount on line 39.

Line 41

Net Operating Loss (NOL) from 2008 or 2009

Minnesota did not adopt the provisions of the Worker, Homeownership, and Business Assistance Act of 2009 (WHBA). If you chose this federal option, you are limited on your Minnesota return to a carryback period of two years preceding the loss.

On line 41, enter the amount you are carrying forward for 2016 for Minnesota purposes.

For complete information on how to determine line 41 and any amount to carry forward, go to our website at www.revenue.state.mn.us.

Worksheet for Line 37

If you claimed bonus depreciation as an addition on your 2011 Form M2:

- 1 Portion of lines 28 and 29 of your 2011 Form M2 allocated to fiduciary 1 _____
- 2 Net operating loss generated for tax year 2011 (line 25, Schedule A of 2011 federal Form 1045). Enter as a positive number 2 _____
- 3 Subtract step 2 from step 1 3 _____
- 4 Multiply step 3 by 20% (.20) 4 _____

If you claimed bonus depreciation as an addition on your 2012 Form M2:

- 5 Portion of lines 28 and 29 of your 2012 Form M2 allocated to fiduciary 5 _____
- 6 Net operating loss generated for tax year 2012 (line 25, Schedule A of 2012 federal Form 1045). Enter as a positive number 6 _____
- 7 Subtract step 6 from step 5 7 _____
- 8 Multiply step 7 by 20% (.20) 8 _____

If you claimed bonus depreciation as an addition on your 2013 Form M2:

- 9 Portion of lines 28 and 29 of your 2013 Form M2 allocated to fiduciary 9 _____
- 10 Net operating loss generated for tax year 2013 (line 25, Schedule A of 2013 federal Form 1045). Enter as a positive number 10 _____
- 11 Subtract step 10 from step 9 11 _____
- 12 Multiply step 11 by 20% (.20) 12 _____

If you claimed bonus depreciation as an addition on your 2014 Form M2:

- 13 Portion of lines 28 and 29 of your 2014 Form M2 allocated to fiduciary 13 _____
- 14 Net operating loss generated for tax year 2014 (line 25, Schedule A of 2014 federal Form 1045). Enter as a positive number 14 _____
- 15 Subtract step 14 from step 13 (if zero or less, enter 0) 15 _____
- 16 Multiply step 15 by 20% (.20) 16 _____

If you claimed bonus depreciation as an addition on your 2015 Form M2:

- 17 Portion of lines 28 and 29 of your 2015 Form M2 allocated to fiduciary 17 _____
- 18 Net operating loss generated for tax year 2015 (line 25, Schedule A of 2015 federal Form 1045). Enter as a positive number 18 _____
- 19 Subtract step 18 from step 17 (if zero or less, enter 0) 19 _____
- 20 Multiply step 19 by 20% (.20) 20 _____

If you received a subtraction in 2016 from an estate or trust:

- 21 Total of any bonus depreciation subtraction amounts you received as a beneficiary of an estate or trust (from line 12 of Schedule KF) .. 21 _____

Total subtraction

- 22 Add steps 4, 8, 12, 16, 20, and 21.
Enter here and on line 37 of Form M2 22 _____

Federal Changes Not Adopted by Minnesota

Update as of January 2017
A bill signed into law on January 13, 2017, conforms Minnesota law to federal law when determining federal taxable income for tax year 2016. As a result, taxpayers are no longer required to recompute Minnesota taxable income for Minnesota tax purposes.

M2, Line 31; M2SB, Line 18; M2X, Line 36

Code Description of Issue

11 If you claimed depreciation for business property on Indian reservation on federal Form 4562 using the alternative depreciation class-life, recalculate depreciation using the regular class-life and enter the difference. Individual taxpayer enter this amount on line 7 of Schedule M1NC.

12 If you claimed the modified treatment of certain qualified film and television production expenses on federal Form 4562, recalculate your expenses for Minnesota purposes and enter the difference. Individual taxpayer enter this amount on line 8 of Schedule M1NC.

13 If you placed into service certain qualified leasehold improvements, restaurant or retail improvement property and depreciated the property using a 15 year class life, recalculate your Minnesota depreciation using a 39 year class life and enter the difference. Individual taxpayers enter this amount on line 9 of Scheduled M1NC.

14 If you utilized the special 7 year cost recovery period for property used for land improvement and support facilities for motor sports entertainment facilities you must recalculate the depreciation using a 15 or 39 year life (as appropriate). Enter the difference between the special 7 year depreciation and the recomputed depreciation on the corresponding line. Individual taxpayer enter this amount on line 10 of the Scheduled M1NC.

15 If you expensed up to the first 50% of the cost of qualified mine safety equipment, calculate the depreciation on the portion of the equipment you expensed. Enter the difference between the amount expensed and the amount allowed as depreciation on the corresponding line. Individual taxpayers enter this amount on line 11 of Schedule M1NC

40 Other Additions. Attach a supplemental statement with your return regarding your addition.

M2, Line 38; M2SB, Line 25; M2X Line 43

Code Description of Issue

50 Other subtractions. Attach a supplemental statement with your return regarding your subtraction.

Continue to check our website for updates.

Allocation of Adjustments

The beneficiary(s) of a trust or an estate must file an individual income tax return to report their portion of the income distributed. A resident beneficiary must report all income from the trust or estate. A nonresident beneficiary who receives \$10,350 or more of Minnesota gross income must report income assignable to Minnesota.

The purpose of this section is to allocate any adjustments noted on lines 25-33 and 35-41 between the beneficiary(s) and fiduciary. If all the income is retained by the trust or estate, then any adjustment is allocated entirely to the fiduciary. If all of the income is distributed, then any adjustment is passed through to the beneficiary(s) in proportion to their share of distributable net income. If part of the income is retained and part distributed, then part of the adjustment is allocated to the fiduciary and part to the beneficiary(s).

The share of adjustments in column E is the same percentage share as the fiduciary's and each beneficiary's share of federal distributable net income to the total distributable net income (the amount on Form 1041, Schedule B, line 7.) Divide each share by the total distributable net income to determine the percentage.

Where the adjustment is an addition, that portion of the adjustment allocated to each beneficiary and to the fiduciary must be shown as an addition.

Where the adjustment is a subtraction, that part of the adjustment allocated to each beneficiary and to the fiduciary must be shown as a subtraction.

Column C

Enter the federal distributable net income assigned to each beneficiary and the fiduciary as determined for federal purposes. Add the amounts and enter the total on line 45, column C.

Column D

To obtain the proper percentage, divide each figure from column C on lines 43 and 44 by the total of column C on line 45. Enter this percentage in column D for to correspond with each beneficiary and the fiduciary. The total of column D must equal 100%.

Column E

To obtain the proper share for each beneficiary and the fiduciary, multiply the adjustment on line 45, column E, under additions and subtractions by the percentage in column D. Enter the result for each benefi-

ciary and the fiduciary in column E, under additions or subtractions.

Complete a Schedule KF for each beneficiary who is assigned adjustments.

Schedule KF

Complete and provide Schedule KF to each nonresident beneficiary with Minnesota source income and any Minnesota beneficiary who has adjustments to income.

Purpose

The purpose of Schedule KF is to provide beneficiaries with the information they need to file Form M1, *Minnesota Individual Income Tax Return*. The schedule shows each beneficiary their specific share of the fiduciary's income, credits and modifications.

A beneficiary who is a Minnesota resident must report all income from the trust or estate. A nonresident beneficiary must report income which is assignable to Minnesota.

Be sure to include copies of all Schedules KF and federal Schedules K-1 when you file your Form M2.

2016 Tax Table

If line 9 of Form M2 is:			If line 9 of Form M2 is:			If line 9 of Form M2 is:			If line 9 of Form M2 is:		
at least	but less than	your tax is:	at least	but less than	your tax is:	at least	but less than	your tax is:	at least	but less than	your tax is:
0	20	0	6,400	6,500	345	12,900	13,000	693	19,400	19,500	1,058
20	100	3	6,500	6,600	350	13,000	13,100	698	19,500	19,600	1,065
100	200	8	6,600	6,700	356	13,100	13,200	704	19,600	19,700	1,072
200	300	13	6,700	6,800	361	13,200	13,300	709	19,700	19,800	1,079
300	400	19	6,800	6,900	366	13,300	13,400	714	19,800	19,900	1,086
400	500	24	6,900	7,000	372	13,400	13,500	720	19,900	20,000	1,094
500	600	29	7,000	7,100	377	13,500	13,600	725	20,000	20,100	1,101
600	700	35	7,100	7,200	383	13,600	13,700	730	20,100	20,200	1,108
700	800	40	7,200	7,300	388	13,700	13,800	736	20,200	20,300	1,115
800	900	45	7,300	7,400	393	13,800	13,900	741	20,300	20,400	1,122
900	1,000	51	7,400	7,500	399	13,900	14,000	746	20,400	20,500	1,129
1,000	1,100	56	7,500	7,600	404	14,000	14,100	752	20,500	20,600	1,136
1,100	1,200	62	7,600	7,700	409	14,100	14,200	757	20,600	20,700	1,143
1,200	1,300	67	7,700	7,800	415	14,200	14,300	762	20,700	20,800	1,150
1,300	1,400	72	7,800	7,900	420	14,300	14,400	768	20,800	20,900	1,157
1,400	1,500	78	7,900	8,000	425	14,400	14,500	773	20,900	21,000	1,164
1,500	1,600	83	8,000	8,100	431	14,500	14,600	778	21,000	21,100	1,171
1,600	1,700	88	8,100	8,200	436	14,600	14,700	784	21,100	21,200	1,178
1,700	1,800	94	8,200	8,300	441	14,700	14,800	789	21,200	21,300	1,185
1,800	1,900	99	8,300	8,400	447	14,800	14,900	794	21,300	21,400	1,192
1,900	2,000	104	8,400	8,500	452	14,900	15,000	800	21,400	21,500	1,199
2,000	2,100	110	8,500	8,600	457	15,000	15,100	805	21,500	21,600	1,206
2,100	2,200	115	8,600	8,700	463	15,100	15,200	811	21,600	21,700	1,213
2,200	2,300	120	8,700	8,800	468	15,200	15,300	816	21,700	21,800	1,220
2,300	2,400	126	8,800	8,900	473	15,300	15,400	821	21,800	21,900	1,227
2,400	2,500	131	8,900	9,000	479	15,400	15,500	827	21,900	22,000	1,235
2,500	2,600	136	9,000	9,100	484	15,500	15,600	832	22,000	22,100	1,242
2,600	2,700	142	9,100	9,200	490	15,600	15,700	837	22,100	22,200	1,249
2,700	2,800	147	9,200	9,300	495	15,700	15,800	843	22,200	22,300	1,256
2,800	2,900	152	9,300	9,400	500	15,800	15,900	848	22,300	22,400	1,263
2,900	3,000	158	9,400	9,500	506	15,900	16,000	853	22,400	22,500	1,270
3,000	3,100	163	9,500	9,600	511	16,000	16,100	859	22,500	22,600	1,277
3,100	3,200	169	9,600	9,700	516	16,100	16,200	864	22,600	22,700	1,284
3,200	3,300	174	9,700	9,800	522	16,200	16,300	869	22,700	22,800	1,291
3,300	3,400	179	9,800	9,900	527	16,300	16,400	875	22,800	22,900	1,298
3,400	3,500	185	9,900	10,000	532	16,400	16,500	880	22,900	23,000	1,305
3,500	3,600	190	10,000	10,100	538	16,500	16,600	885	23,000	23,100	1,312
3,600	3,700	195	10,100	10,200	543	16,600	16,700	891	23,100	23,200	1,319
3,700	3,800	201	10,200	10,300	548	16,700	16,800	896	23,200	23,300	1,326
3,800	3,900	206	10,300	10,400	554	16,800	16,900	901	23,300	23,400	1,333
3,900	4,000	211	10,400	10,500	559	16,900	17,000	907	23,400	23,500	1,340
4,000	4,100	217	10,500	10,600	564	17,000	17,100	912	23,500	23,600	1,347
4,100	4,200	222	10,600	10,700	570	17,100	17,200	918	23,600	23,700	1,354
4,200	4,300	227	10,700	10,800	575	17,200	17,300	923	23,700	23,800	1,361
4,300	4,400	233	10,800	10,900	580	17,300	17,400	928	23,800	23,900	1,368
4,400	4,500	238	10,900	11,000	586	17,400	17,500	934	23,900	24,000	1,376
4,500	4,600	243	11,000	11,100	591	17,500	17,600	939	24,000	24,100	1,383
4,600	4,700	249	11,100	11,200	597	17,600	17,700	944	24,100	24,200	1,390
4,700	4,800	254	11,200	11,300	602	17,700	17,800	950	24,200	24,300	1,397
4,800	4,900	259	11,300	11,400	607	17,800	17,900	955	24,300	24,400	1,404
4,900	5,000	265	11,400	11,500	613	17,900	18,000	960	24,400	24,500	1,411
5,000	5,100	270	11,500	11,600	618	18,000	18,100	966	24,500	24,600	1,418
5,100	5,200	276	11,600	11,700	623	18,100	18,200	971	24,600	24,700	1,425
5,200	5,300	281	11,700	11,800	629	18,200	18,300	976	24,700	24,800	1,432
5,300	5,400	286	11,800	11,900	634	18,300	18,400	982	24,800	24,900	1,439
5,400	5,500	292	11,900	12,000	639	18,400	18,500	988	24,900	25,000	1,446
5,500	5,600	297	12,000	12,100	645	18,500	18,600	995	25,000	25,100	1,453
5,600	5,700	302	12,100	12,200	650	18,600	18,700	1,002	25,100	25,200	1,460
5,700	5,800	308	12,200	12,300	655	18,700	18,800	1,009	25,200	25,300	1,467
5,800	5,900	313	12,300	12,400	661	18,800	18,900	1,016	25,300	25,400	1,474
5,900	6,000	318	12,400	12,500	666	18,900	19,000	1,023	25,400	25,500	1,481
6,000	6,100	324	12,500	12,600	671	19,000	19,100	1,030	25,500	25,600	1,488
6,100	6,200	329	12,600	12,700	677	19,100	19,200	1,037	25,600	25,700	1,495
6,200	6,300	334	12,700	12,800	682	19,200	19,300	1,044	25,700	25,800	1,502
6,300	6,400	340	12,800	12,900	687	19,300	19,400	1,051	25,800	25,900	1,509

2016 Tax Table (continued)

If line 9 of Form M2 is:			If line 9 of Form M2 is:			If line 9 of Form M2 is:			If line 9 of Form M2 is:		
at least	but less than	your tax is:	at least	but less than	your tax is:	at least	but less than	your tax is:	at least	but less than	your tax is:
25,900	26,000	1,517	32,400	32,500	1,975	38,900	39,000	2,433	45,400	45,500	2,891
26,000	26,100	1,524	32,500	32,600	1,982	39,000	39,100	2,440	45,500	45,600	2,898
26,100	26,200	1,531	32,600	32,700	1,989	39,100	39,200	2,447	45,600	45,700	2,905
26,200	26,300	1,538	32,700	32,800	1,996	39,200	39,300	2,454	45,700	45,800	2,912
26,300	26,400	1,545	32,800	32,900	2,003	39,300	39,400	2,461	45,800	45,900	2,919
26,400	26,500	1,552	32,900	33,000	2,010	39,400	39,500	2,468	45,900	46,000	2,927
26,500	26,600	1,559	33,000	33,100	2,017	39,500	39,600	2,475	46,000	46,100	2,934
26,600	26,700	1,566	33,100	33,200	2,024	39,600	39,700	2,482	46,100	46,200	2,941
26,700	26,800	1,573	33,200	33,300	2,031	39,700	39,800	2,489	46,200	46,300	2,948
26,800	26,900	1,580	33,300	33,400	2,038	39,800	39,900	2,496	46,300	46,400	2,955
26,900	27,000	1,587	33,400	33,500	2,045	39,900	40,000	2,504	46,400	46,500	2,962
27,000	27,100	1,594	33,500	33,600	2,052	40,000	40,100	2,511	46,500	46,600	2,969
27,100	27,200	1,601	33,600	33,700	2,059	40,100	40,200	2,518	46,600	46,700	2,976
27,200	27,300	1,608	33,700	33,800	2,066	40,200	40,300	2,525	46,700	46,800	2,983
27,300	27,400	1,615	33,800	33,900	2,073	40,300	40,400	2,532	46,800	46,900	2,990
27,400	27,500	1,622	33,900	34,000	2,081	40,400	40,500	2,539	46,900	47,000	2,997
27,500	27,600	1,629	34,000	34,100	2,088	40,500	40,600	2,546	47,000	47,100	3,004
27,600	27,700	1,636	34,100	34,200	2,095	40,600	40,700	2,553	47,100	47,200	3,011
27,700	27,800	1,643	34,200	34,300	2,102	40,700	40,800	2,560	47,200	47,300	3,018
27,800	27,900	1,650	34,300	34,400	2,109	40,800	40,900	2,567	47,300	47,400	3,025
27,900	28,000	1,658	34,400	34,500	2,116	40,900	41,000	2,574	47,400	47,500	3,032
28,000	28,100	1,665	34,500	34,600	2,123	41,000	41,100	2,581	47,500	47,600	3,039
28,100	28,200	1,672	34,600	34,700	2,130	41,100	41,200	2,588	47,600	47,700	3,046
28,200	28,300	1,679	34,700	34,800	2,137	41,200	41,300	2,595	47,700	47,800	3,053
28,300	28,400	1,686	34,800	34,900	2,144	41,300	41,400	2,602	47,800	47,900	3,060
28,400	28,500	1,693	34,900	35,000	2,151	41,400	41,500	2,609	47,900	48,000	3,068
28,500	28,600	1,700	35,000	35,100	2,158	41,500	41,600	2,616	48,000	48,100	3,075
28,600	28,700	1,707	35,100	35,200	2,165	41,600	41,700	2,623	48,100	48,200	3,082
28,700	28,800	1,714	35,200	35,300	2,172	41,700	41,800	2,630	48,200	48,300	3,089
28,800	28,900	1,721	35,300	35,400	2,179	41,800	41,900	2,637	48,300	48,400	3,096
28,900	29,000	1,728	35,400	35,500	2,186	41,900	42,000	2,645	48,400	48,500	3,103
29,000	29,100	1,735	35,500	35,600	2,193	42,000	42,100	2,652	48,500	48,600	3,110
29,100	29,200	1,742	35,600	35,700	2,200	42,100	42,200	2,659	48,600	48,700	3,117
29,200	29,300	1,749	35,700	35,800	2,207	42,200	42,300	2,666	48,700	48,800	3,124
29,300	29,400	1,756	35,800	35,900	2,214	42,300	42,400	2,673	48,800	48,900	3,131
29,400	29,500	1,763	35,900	36,000	2,222	42,400	42,500	2,680	48,900	49,000	3,138
29,500	29,600	1,770	36,000	36,100	2,229	42,500	42,600	2,687	49,000	49,100	3,145
29,600	29,700	1,777	36,100	36,200	2,236	42,600	42,700	2,694	49,100	49,200	3,152
29,700	29,800	1,784	36,200	36,300	2,243	42,700	42,800	2,701	49,200	49,300	3,159
29,800	29,900	1,791	36,300	36,400	2,250	42,800	42,900	2,708	49,300	49,400	3,166
29,900	30,000	1,799	36,400	36,500	2,257	42,900	43,000	2,715	49,400	49,500	3,173
30,000	30,100	1,806	36,500	36,600	2,264	43,000	43,100	2,722	49,500	49,600	3,180
30,100	30,200	1,813	36,600	36,700	2,271	43,100	43,200	2,729	49,600	49,700	3,187
30,200	30,300	1,820	36,700	36,800	2,278	43,200	43,300	2,736	49,700	49,800	3,194
30,300	30,400	1,827	36,800	36,900	2,285	43,300	43,400	2,743	49,800	49,900	3,201
30,400	30,500	1,834	36,900	37,000	2,292	43,400	43,500	2,750	49,900	50,000	3,209
30,500	30,600	1,841	37,000	37,100	2,299	43,500	43,600	2,757	50,000	50,100	3,216
30,600	30,700	1,848	37,100	37,200	2,306	43,600	43,700	2,764	50,100	50,200	3,223
30,700	30,800	1,855	37,200	37,300	2,313	43,700	43,800	2,771	50,200	50,300	3,230
30,800	30,900	1,862	37,300	37,400	2,320	43,800	43,900	2,778	50,300	50,400	3,237
30,900	31,000	1,869	37,400	37,500	2,327	43,900	44,000	2,786	50,400	50,500	3,244
31,000	31,100	1,876	37,500	37,600	2,334	44,000	44,100	2,793	50,500	50,600	3,251
31,100	31,200	1,883	37,600	37,700	2,341	44,100	44,200	2,800	50,600	50,700	3,258
31,200	31,300	1,890	37,700	37,800	2,348	44,200	44,300	2,807	50,700	50,800	3,265
31,300	31,400	1,897	37,800	37,900	2,355	44,300	44,400	2,814	50,800	50,900	3,272
31,400	31,500	1,904	37,900	38,000	2,363	44,400	44,500	2,821	50,900	51,000	3,279
31,500	31,600	1,911	38,000	38,100	2,370	44,500	44,600	2,828	51,000	51,100	3,286
31,600	31,700	1,918	38,100	38,200	2,377	44,600	44,700	2,835	51,100	51,200	3,293
31,700	31,800	1,925	38,200	38,300	2,384	44,700	44,800	2,842	51,200	51,300	3,300
31,800	31,900	1,932	38,300	38,400	2,391	44,800	44,900	2,849	51,300	51,400	3,307
31,900	32,000	1,940	38,400	38,500	2,398	44,900	45,000	2,856	51,400	51,500	3,314
32,000	32,100	1,947	38,500	38,600	2,405	45,000	45,100	2,863	51,500	51,600	3,321
32,100	32,200	1,954	38,600	38,700	2,412	45,100	45,200	2,870	51,600	51,700	3,328
32,200	32,300	1,961	38,700	38,800	2,419	45,200	45,300	2,877	51,700	51,800	3,335
32,300	32,400	1,968	38,800	38,900	2,426	45,300	45,400	2,884	51,800	51,900	3,342

Continued

2016 Tax Table (continued)

If line 9 of Form M2 is:			If line 9 of Form M2 is:			If line 9 of Form M2 is:			If line 9 of Form M2 is:		
at least	but less than	your tax is:	at least	but less than	your tax is:	at least	but less than	your tax is:	at least	but less than	your tax is:
51,900	52,000	3,350	58,400	58,500	3,808	64,900	65,000	4,266	71,400	71,500	4,724
52,000	52,100	3,357	58,500	58,600	3,815	65,000	65,100	4,273	71,500	71,600	4,731
52,100	52,200	3,364	58,600	58,700	3,822	65,100	65,200	4,280	71,600	71,700	4,738
52,200	52,300	3,371	58,700	58,800	3,829	65,200	65,300	4,287	71,700	71,800	4,745
52,300	52,400	3,378	58,800	58,900	3,836	65,300	65,400	4,294	71,800	71,900	4,752
52,400	52,500	3,385	58,900	59,000	3,843	65,400	65,500	4,301	71,900	72,000	4,760
52,500	52,600	3,392	59,000	59,100	3,850	65,500	65,600	4,308	72,000	72,100	4,767
52,600	52,700	3,399	59,100	59,200	3,857	65,600	65,700	4,315	72,100	72,200	4,774
52,700	52,800	3,406	59,200	59,300	3,864	65,700	65,800	4,322	72,200	72,300	4,781
52,800	52,900	3,413	59,300	59,400	3,871	65,800	65,900	4,329	72,300	72,400	4,788
52,900	53,000	3,420	59,400	59,500	3,878	65,900	66,000	4,337	72,400	72,500	4,795
53,000	53,100	3,427	59,500	59,600	3,885	66,000	66,100	4,344	72,500	72,600	4,802
53,100	53,200	3,434	59,600	59,700	3,892	66,100	66,200	4,351	72,600	72,700	4,809
53,200	53,300	3,441	59,700	59,800	3,899	66,200	66,300	4,358	72,700	72,800	4,816
53,300	53,400	3,448	59,800	59,900	3,906	66,300	66,400	4,365	72,800	72,900	4,823
53,400	53,500	3,455	59,900	60,000	3,914	66,400	66,500	4,372	72,900	73,000	4,830
53,500	53,600	3,462	60,000	60,100	3,921	66,500	66,600	4,379	73,000	73,100	4,837
53,600	53,700	3,469	60,100	60,200	3,928	66,600	66,700	4,386	73,100	73,200	4,844
53,700	53,800	3,476	60,200	60,300	3,935	66,700	66,800	4,393	73,200	73,300	4,852
53,800	53,900	3,483	60,300	60,400	3,942	66,800	66,900	4,400	73,300	73,400	4,860
53,900	54,000	3,491	60,400	60,500	3,949	66,900	67,000	4,407	73,400	73,500	4,868
54,000	54,100	3,498	60,500	60,600	3,956	67,000	67,100	4,414	73,500	73,600	4,876
54,100	54,200	3,505	60,600	60,700	3,963	67,100	67,200	4,421	73,600	73,700	4,883
54,200	54,300	3,512	60,700	60,800	3,970	67,200	67,300	4,428	73,700	73,800	4,891
54,300	54,400	3,519	60,800	60,900	3,977	67,300	67,400	4,435	73,800	73,900	4,899
54,400	54,500	3,526	60,900	61,000	3,984	67,400	67,500	4,442	73,900	74,000	4,907
54,500	54,600	3,533	61,000	61,100	3,991	67,500	67,600	4,449	74,000	74,100	4,915
54,600	54,700	3,540	61,100	61,200	3,998	67,600	67,700	4,456	74,100	74,200	4,923
54,700	54,800	3,547	61,200	61,300	4,005	67,700	67,800	4,463	74,200	74,300	4,931
54,800	54,900	3,554	61,300	61,400	4,012	67,800	67,900	4,470	74,300	74,400	4,938
54,900	55,000	3,561	61,400	61,500	4,019	67,900	68,000	4,478	74,400	74,500	4,946
55,000	55,100	3,568	61,500	61,600	4,026	68,000	68,100	4,485	74,500	74,600	4,954
55,100	55,200	3,575	61,600	61,700	4,033	68,100	68,200	4,492	74,600	74,700	4,962
55,200	55,300	3,582	61,700	61,800	4,040	68,200	68,300	4,499	74,700	74,800	4,970
55,300	55,400	3,589	61,800	61,900	4,047	68,300	68,400	4,506	74,800	74,900	4,978
55,400	55,500	3,596	61,900	62,000	4,055	68,400	68,500	4,513	74,900	75,000	4,985
55,500	55,600	3,603	62,000	62,100	4,062	68,500	68,600	4,520	75,000	75,100	4,993
55,600	55,700	3,610	62,100	62,200	4,069	68,600	68,700	4,527	75,100	75,200	5,001
55,700	55,800	3,617	62,200	62,300	4,076	68,700	68,800	4,534	75,200	75,300	5,009
55,800	55,900	3,624	62,300	62,400	4,083	68,800	68,900	4,541	75,300	75,400	5,017
55,900	56,000	3,632	62,400	62,500	4,090	68,900	69,000	4,548	75,400	75,500	5,025
56,000	56,100	3,639	62,500	62,600	4,097	69,000	69,100	4,555	75,500	75,600	5,033
56,100	56,200	3,646	62,600	62,700	4,104	69,100	69,200	4,562	75,600	75,700	5,040
56,200	56,300	3,653	62,700	62,800	4,111	69,200	69,300	4,569	75,700	75,800	5,048
56,300	56,400	3,660	62,800	62,900	4,118	69,300	69,400	4,576	75,800	75,900	5,056
56,400	56,500	3,667	62,900	63,000	4,125	69,400	69,500	4,583	75,900	76,000	5,064
56,500	56,600	3,674	63,000	63,100	4,132	69,500	69,600	4,590	76,000	76,100	5,072
56,600	56,700	3,681	63,100	63,200	4,139	69,600	69,700	4,597	76,100	76,200	5,080
56,700	56,800	3,688	63,200	63,300	4,146	69,700	69,800	4,604	76,200	76,300	5,088
56,800	56,900	3,695	63,300	63,400	4,153	69,800	69,900	4,611	76,300	76,400	5,095
56,900	57,000	3,702	63,400	63,500	4,160	69,900	70,000	4,619	76,400	76,500	5,103
57,000	57,100	3,709	63,500	63,600	4,167	70,000	70,100	4,626	76,500	76,600	5,111
57,100	57,200	3,716	63,600	63,700	4,174	70,100	70,200	4,633	76,600	76,700	5,119
57,200	57,300	3,723	63,700	63,800	4,181	70,200	70,300	4,640	76,700	76,800	5,127
57,300	57,400	3,730	63,800	63,900	4,188	70,300	70,400	4,647	76,800	76,900	5,135
57,400	57,500	3,737	63,900	64,000	4,196	70,400	70,500	4,654	76,900	77,000	5,142
57,500	57,600	3,744	64,000	64,100	4,203	70,500	70,600	4,661	77,000	77,100	5,150
57,600	57,700	3,751	64,100	64,200	4,210	70,600	70,700	4,668	77,100	77,200	5,158
57,700	57,800	3,758	64,200	64,300	4,217	70,700	70,800	4,675	77,200	77,300	5,166
57,800	57,900	3,765	64,300	64,400	4,224	70,800	70,900	4,682	77,300	77,400	5,174
57,900	58,000	3,773	64,400	64,500	4,231	70,900	71,000	4,689	77,400	77,500	5,182
58,000	58,100	3,780	64,500	64,600	4,238	71,000	71,100	4,696	77,500	77,600	5,190
58,100	58,200	3,787	64,600	64,700	4,245	71,100	71,200	4,703	77,600	77,700	5,197
58,200	58,300	3,794	64,700	64,800	4,252	71,200	71,300	4,710	77,700	77,800	5,205
58,300	58,400	3,801	64,800	64,900	4,259	71,300	71,400	4,717	77,800	77,900	5,213

2016 Tax Table (continued)

If line 9 of Form M2 is:			If line 9 of Form M2 is:			If line 9 of Form M2 is:			If line 9 of Form M2 is:		
at least	but less than	your tax is:	at least	but less than	your tax is:	at least	but less than	your tax is:	at least	but less than	your tax is:
77,900	78,000	5,221	80,900	81,000	5,456	83,900	84,000	5,692	86,900	87,000	5,927
78,000	78,100	5,229	81,000	81,100	5,464	84,000	84,100	5,700	87,000	87,100	5,935
78,100	78,200	5,237	81,100	81,200	5,472	84,100	84,200	5,708	87,100	87,200	5,943
78,200	78,300	5,245	81,200	81,300	5,480	84,200	84,300	5,716	87,200	87,300	5,951
78,300	78,400	5,252	81,300	81,400	5,488	84,300	84,400	5,723	87,300	87,400	5,959
78,400	78,500	5,260	81,400	81,500	5,496	84,400	84,500	5,731	87,400	87,500	5,967
78,500	78,600	5,268	81,500	81,600	5,504	84,500	84,600	5,739	87,500	87,600	5,975
78,600	78,700	5,276	81,600	81,700	5,511	84,600	84,700	5,747	87,600	87,700	5,982
78,700	78,800	5,284	81,700	81,800	5,519	84,700	84,800	5,755	87,700	87,800	5,990
78,800	78,900	5,292	81,800	81,900	5,527	84,800	84,900	5,763	87,800	87,900	5,998
78,900	79,000	5,299	81,900	82,000	5,535	84,900	85,000	5,770	87,900	88,000	6,006
79,000	79,100	5,307	82,000	82,100	5,543	85,000	85,100	5,778	88,000	88,100	6,014
79,100	79,200	5,315	82,100	82,200	5,551	85,100	85,200	5,786	88,100	88,200	6,022
79,200	79,300	5,323	82,200	82,300	5,559	85,200	85,300	5,794	88,200	88,300	6,030
79,300	79,400	5,331	82,300	82,400	5,566	85,300	85,400	5,802	88,300	88,400	6,037
79,400	79,500	5,339	82,400	82,500	5,574	85,400	85,500	5,810	88,400	88,500	6,045
79,500	79,600	5,347	82,500	82,600	5,582	85,500	85,600	5,818	88,500	88,600	6,053
79,600	79,700	5,354	82,600	82,700	5,590	85,600	85,700	5,825	88,600	88,700	6,061
79,700	79,800	5,362	82,700	82,800	5,598	85,700	85,800	5,833	88,700	88,800	6,069
79,800	79,900	5,370	82,800	82,900	5,606	85,800	85,900	5,841	88,800	88,900	6,077
79,900	80,000	5,378	82,900	83,000	5,613	85,900	86,000	5,849	88,900	89,000	6,084
80,000	80,100	5,386	83,000	83,100	5,621	86,000	86,100	5,857	89,000	89,100	6,092
80,100	80,200	5,394	83,100	83,200	5,629	86,100	86,200	5,865	89,100	89,200	6,100
80,200	80,300	5,402	83,200	83,300	5,637	86,200	86,300	5,873	89,200	89,300	6,108
80,300	80,400	5,409	83,300	83,400	5,645	86,300	86,400	5,880	89,300	89,400	6,116
80,400	80,500	5,417	83,400	83,500	5,653	86,400	86,500	5,888	89,400	89,500	6,124
80,500	80,600	5,425	83,500	83,600	5,661	86,500	86,600	5,896	89,500	89,600	6,132
80,600	80,700	5,433	83,600	83,700	5,668	86,600	86,700	5,904	89,600	89,700	6,139
80,700	80,800	5,441	83,700	83,800	5,676	86,700	86,800	5,912	89,700	89,800	6,147
80,800	80,900	5,449	83,800	83,900	5,684	86,800	86,900	5,920	89,800	89,900	6,155
									89,900	90,000	6,163

90,000 & over

If line 9 of Form M2 is:		Enter on line 10 of your Form M2:		of the amount over—
over—	but not over—			
\$0	\$18,410	\$0.00	5.35%	\$0
18,410	73,140	984.94	+ 7.05%	18,410
73,140	129,710	4,843.41	+ 7.85%	73,140
129,710		9,284.16	+ 9.85%	129,710

Common Problems Using Software Packages

If you use tax preparation software, be careful to buy packages acceptable to the Department of Revenue. Forms produced by the software must meet requirements and be approved before being sold or provided to consumers.

If you are considering any company's tax preparation software, ask to see the vendor's approval letter for the forms you will be using. Keep in mind that we usually won't know if they are approved until late January. It is also important to test the software before filing forms prepared with it. We do not, however, approve the operation or accuracy of any software.

Below are common problems found on fiduciary returns submitted using software packages:

- **Verify that the program uses updated tax tables.** Tax tables are required to be updated every year for inflation. Be sure that the amount on line 10 of your Form M2 is the same amount shown in the tax tables.
 - Fiscal year filers must use the table based on the beginning year of the return.
 - If you are an Electing Small Business Trust (ESBT), verify that the software package uses the tax table when determining the tax. The ESBT is taxed at the highest tax rate only for federal purposes.
- **Verify that estimated tax payments were made.** Some software programs may insert the amount of estimated tax payments that *should have been* paid, not the amount of tax *actually* paid.

2016 Schedule KF instructions

Beneficiary's use of information provided on Schedule KF

Purpose of Schedule KF

Schedule KF is a supplemental schedule provided by the fiduciary to the beneficiaries. The beneficiaries need this information to complete a *Minnesota Individual Income Tax Return*, Form M1.

The schedule shows each beneficiary their specific share of the fiduciary's income, credits and modifications. A beneficiary who is a Minnesota resident must report all income from the trust or estate. A nonresident beneficiary must report income which is allocable to Minnesota.

These instructions are intended to help you report your share of the fiduciary's income, credits and modifications on your Minnesota return.

If you received an amended Schedule KF from the fiduciary and your income or deductions have changed, you must file an amended Minnesota return. To amend your return, use Form M1X, *Amended Minnesota Income Tax Return*.

Line instructions

Include amounts on the appropriate lines as shown on Schedule KF. Be sure to read the following line instructions for additional information.

Lines 1-16. If all or part of the fiduciary's income is distributed, then any adjustment shown on lines 25-33 and 35-41 of Form M2 is passed through to the beneficiary(s) in the proportion to their share of distributable net income.

From line 43 of Form M2, enter the adjustments to income allocated to each beneficiary.

Line 17. If you received a Minnesota income tax withholding credit, enter the beneficiary's distributive share of any credit that is passed through to the beneficiary. Do not include amounts reported on line 15b of Form M2.

Line 18. If you are a partner of a partnership or a shareholder of an S corporation that conducted qualified research and development in Minnesota, from line 10 of Schedule KPI and line 10 of Schedule KS, enter the beneficiary's distributive share of the credit that is passed through to the beneficiary. Attach the appropriate schedule when you file your return.

Line 19. If you are a partner of a partnership or a shareholder of an S corporation

that hired a qualified student for internship, from line 11 of Schedule KPI and the Schedule KS, enter the beneficiary's distributive share of the credit that is passed through to the beneficiary. Attach the appropriate schedule when you file your return.

Line 20. If you are a partner of a partnership or a shareholder of an S corporation that qualified for credit for historic structure rehabilitation, from line 12 of Schedule KPI and Schedule KS, enter the beneficiary's distributive share of the credit that is passed through to the beneficiary. Attach the appropriate certificate when you file your return and enter the NPS project number in the space provided.

Nonresident beneficiaries

Lines 21-27

Lines 21-27 apply to nonresident beneficiaries. A nonresident beneficiary will be taxed on the income which is allocable to Minnesota.

Lines 21-24. From the nonresident beneficiary's federal Schedule K-1 (1041), enter the Minnesota portion of amounts on lines 21-24.

Interest or dividend income derived from a trade or business (S corporations and partnerships) that is apportioned to Minnesota should be included on line 23.

On line 24, only include other income allocable to Minnesota. For example, include other income from services performed in Minnesota, but do not include interest, dividends or distribution from a pension plan.

Include lines 21-24 on the corresponding lines in column B of Schedule M1NR.

Line 25. Minnesota source gross income is used to determine if a nonresident individual is required to file a Minnesota income tax return. Gross income is income before business or rental deductions and does not include losses.

If your total 2016 Minnesota source gross income is \$10,350 or more and you did not elect composite filing, you are required to file Form M1 and Schedule M1NR, *Nonresidents and Part-Year Residents*. You must include all Minnesota source gross income passed through to you from all fiduciaries, partnerships and S corporations when determining if you are required to file a Minnesota return.

If your 2016 Minnesota source gross income is less than \$10,350 and you are allowed a Minnesota income tax withholding credit, file Form M1 and Schedule M1NR to receive a refund.

Although Minnesota source gross income determines whether you must file a Minnesota return, your Minnesota source distributive income is ultimately taxed.

Composite Income Tax

Line 26. When determining the beneficiary's share of the Minnesota source distributive income from this fiduciary, you must make adjustments for any items you passed through to the beneficiary on lines 1 through 20 of the beneficiary's Schedule KF.

Follow the steps in the Worksheet for Line 26 on the next page to determine line 26.

Line 27. Nonresident beneficiaries must pay tax if their Minnesota gross income is more than the minimum filing requirement for the year (\$10,350 for 2016).

Skip this line if the nonresident beneficiary did not elect the fiduciary to pay composite income tax on his or her behalf.

To determine the amount of composite income tax to pay on behalf of each electing beneficiary, follow the steps on the Worksheet for Line 27 on the next page.

If the beneficiary elects to be included in composite income tax but has zero tax due, be sure to enter zero on line 27. Even though the amount may be zero, be sure to check the box to indicate the election.

Once you have completed all the KF schedules for your electing nonresident beneficiaries, add the amounts on line 27 of all the schedules and enter the total on line 13 of Form M2. This is the amount of composite income tax you are required to pay on behalf of your electing beneficiaries.

Questions?

Call the department at **651-556-3075**.

Information is available in other formats upon request for persons with disabilities.

Need forms?

You may download forms and other tax-related information from our website at **www.revenue.state.mn.us**.

Continued

2016 Schedule KF instructions (continued)

Worksheet for Line 26

- | | | |
|---|---|-------|
| 1 | 80 percent of federal bonus depreciation from line 5 of the beneficiary's Schedule KF | _____ |
| 2 | Lines 21–24 of the beneficiary's Schedule KF | _____ |
| 3 | Add steps 1 and 2 | _____ |
| 4 | To the extent allowed by law, enter one-fifth of the beneficiary's share of the federal bonus depreciation that was added back in a year the beneficiary elected to be included in composite income tax | _____ |
| 5 | Subtract step 4 from step 3 | _____ |

Enter the result from step 5 on line 26 of the beneficiary's Schedule KF. The result in step 5 is the beneficiary's adjusted Minnesota source distributive income from this fiduciary.

Worksheet for Line 27

- | | | |
|---|--|-------|
| 1 | Multiply line 26 of Schedule KF by 9.85% (.0985) | _____ |
| 2 | Add the credits on lines 17 — 20 of Schedule KF | _____ |
| 3 | Subtract step 2 from step 1 | _____ |

The result in step 3 is the amount you are required to pay on behalf of the electing beneficiary. Enter this amount on line 27 of the beneficiary's Schedule KF and check the box to indicate the beneficiary's election to be included.

Federal Changes Not Adopted by Minnesota

Update as of January 2017

A bill signed into law on January 13, 2017, conforms

Minnesota law to federal law when determining federal taxable income for tax year 2016. As a result, taxpayers are no longer required to recompute Minnesota taxable income for Minnesota tax purposes.