A bill for an act

relating to taxation; individual income; providing a subtraction for certain sales of qualifying small business property; amending Minnesota Statutes 2022, sections 290.0131, by adding a subdivision; 290.0132, by adding a subdivision.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2022, section 290.0131, is amended by adding a subdivision to read:

Subd. 19. **Small business property; recapture.** (a) For a qualifying purchaser of qualifying small business property, if at any time within three years of the date of sale in section 290.0132, subdivision 31, the business is either a passive activity within the meaning of section 469(c) of the Internal Revenue Code, or the qualifying purchaser does not materially participate in the operation of the trade or business within the meaning of section 469(h) of the Internal Revenue Code, the amount of the subtraction claimed by the seller of the property is an addition, as modified by this paragraph. For qualifying small business property purchased by more than one qualifying purchaser, the amount of the addition is reduced based on the purchaser's percentage share of the cost of the property subject to the subtraction.

(b) For a qualifying purchaser of qualifying small business property, if at any time within three years of the date of sale in section 290.0132, subdivision 31, all or a portion of the property is sold, excluding sales in the ordinary course of business or sales involving the purchase of replacement property, the amount of the sale that does not exceed the amount of the subtraction less the amount of any prior year's addition required under this paragraph, claimed by the seller of the property is an addition, as modified by this paragraph. For

property purchased by more than one qualifying purchaser, the amount of the addition is reduced based on the purchaser's percentage share of the cost of the property subject to the subtraction. For partial sales, the amount of the addition is reduced based on the percentage of the sold property's price to the cost of the property when purchased.

(c) For purposes of this subdivision, the terms "qualifying purchaser," and "qualifying small business property" have the meanings provided in section 290.0132, subdivision 31.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2022.

Sec. 2. Minnesota Statutes 2022, section 290.0132, is amended by adding a subdivision to read:

Subd. 31. **Small business property.** (a) The amount of any gain included in taxable income from the sale of qualifying small business property is a subtraction.

(b) For purposes of this subdivision, the terms in paragraphs (c) and (d) have the meanings given.

(c) "Qualifying purchaser" means:

(1) a relative of the seller;

(2) a worker-owned cooperative established by a majority of the seller's employees, as of the date of sale, under chapter 308A or 308B; or

(3) an employee stock ownership plan as defined in section 4975(e)(7) of the Internal Revenue Code.

For purposes of clause (1), "relative" means a grandchild, child, sibling, parent, grandparent, stepparent, stepchild, uncle, aunt, nephew, or niece of the seller of the qualifying farm or small business property or of the spouse of the seller.

(d) "Qualifying small business property" means the assets of a trade or business or shares of stock or other ownership interests in a corporation or other entity engaged in a trade or business, other than agricultural land, provided that:

(1) shares or ownership interests are not traded on a public stock exchange during the three-year period ending on the date of sale in paragraph (a);

(2) during the taxable year in which the sale in paragraph (a) occurs, the business must not have been a passive activity within the meaning of section 469(c) of the Internal Revenue

Code, and the seller must have materially participated in the trade or business within the meaning of section 469(h) of the Internal Revenue Code;

(3) the gross annual sales of the trade or business were $10,000,000 or less for the last taxable year that ended before of the date of sale in paragraph (a);

(4) except for replacement property, the seller continuously owned the property for the three-year period ending on the date of sale in paragraph (a); and

(5) all of the assets, shares, or ownership interests of the trade or business owned by the seller are sold at their fair market value to a qualifying purchaser.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2022.