



Additions to income

- 1 Interest from municipal bonds of another state or its governmental units included on line 8b of federal Form 1040 or 1040A **1** ■
- 2 Federally tax-exempt dividends from mutual funds investing in bonds of another state or its governmental units included on line 8b of federal Form 1040 or 1040A **2** ■
- 3 Federal bonus depreciation addition (*determine from worksheet in the instructions*) **3** ■
- 4 Federal section 179 expensing addition (*determine from worksheet in the instructions*) **4** ■
- 5 State income taxes passed through to you as a partner of a partnership, a shareholder of an S corporation or a beneficiary of a trust (*see instructions*) **5** ■
- 6 Domestic production activities deduction (*from line 35 of federal Form 1040*) **6** ■
- 7 Additional standard deduction for motor vehicle sales tax (*from line 17 federal Schedule L of Form 1040 or 1040A*) **7** ■
- 8 **The need for line 8 has been eliminated. Leave blank.** **8**
- 9 **The need for line 9 has been eliminated. Leave blank.** **9**
- 10 Expenses deducted on your federal return attributable to income not taxed by Minnesota (*other than interest or mutual fund dividends from U.S. bonds*) **10** ■
- 11 If you are an employer who provides prescription drug coverage to your retirees, enter the amount of federal tax-exempt subsidies you received for continuing these benefits ... **11** ■
- 12 Fines, fees and penalties federally deducted as a trade or business expense (*see instructions*) **12** ■
- 13 Suspended loss from 2001 through 2005, 2008 or 2009 on your federal return that was generated by bonus depreciation (*determine from worksheet in the instructions*) **13** ■
- 14 Discharge of indebtedness income from reacquisition of business debt (*see instructions*) .. **14** ■
- 15 Capital gain portion of a lump-sum distribution (*from line 6 of federal Form 4972; enclose Form 4972*) **15** ■
- 16 Net operating loss carryover adjustment (*see instructions*) **16** ■
- 17 **Update:** A bill signed into law on March 21, 2011 eliminates the need for line 17. Skip line 17 and continue with line 18 **17**
- 18 Add lines 1 through 16. Enter the total here and on line 3 of Form M1 **18**

Subtractions are on the back of this schedule.



Subtractions from income

19	If you did not itemize deductions on your federal return and your charitable contributions were more than \$500, see instructions	19
20	Subtraction for federal bonus depreciation added back to Minnesota taxable income in 2005 through 2009 (<i>determine from worksheet in the instructions</i>)	20
21	Subtraction for federal section 179 expensing added back to Minnesota taxable income in 2006 through 2009 (<i>see instructions</i>)	21
22	Subtraction for persons age 65 or older, or permanently and totally disabled (<i>enclose Schedule M1R</i>)	22
23	Benefits paid by the Railroad Retirement Board (<i>included on lines 7, 16b, 19 and 20b of Form 1040 or lines 7, 12b, 13 and 14b of Form 1040A</i>)	23
24	If you are a resident of a reciprocity state filing Form M1 only to receive a refund of all Minnesota tax withheld, enter the amount from line 1 of Form M1. If the amount is a negative number (less than zero), enter zero	24
	<ul style="list-style-type: none"> Place an X in one box to indicate the reciprocity state of which you were a resident during 2010 	
		Michigan:
		North Dakota:
25	American Indians: Total amount earned on an Indian reservation while living on the reservation, to the extent the income is federally taxable	25
26	Federal active duty military pay received for services performed while a Minnesota resident, to the extent the income is federally taxable. Do not include military pensions	26
27	If you are a member of the Minnesota National Guard or other reserve component in Minnesota, see instructions	27
28	If you are a resident of another state, enter your federal active service military pay, to the extent the income is federally taxable. Do not include military pensions	28
29	If you, your spouse (if filing a joint return) or your dependent donated all or part of a human organ, enter your unreimbursed expenses for travel and lodging and for any lost wages net of sick pay (<i>see instructions</i>)	29
30	Income taxes paid to a subnational level of a foreign country other than Canada (<i>determine from worksheet in the instructions</i>)	30
31	Job Opportunity Building Zone (JOBZ) business and investment income exemptions (<i>enclose Schedule JOBZ</i>)	31
32	Portion of the gain from the sale of your farm property if you were insolvent at the time of the sale (<i>determine from worksheet in the instructions</i>)	32
33	Post service education awards received for service in an AmeriCorps National Service program	33
34	Net operating loss (NOL) carryover adjustment (<i>see instructions</i>)	34
35	Subtraction for prior addback of reacquisition of business indebtedness income included in federal taxable income (<i>see instructions</i>)	35
36	Update: A bill signed into law on March 21, 2011 eliminates the need for line 36. Skip line 36 and continue with line 37	36
37	Add lines 19 through 35. Enter the total here and on line 8 of Form M1	37

You must include this schedule with your Form M1.

Schedule M1M Instructions 2010

Income Additions and Subtractions

What's new for 2010?

Increased section 179 expensing. Minnesota did not adopt the increased federal section 179 expensing for tax year 2010. As a result, 80 percent of the difference between the expensing allowed for federal and state tax purposes must be added to income on line 4 of Schedule M1M. The amount added back in 2010 can be taken as a subtraction in equal parts from 2011 to 2015.

Partners, shareholders or beneficiaries. Beginning with tax year 2010, the state income tax passed through as a partner of a partnership, a shareholder of an S corporation or a beneficiary of a trust must be reported on line 5 of Schedule M1M instead of line 2 of Form M1.

Net operating loss (NOL) adjustment. If you elected in 2008 or 2009 a 3-, 4- or 5-year NOL carryback under the federal Worker, Homeownership and Business Assistance Act (WHBA) of 2009, you are limited on your Minnesota return to a carryback period of two years preceding the loss. The unused portion of the loss is allowed to be carried forward for up to 20 years. See instructions for lines 16 and 34.

Subtraction for prior addback of reacquisition of business indebtedness. Minnesota did not adopt the new federal election to defer discharge of indebtedness income from reacquisition of business debt. See instructions for line 35 for more information.

Update as of March 2011
A bill signed into law on March 21, 2011, eliminates the need for Schedule M1NC and the need to add back the federal college tuition and fees deduction and educator expenses deduction to Minnesota taxable income, retroactive to tax year 2010.
As a result, disregard lines 9, 17 and 36 of Schedule M1M and any instructions regarding Schedule M1NC.

Line instructions

You may have received the addition or subtraction as an individual, as a partner of a partnership, as a shareholder of an S corporation, or as a beneficiary of a trust. If you are a partner, shareholder or beneficiary, the amounts will be reported on the Schedule KPI, KS or KF you received from the entity.

Additions

The amounts you enter on lines 1 through 17 will be added to your taxable income.

Line 1 Interest from municipal bonds of another state or its governmental units

Of the amount you included or should have included on line 8b of federal Form 1040 or Form 1040A, add the interest you received from municipal bonds issued by:

- a state other than Minnesota, and
- a local government (such as a county or city) in a state other than Minnesota.

Line 2 Federally tax-exempt dividends from mutual funds investing in bonds of another state

If you included or should have included an amount on line 8b of federal Form 1040 or Form 1040A for federally tax-exempt interest dividends from a mutual fund, you may have to include some or all of these dividends on line 2. To determine the amount to include, follow these instructions:

- If 95 percent or more of a federally tax-exempt dividend from a mutual fund came from bonds issued by Minnesota, *only* the portion of the dividend generated by non-Minnesota bonds must be included on line 2.
- If less than 95 percent of the federally tax-exempt interest dividend from a mutual fund came from bonds issued by Minnesota, *all* of the federally tax-exempt interest dividend from that fund must be included on line 2.

Line 3 Federal bonus depreciation addition

If you chose the special depreciation allowance for qualified property on federal Form 1040, you must add back 80 percent of the bonus depreciation to your taxable income. See *Worksheet for line 3* below.

Line 4 Federal section 179 expensing

If, during the year, your total investment in qualifying property was more than \$200,000, or if you elected more than \$25,000 in section 179 expensing, you must add back on your state return 80 percent of the difference between the expensing allowed for federal and for state tax purposes. You may subtract the amount of the addition in equal parts over the next five years.

If you completed federal Form 4562 to claim the section 179 expensing for federal tax purposes, you must complete lines 1 through 12 on a *separate* federal Form 4562, (referred to as Minnesota Form 4562 on the worksheet for line 4) to determine the amount you need to add back for Minnesota purposes. See *Worksheet for line 4* on the next page.

Line 5 State income taxes passed through to you as a partner of a partnership, a shareholder of an S corporation or a beneficiary of a trust

Include your pro rata share of income taxes paid by the partnership, S corporation, estate or trust that were deducted in arriving at the entity's ordinary income or net rental income. This amount, if any, will be provided on the Schedule KPI, KS or KF you received from the entity. Do not include this amount on line 2 of Form M1.

Line 7 Additional standard deduction for motor vehicle sales tax

If you did not itemize on your federal return, you must add back to your state return any amounts taken as a deduction for motor vehicle sales tax for certain vehicles purchased in 2009.

Continued

Worksheet for line 3

1	Add line 14 and line 25 of your federal Form 4562*	_____
2	Total of bonus depreciation amounts passed through to you as a partner (from line 5 of Schedule KPI) or as a shareholder (from line 5 of Schedule KS) . . .	_____
3	Add steps 1 and 2	_____
4	Multiply step 3 by 80% (.80)	_____
5	Total of the 80% federal bonus depreciation addition passed through to you as a beneficiary (from line 6 of Schedule KF)	_____
6	Add steps 4 and 5. Enter here and on line 3 of Schedule M1M	_____

* If bonus depreciation included in step 1 or 2 generated a loss in an activity that cannot be deducted in 2010 (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 2010, up to the bonus depreciation claimed by the activity. In a future year when the 2010 suspended loss is allowed, you must include the bonus depreciation as an addition. The bonus depreciation is treated as the last suspended loss allowed.

Form 1040 filers who itemized deductions and Form 1040EZ filers: Skip this line.

Form 1040 filers who did not itemize and 1040A filers: Use the amount from line 17 of federal Schedule L (Form 1040 or 1040A).

**Line 8
Unemployment compensation**

If you or your spouse excluded unemployment compensation from federal Form 1040 or line 3 of Form 1040EZ, you must add back the excluded amount on line 8.

The need for line 8 has been eliminated. Leave blank.

**Line 10
Expenses relating to income not taxed by Minnesota, other than from U.S. bond obligations**

If you deducted expenses on Schedule A of Form 1040 that are attributable to income not taxed by Minnesota (income reported on lines 23 through 28 of Schedule M1M), you must add those expenses to your taxable income. Enter amounts on line 10.

Do not include expenses that are attributable to interest or mutual fund dividends from U.S. bonds. For information on how to report these expenses, see line 6 on page 10 of the M1 instructions.

**Line 12
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. Do 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 13
Suspended loss from bonus depreciation**

If you are claiming a suspended loss from 2001 through 2005, 2008 or 2009 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, see *Worksheet for line 13* on this page.

**Line 14
Discharge of business indebtedness income**

If you elected to defer federally the discharge of indebtedness income from reacquisition of business debt, you must add back the excluded amount on your Minnesota return.

**Line 15
Capital gain portion of a lump-sum distribution from a qualified retirement plan**

If you received a qualifying lump-sum distribution in 2010 and you chose the capital gain election on federal Form 4972, enter the capital gain from line 6 of federal Form 4972. You must include a copy of federal

**Worksheet for line 4
Recalculate line 12 of your Minnesota Form 4562 using the same information from your federal Form 4562 and the following modifications:**

- Subtract \$475,000 from line 1 of federal Form 4562, and enter the result on line 1 of your Minnesota Form 4562.
- Enter the amount from line 2 of federal Form 4562 on line 2 of the Minnesota Form 4562.
- Subtract \$1,800,000 from line 3 of federal Form 4562, and enter the result on line 3 of your Minnesota Form 4562.
- Enter the information from lines 6 and 7 of federal Form 4562 on lines 6 and 7 of your Minnesota Form 4562. However, if you have section 179 expensing from a flow through entity, use the respective amounts from line 4 of Schedule KPI or line 4 of Schedule KS instead of amounts from your federal Schedule K-1.
- Enter line 10 of federal Form 4562 on line 10 of your Minnesota Form 4562.
- Recalculate lines 4, 5, 8, 9, 11 and 12 of your Minnesota Form 4562. The result on line 12 of Minnesota Form 4562 cannot be more than line 1 of that form.

Determine line 4 of Schedule M1M by completing the following steps:

- 1 Amount from line 12 from your federal Form 4562
- 2 Line 12 of your Minnesota Form 4562
- 3 Subtract step 2 from step 1 (if zero or less, enter 0)
- 4 Multiply step 3 by 80% (.80). Enter here and on line 4 of Schedule M1M ..

Form 4972 when you file your return. Also, see the instructions for line 15 on page 13 of the M1 instructions.

**Line 16
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 2010, you must add back the federal NOL amount as a positive number on line 16.

**Line instructions
Subtractions**

The amounts entered on lines 19 through 36 will be subtracted from your taxable income.

**Line 19
Charitable contributions over \$500**

If you did not itemize deductions and you took the standard deduction on your federal return, you may be able subtract 50 percent

of your total contributions for the year over \$500. To determine your allowable contributions, you will need the instructions for federal Schedule A of Form 1040.

Complete the following steps to determine line 19 of Schedule M1M.

- 1 Determine your total allowable charitable contributions you would have been able to enter on lines 16 and 17 of federal Schedule A ..
- 2 The first \$500 of contributions do not qualify
- 3 Subtract step 2 from step 1
- 4 Multiply step 3 by 50% (.50). Enter here and on line 19

**Line 20
Federal bonus depreciation subtraction**

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

- reported 80 percent of the federal bonus depreciation as an addition to income on your 2005 through 2009 Form M1, or
- received a federal bonus depreciation subtraction in 2010 from an estate or trust.

To determine the amount, see *Worksheet for line 20* on the following page.

Worksheet for line 13

- 1 Bonus depreciation from 2001 through 2005, 2008 or 2009 that was not added back on your Form M1
- 2 Total suspended loss from activity remaining after 2010
- 3 Subtract step 2 from step 1 (if a negative amount, enter zero)
- 4 Multiply step 3 by 80% (.80)
- 5 Total of the 80% bonus depreciation addition passed through to you as a beneficiary (from line 4 of Schedule KF)
- 6 Add steps 4 and 5. Enter here and on line 13 of Schedule M1M

Line 21

Section 179 expensing subtraction

If you had an addition for increased section 179 expensing on your 2006 through 2009 Schedule M1M, you may subtract 20 percent of the total on your 2010 return.

Line 22

Subtraction for persons 65 or older or permanently and totally disabled (Schedule M1R)

You can reduce your taxable income if you (or your spouse, if filing a joint return) are:

- age 65 or older by the end of 2010, or
- permanently and totally disabled and received federally taxable disability income in 2010. If you did not receive federally taxable disability income, you don't qualify for this subtraction.

If you (or your spouse, if filing a joint return) meet the age or disability requirement, check the chart on page 12 of the M1 instructions to determine if you meet the income requirements.

If you meet all of the eligibility requirements, complete and include Schedule M1R, *Age 65 or Older/Disabled Subtraction*.

Line 23

Railroad Retirement Board benefits

If you received unemployment, sick pay or retirement benefits from the Railroad Retirement Board in 2010, you can subtract these amounts from your federal taxable income.

Line 24

Reciprocity income

Minnesota has income tax reciprocity agreements with Michigan and North Dakota. Reciprocity applies only to personal service income, which includes wages, salaries, tips, commissions, fees and bonuses. For additional information, see page 5 of the M1 instructions.

When to complete Schedule M1M: If you are a resident of a reciprocity state and your only Minnesota source income is wages covered under reciprocity from which Minnesota income tax was withheld, use Schedule M1M to get a refund of the amount withheld. Place an X in the box to indicate the state of which you were a resident during the year, and enter the amount from line 1 of Form M1 on line 24 of this schedule.

When you file Form M1, follow the steps on page 5 of the M1 instructions. You must also complete and include Schedule M1W, Form MWR and a copy of your home state tax return.

To avoid having Minnesota tax withheld in the future on wages covered by reciprocity, file Form MWR each year with your employer.

Worksheet for line 20

If you claimed bonus depreciation as an addition on your 2005 Form M1:

1 Line 6 of your 2005 Schedule M1M	1 _____
2 Net operating loss generated for tax year 2005 (line 25, Schedule A of 2005 federal Form 1045). Enter as a positive number	2 _____
3 Subtract step 2 from step 1 (if zero or less, enter 0)	3 _____
4 Multiply step 3 by 20% (.20)	4 _____

If you claimed bonus depreciation as an addition on your 2006 Form M1:

5 Line 6 of your 2006 Schedule M1M	5 _____
6 Net operating loss generated for tax year 2006 (line 25, Schedule A of 2006 federal Form 1045). Enter as a positive number	6 _____
7 Subtract step 6 from step 5 (if zero or less, enter 0)	7 _____
8 Multiply step 7 by 20% (.20)	8 _____

If you claimed bonus depreciation as an addition on your 2007 Form M1:

9 Line 6 of your 2007 Schedule M1M	9 _____
10 Net operating loss generated for tax year 2007 (line 25, Schedule A of 2007 federal Form 1045). Enter as a positive number	10 _____
11 Subtract step 10 from step 9 (if zero or less, enter 0)	11 _____
12 Multiply step 11 by 20% (.20)	12 _____

If you claimed bonus depreciation as an addition on your 2008 Form M1:

13 Line 6 of your 2008 Schedule M1M	13 _____
14 Net operating loss generated for tax year 2008 (line 25, Schedule A of 2008 federal Form 1045). Enter as a positive number	14 _____
15 Subtract step 14 from step 13	15 _____
16 Multiply step 15 by 20% (.20)	16 _____

If you claimed bonus depreciation as an addition on your 2009 Form M1:

17 Line 3 of your 2009 Schedule M1M	17 _____
18 Net operating loss generated for tax year 2009 (line 25, Schedule A of 2009 federal Form 1045). Enter as a positive number	18 _____
19 Subtract step 18 from step 17	19 _____
20 Multiply step 19 by 20% (.20)	20 _____

If you received a subtraction in 2010 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 13 of Schedule KF)	21 _____
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Total subtraction

22 Add steps 4, 8, 12, 16, 20 and 21. Enter here and on line 20 of Schedule M1M	22 _____
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When to complete Schedule M1NR: If your gross income assignable to Minnesota (other than from the performance of personal services covered under reciprocity) is \$9,350 or more, you are subject to Minnesota tax on that income. File Form M1 and Schedule M1NR. You are not eligible to take the reciprocity subtraction on Schedule M1M. Do not include your personal service income on column B of Schedule M1NR.

Line 25

American Indians living on an Indian reservation

If you are a member of an American Indian tribe living and working on the reservation of which you are an enrolled member, enter your reservation source income on line 25, to the extent the income is federally taxable.

If you are eligible to subtract reservation source income, you must apportion any working family or child care credit you claim based on your income taxable to Minnesota.

Line 26

Federal active duty military pay received by residents

If you are a Minnesota resident who is a member of the United States or United Nations armed forces, enter the military pay you received for federal active duty, to the extent the income is federally taxable. Include any National Guard and Reservist members who have been called up to federal active duty.

Line 27

National Guard members, Reservists

Members of the Minnesota National Guard and Reserves are allowed a subtraction, to the extent the income is federally taxable, for pay received for training and certain types of qualifying active service within Minnesota.

- Training includes annual training and drill weekends.
- State active service includes natural disaster emergency response and missing person searches.

- Federally funded state active service includes airport security duty and active duty for special work (ADSW).

If you received pay for federal active duty, report this amount on line 26 instead of line 27.

Do not include pay for service performed under the Active Guard Reserve (AGR) program.

**Line 29
Organ donor**

If, while living, you, your spouse (if filing a joint return), or a dependent donated a human organ to another person, you may be able to subtract your qualified expenses. An organ may include all or part of a liver, pancreas, kidney, intestine, lung or bone marrow.

Qualified expenses are your unreimbursed expenses for travel and lodging and for any lost wages net of sick pay due to the transplantation. The maximum amount you may subtract is your actual qualified expenses or \$10,000, whichever is less.

**Line 30
Income taxes paid to a subnational level of a foreign country**

If you paid taxes to a subnational level of a foreign country *other than Canada*, you may be able to subtract the amount you did not use to claim a federal foreign tax credit. A subnational level is the equivalent of a state of the United States. See *Worksheet for line 30* above.

**Line 31
JOBZ subtractions**

Individuals who invest in or operate a qualified business in a Job Opportunity Building Zone (JOBZ) may be able to subtract certain types of income, to the extent that the income would otherwise be taxable.

Complete and include Schedule JOBZ, *JOBZ Tax Benefits*, if in 2010 you received:

- income from operating a qualified business in a zone,
- income for renting real or tangible personal property used by a qualified business located in a zone,
- gains from the sale or exchange of real or tangible personal property used by a qualified business located in a zone, or
- gains from the sale of an ownership interest in a qualified business.

If you received JOBZ income as a partner, shareholder or beneficiary, these amounts are shown on the Schedule KPI, KS or KF you received from the entity. There is no need for you to complete Schedule JOBZ.

Worksheet for line 30

1 Foreign taxes paid from line 9 of federal Form 1116	_____
2 Federal foreign tax credit from line 21 of Form 1116 for the subnational level of a foreign country other than Canada	_____
3 Subtract step 2 from step 1	_____
4 Tax paid to a subnational level of a foreign country, other than Canada, on income you received while a Minnesota resident	_____
5 Amount from step 3 or step 4, whichever is less. Also enter this amount on line 30 of Schedule M1M	_____

**Line 32
Gain from the sale of farm property**

You can reduce your taxable income if you received a gain from the sale of farm property in 2010 and:

- you owned and operated the farm,
- your debts were greater than the fair market value of your assets immediately before the sale,
- you included the gain from the sale in your federal adjusted gross income on line 37 of federal Form 1040, and
- you applied the proceeds from the sale of the property to paying off the mortgage, contract for deed, or lien on the property.

See *Worksheet for line 32* below.

**Line 33
Post service education awards received for service in an AmeriCorps National Service program**

If you received a post service education award, such as tuition reimbursements or student loan payments, from the federal government in 2010 for service in the AmeriCorps program, you can subtract the amount you included in your federal taxable income. On line 33, fill in the amount you received after leaving the program.

Do not include the stipend received while working in the program.

If your education award was used to pay for a student loan, and you deducted the student loan interest on line 33 of Form 1040 or line 18 of Form 1040A, you must reduce your subtraction by the interest attributable to the award.

**Line 34
Net operating loss (NOL) from 2008 or 2009**

Minnesota did not adopt the provisions of the Worker, Homeowner, 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 34, enter the amount you are carrying forward for 2010 for Minnesota purposes.

For complete information on how to determine line 34 and any amount to carry forward, go to our website at www.taxes.state.mn.us.

**Line 35
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 35.

Worksheet for line 32

1 Amount of your debts immediately before the sale	_____
2 Amount of debt forgiveness that you were permitted to exclude from your income when you completed your Form 1040	_____
3 Subtract step 2 from step 1	_____
4 Fair market value of your assets immediately before the sale	_____
5 Subtract step 4 from step 3	_____
6 Gain from the sale included on line 37 of Form 1040	_____
7 Step 5 or step 6, whichever is less. Also enter this amount on line 32 of Schedule M1M	_____