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Minnesota Expands Definition of “Financial Institution” for Tax Purposes

Legal Update

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Effective for tax years beginning after December 31, 2016, a “financial institution” for Minnesota tax purposes includes both corporations and “other business entities,” such as limited liability companies, that perform financial institution activities. Prior to the amendment expanding the definition of “financial institution,” the statute defined financial institutions to include only corporations. The amendment, which was enacted as part of the omnibus tax bill during the 2017 special legislative session, responds to the Minnesota Tax Court’s opinion in *Associated Bank, N.A. v. Commissioner of Revenue*. In *Associated Bank*, the Minnesota Tax Court held that bank subsidiary limited liability companies were not “financial institutions” under Minnesota law for tax purposes because they were not corporations. The Tax Court explained, “We agree that by creating LLCs ... Appellants took advantage of a tax loophole to minimize their Minnesota tax liability. But it is up to the legislature to close tax loopholes—not the Commissioner or the courts.”