

Federal Update: Public Law 119-21

	FY 2026	FY 2027	FY 2028	FY 2029
			((\$000s))	
Individual Income Tax	(\$165,410)	(\$35,820)	(\$32,240)	\$31,550
Corporate Franchise Tax	<u>(\$266,510)</u>	<u>\$34,750</u>	<u>\$71,820</u>	<u>\$64,390</u>
General Fund Total	(\$431,920)	(\$1,070)	\$39,580	\$95,940

NOTE: *This document is an estimate of the impact of adopting recent changes to the Internal Revenue Code with no corresponding Minnesota tax policy changes. The estimate for bonus depreciation assumes an 80% addition and corresponding subtractions over five years. The estimate for Section 179 expensing assumes full conformity, consistent with current law.*

Public Law 119-21 was enacted on July 4, 2025. This estimate shows the fiscal impact of updating references to the Internal Revenue Code to July 4, 2025. Most provisions are effective beginning with tax years 2025 or 2026. The attached table includes the fiscal impact of each provision.

- Most estimates are based on the estimates of the federal impacts prepared by the staff of the Joint Committee on Taxation, dated July 1, 2025. The estimates for each provision were apportioned to Minnesota based on information relevant to that provision. The estimates were adjusted for the difference between federal and state tax rates and federal and state fiscal years.
- The first fiscal year impact will depend on the timing of enactment. This estimate assumes enactment before the tax year 2025 filing season. If the bill were enacted at the end of the 2026 legislative session, the fiscal year 2026 impacts would shift to fiscal year 2027.

0.5% Floor on Deduction for Charitable Contributions

- The impact of the floor on charitable deductions was estimated using The House Income Tax Simulation Model (HITS 7.5). These simulations assume the same economic conditions used by Minnesota Management and Budget for the budget forecast published February 2025. The model uses a stratified random sample of tax year 2022 individual income tax returns compiled by the Minnesota Department of Revenue.
- The floor would affect the itemized deduction and the charitable subtraction for nonitemizers.
- About 710,100 returns (including 121,400 itemizers) would have an average increase in tax of \$58 in tax year 2026.
- Tax year impacts were allocated to the following fiscal year.

Enhancement of Dependent Care Credit

- The estimate is based on a sample of 2023 income tax returns.
- The credit was recalculated for returns with income below the phase-out range using the increased federal rates.
- The credit would increase by \$13.5 million in tax year 2023 on 32,500 returns. The average decrease in tax would be \$414.

- The estimate is grown based on projected growth in the credit in the February 2025 economic forecast.
- Tax year impacts were allocated to the following fiscal year.

Expensing of Domestic Research and Experimental Expenditures

- The estimate is based on information from the IRS Statistics of Income Line Item Estimates for corporate and income tax returns.
- The amount of research and experimental expenditures is based on amounts reported on Form 4562.
- Beginning with tax year 2025, domestic expenses are assumed to be expensed immediately rather than deducted over five years. International expenses would continue to be depreciated over fifteen years.
- Retroactive impacts for expenses claimed for tax years 2022 through 2024 are allocated to fiscal year 2026. All other tax year impacts are allocated 30% to the current fiscal year and 70% to the following fiscal year.

Minnesota Department of Revenue
Tax Research Division
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Provisions with a TY 2025 impact are shaded gray.

	FY 2026	FY 2027	FY 2028	FY 2029
Individual Provisions				
Termination of qualified bicycle commuting reimbursement exclusion (beginning TY26)	\$0	\$100	\$100	\$200
Extension and modification of qualified transportation fringe benefits (beginning TY26)	\$0	(\$1,900)	(\$2,200)	(\$2,300)
Extension of limitation on deduction and exclusion for moving expenses (beginning TY26)	\$0	\$9,800	\$11,500	\$12,100
0.5-percent floor on deduction of charitable contributions made by individuals (beginning TY26)	\$0	\$41,400	\$43,300	\$44,800
Extension and modification of limitation on wagering losses (beginning TY26)	\$0	\$800	\$1,100	\$1,900
Extension of rollovers from qualified tuition programs to ABLE accounts permitted (beginning TY26)	\$0	(Negl.)	(\$10)	(\$10)
Extension of treatment of certain individuals performing services in the Sinai Peninsula and enhancement to include additional areas (beginning TY26)	\$0	(\$10)	(\$10)	(\$10)
Tax credit for contributions to scholarship granting organizations; exclusion for scholarships received (beginning tax year 2027)	\$0	\$0	\$4,000	\$3,200
Exclusion for employer payments of student loans (beginning TY26)	\$0	(\$9,600)	(\$10,000)	(\$10,700)
Trump Accounts (beginning TY25)	(Negl.)	(Negl.)	(Negl.)	(\$200)
Certain postsecondary credentialing expenses treated as higher education expenses (beginning TY26)	\$0	(\$200)	(\$200)	(\$300)
Enhancement of dependent care assistance program (beginning TY26)	\$0	(\$5,000)	(\$5,400)	(\$5,800)
Enhancement of dependent care tax credit (beginning TY26)	\$0	(\$14,300)	(\$14,700)	(\$15,100)
Subtotal: Individual Provisions	\$0	\$21,090	\$27,480	\$27,780
Business and Investment Provisions				
FICA tip credit expansion (beginning TY25)				
Individual Income Tax	\$100	\$100	\$100	\$100
Corporate Franchise Tax	\$10	\$20	\$20	\$20
Increased dollar limitation for Section 179 expensing (beginning TY25)				
Individual Income Tax	(\$11,700)	(\$14,600)	(\$9,800)	(\$6,700)
Corporate Franchise Tax	(\$4,400)	(\$5,500)	(\$3,700)	(\$2,500)
Bonus depreciation with 80% addition and subtractions over 5 years (beginning TY25)				
Individual Income Tax	(\$4,000)	\$7,700	\$9,400	\$3,800
Corporate Franchise Tax	(\$8,200)	\$15,700	\$19,200	\$7,900

	FY 2026	FY 2027	FY 2028	FY 2029
Treatment of certain sound recording productions (beginning TY26)				
Individual Income Tax	(\$10)	(\$10)	(\$20)	(\$30)
Corporate Franchise Tax	(\$10)	(\$30)	(\$40)	(\$50)
Full expensing of domestic research and experimental expenditures (beginning TY25)				
Individual Income Tax	(\$96,000)	(\$27,000)	(\$3,500)	(\$3,600)
Corporate Franchise Tax	(\$242,000)	(\$52,100)	(\$8,800)	(\$9,100)
Modification of limit on business interest (beginning TY25)				
Individual Income Tax	(\$53,700)	(\$35,700)	(\$25,100)	(\$20,600)
Corporate Franchise Tax	(\$12,000)	(\$8,000)	(\$5,600)	(\$4,600)
Extension and enhancement of paid family medical leave credit (beginning TY26)				
Individual Income Tax	\$0	\$800	\$900	\$1,200
Corporate Franchise Tax	\$0	\$800	\$900	\$1,200
Exceptions from limitations on deduction for business meals (beginning TY26)				
Individual Income Tax	\$0	(\$500)	(\$600)	(\$800)
Corporate Franchise Tax	\$0	(\$200)	(\$300)	(\$300)
Exclusion of gain invested in qualified opportunity zone (beginning TY27)				
Individual Income Tax	\$0	(\$38,400)	(\$71,300)	(\$70,300)
Corporate Franchise Tax	\$0	(\$8,600)	(\$16,000)	(\$15,800)
1-percent floor on deduction of charitable contributions made by corporations (beginning TY26)				
Corporate Franchise Tax	\$0	\$0	\$12,500	\$9,700
Exception to percentage of completion method of accounting for certain residential construction contracts (beginning TY26)				
Individual Income Tax	\$0	(\$5,800)	(\$3,500)	(\$2,100)
Corporate Franchise Tax	\$0	(\$1,200)	(\$700)	(\$400)
Qualified small business stock gain exclusion (beginning TY25)				
Individual Income Tax	\$0	\$900	\$500	(\$300)
Exclusion of interest on loans secured by rural or agricultural real property (beginning TY25)				
Individual Income Tax	(\$200)	(\$600)	(\$900)	(\$1,200)
Corporate Franchise Tax	(\$10)	(\$40)	(\$70)	(\$90)
Restoration of taxable REIT subsidiary asset test (beginning TY26)				
Individual Income Tax	\$0	(\$700)	(\$800)	(\$900)
Termination of energy efficient commercial buildings deduction (beginning TY26)				
Individual Income Tax	\$0	\$0	\$100	\$100
Corporate Franchise Tax	\$0	\$0	\$10	\$10
Termination of 5-year cost recovery for wind and solar energy property (beginning TY25)				
Individual Income Tax	\$100	\$200	\$200	\$200
Corporate Franchise Tax	\$100	\$200	\$200	\$200

	FY 2026	FY 2027	FY 2028	FY 2029
Limitation on excess business loss of noncorporate taxpayers (beginning TY26)				
Individual Income Tax	\$0	\$1,400	\$1,300	\$27,700
Excessive employee remuneration from controlled group members and allocation of deduction (beginning TY26)				
Corporate Franchise Tax	\$0	\$8,200	\$7,700	\$8,300
Enhancement of employer-provided childcare credit (beginning TY26)				
Individual Income Tax	\$0	\$55,300	\$43,300	\$77,200
Corporate Franchise Tax	\$0	\$76,500	\$59,800	\$61,500
Business and Investment Provisions				
Individual Income Tax	(\$165,410)	(\$56,910)	(\$59,720)	\$3,770
Corporate Franchise Tax	(\$266,510)	\$25,750	\$65,120	\$55,990
Subtotal	(\$431,920)	(\$31,160)	\$5,400	\$59,760
International Income Provisions				
Replace GILTI with net CFC tested income (beginning TY26)				
Corporate Franchise Tax	\$0	\$3,900	\$3,900	\$5,400
Permanent extension of look-thru rule for related Controlled Foreign Corporations (beginning TY26)				
Corporate Franchise Tax	\$0	(\$4,500)	(\$4,500)	(\$4,800)
Repeal of election for 1-month deferral in determination of taxable year of specified foreign corporations (beginning TY26)				
Corporate Franchise Tax	\$0	\$3,400	\$0	\$0
Restoration of limitation on downward attribution of stock ownership in applying constructive ownership rules (beginning TY26)				
Corporate Franchise Tax	\$0	(\$1,400)	(\$1,400)	(\$1,500)
Modifications to pro rata share rules (beginning TY26)				
Corporate Franchise Tax	\$0	\$7,600	\$8,700	\$9,300
International Income Provisions				
Corporate Franchise Tax	\$0	\$9,000	\$6,700	\$8,400
Subtotal	\$0	\$9,000	\$6,700	\$8,400
All Provisions				
Individual Income Tax	(\$165,410)	(\$35,820)	(\$32,240)	\$31,550
Corporate Franchise Tax	(\$266,510)	\$34,750	\$71,820	\$64,390
General Fund Total	(\$431,920)	(\$1,070)	\$39,580	\$95,940