

March 4, 2026

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>	<b>X</b>	

Department of Revenue  
Analysis of S.F. 3405 (Rest), As Proposed to be Amended (SCS3405A-3)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b>	<b><u>F.Y. 2028</u></b>	<b><u>F.Y. 2029</u></b>
		(000's)		
General Fund	\$0	\$0	\$0	\$0

Effective retroactively from January 1, 2026.

**EXPLANATION OF THE BILL**

**Current Law:** Pass-through entities such as S corporations and partnerships do not generally pay state or federal income taxes directly. Their income is passed to shareholders, who report the income on their individual income tax returns.

Beginning in tax year 2021, Minnesota created a pass-through entity tax that allows a partnership, S corporation, or limited liability company to file and compute tax liability at the entity level. The pass-through entity tax is equal to the sum of the tax liability of each qualifying owner. Beginning in 2023, all of the income of a resident qualifying owner of a partnership or limited liability company taxed as a partnership is allocated to Minnesota. The income of a nonresident and a resident qualifying owner of an S corporation is allocated to the state as it is for income tax purposes. The resulting income is then multiplied by 9.85%.

Certain nonresident owners may have their Minnesota income tax filing requirement satisfied by the entity's Schedule PTE, similar to composite income tax. The other owners will receive a refundable income tax credit equal to 100% of their portion of the PTE tax paid by the entity.

If the election is made by the majority of qualifying owners of the qualifying entity (having more than 50% of the ownership interest of qualifying owners), the election is binding on all qualifying owners of the entity. The election must be made by the date the return is due or the extended due date.

The tax and credit expired after tax year 2025, at the same time as the federal limitation on state and local taxes was set to expire.

**Proposed Law:** The bill would re-enact the pass-through entity tax and the credit and extend the sunset to the end of tax year 2029. The effect is that the tax and credit would continue for tax years 2026 through 2029. The bill also extends the sunset on the credit for PTE taxes paid to another state.

**REVENUE ANALYSIS DETAIL**

- In 2024, about \$2.05 billion in PTE tax credits were claimed on 66,300 returns, including 65,600 M1 returns and 700 M2 returns.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Because the PTE tax credit offsets the tax, the net effect will generally be revenue neutral.
- It is assumed that the extension will not affect total Minnesota tax liability.
- Tax year impacts are allocated to the following fiscal year.

**Number of Taxpayers:** About 66,300 in tax year 2026.

Minnesota Department of Revenue  
Tax Research Division  
[https://www.revenue.state.mn.us/  
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)

hf3127(sf3405) PTE Tax Extension\_2 / cw