DEPARTMENT OF REVENUE

Governor's Tax Bill

April 22, 2026

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 5055 (Gomez; Davids) as Proposed to be Amended by A26-0150

	Fund Impact			
	F.Y. 2026	**F.Y. 2027**	**F.Y. 2028**	**F.Y. 2029**
		($000s)		
General Fund				
Individual Income Tax				
Federal Update	$0	($68,230)	$14,360	$77,450
Historic Structure Rehabilitation Credit	$0	$0	$0	$0
Dependent Care Credit Enhancement	$0	($153,800)	($155,700)	($157,600)
Dependent Care Expenses Addition	$0	$7,100	$7,300	$7,500
Corporate Franchise Tax				
Pass-Through Entity Tax Reenactment	$0	$0	$0	$0
Federal Update Conformity	$0	$67,040	$92,720	$83,890
Sustainable Aviation Fuel Credit	$0	($5,300)	($5,300)	($2,100)
Historic Structure Rehabilitation Credit	$0	$0	$0	$0
Sales and Use Taxes				
Base Expansion at Current Rate	$0	$140,300	$214,300	$218,400
Rate Reduction	$0	($62,600)	($95,600)	($97,500)
Interaction	$0	($1,600)	($2,500)	($2,500)
Sales Tax Transfer (Leases)	$0	$660	$1,020	$1,080
Sales Tax Transfer (Auto Parts)	$0	$1,410	$2,240	$2,340
Sales Tax Transfer (Rental Cars)	$0	$200	$310	$320
Lottery Transfers	$0	$310	$480	$480
Fireworks Transfers	$0	Negl.	Negl.	Negl.
Miscellaneous Taxes				
Cannabis Gross Receipts Tax	$0	($30)	($40)	($50)
Firearms/Ammo Tax	$0	$9,340	$14,150	$14,290
Sales Tax Interaction	$0	($960)	($1,460)	($1,470)
Appropriations				
Administration	$0	($1,003)	($1,106)	($1,045)
PTE Audit Unit	$0	($885)	($1,833)	($1,833)
General Fund Total	**$0**	**($68,048)**	**$83,341**	**$141,652**
Natural Resources and Arts Fund				
Base Expansion and Rate Reduction	$0	$8,200	$12,400	$12,600
Firearms/Ammunition Tax	$0	($60)	($90)	($90)
Natural Resources and Arts Fund Total	**$0**	**$8,140**	**$12,310**	**$12,510**

	Fund Impact			
	F.Y. 2026	F.Y. 2027	F.Y. 2028	F.Y. 2029
		($000s)		
County State Aid Highway Fund				
Base Expansion and Rate Reduction	$0	($250)	($390)	($410)
County State Aid Highway Fund Total	**$0**	**($250)**	**($390)**	**($410)**
Transit Assistance Fund				
Base Expansion and Rate Reduction	$0	($250)	($390)	($410)
Transit Assistance Fund Total	**$0**	**($250)**	**($390)**	**($410)**
Highway User Tax Distribution Fund				
Sales Tax Rate Reduction (Leases)	$0	($70)	($110)	($120)
Sales Tax Rate Reduction (Auto Parts)	$0	($1,190)	($1,600)	($1,360)
Sales Tax Rate Reduction (Rental Cars)	$0	($200)	($310)	($320)
Highway User Tax Distribution Total	**$0**	**($1,460)**	**($2,020)**	**($1,800)**
Special Revenue Fund				
Artificial Intelligence Readiness Account	$0	$47,400	$96,700	$100,400
Sales Tax Rate Reduction (Leases)	$0	($90)	($130)	($140)
Sales Tax Rate Reduction (Auto Parts)	$0	($220)	($640)	($980)
Sales Tax Rate Reduction (Lottery)	$0	($10)	($10)	($10)
Sales Tax Rate Reduction (Fireworks)	$0	(Negl.)	(Negl.)	(Negl.)
Sales Tax Base Expansion	$0	$1,700	$2,500	$2,600
Firearms/Ammunition Tax	$0	($10)	($20)	($20)
Special Revenue Fund Total	**$0**	**$48,770**	**$98,400**	**$101,850**
Housing Assistance Fund				
Base Expansion and Rate Reduction	$0	$3,200	$5,000	$5,100
Firearms/Ammunition Tax	$0	($20)	($30)	($30)
Housing Assistance Fund Total	**$0**	**$3,180**	**$4,970**	**$5,070**
Game and Fish Fund				
Base Expansion and Rate Reduction (Lottery)	$0	($140)	($220)	($220)
Game and Fish Fund Total	**$0**	**($140)**	**($220)**	**($220)**
Natural Resources Fund				
Base Expansion and Rate Reduction (Lottery)	$0	($160)	($250)	($250)
Natural Resources Fund Total	**$0**	**($160)**	**($250)**	**($250)**
Total – All Funds	**$0**	**($10,218)**	**$195,751**	**$257,992**

EXPLANATION OF THE BILL

A summary of the bill prepared by the Appeals and Legal Services Division of the Department of Revenue is attached.

REVENUE ANALYSIS DETAIL

Federal Update – Article 1

Federal Update (Article 1, Sec. 1, 6, 8, 29 & 30)

- 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. Since the tax year 2025 filing season has begun, any changes that affect tax year 2025 or earlier are assumed to fall in fiscal year 2027.

0.5% Floor on Deduction for Charitable Contributions (Article 1, Sec. 9)

- The impact of the floor on charitable deductions was estimated using The House Income Tax Simulation Model (HITS 7.6). These simulations assume the same economic conditions used by Minnesota Management and Budget for the budget forecast published February 2026. The model uses a stratified random sample of tax year 2023 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 596,800 returns would have an average increase in tax of $33 in tax year 2026.
- Tax year impacts were allocated to the following fiscal year.

Domestic Research and Experimental Expenditures (Article 1, Secs. 11, 13, 17 & 19)

- The estimate is based on the amounts of Experimental and Research Expenditures reported in the 2022 IRS Statistics of Income "Line Item Estimates for Corporation Income Tax Returns and Individual Income Tax Returns."
- From Form 4562, the total corporate amortization costs for Section 174 are about $34 billion, 42.7% of the total amortization costs. That percentage is applied to the total amortization costs reported on individual income tax returns to give an estimated $1.6 billion in Section 174 amortization costs on income tax returns.
- Due to the prior law amortization schedule of five years, the amounts above are assumed to equal 1/5 of the total Research and Experimental Expenses. Those totals are multiplied by five to get the annual expense amount. It is assumed that 80% of these totals are domestic expenses and eligible for immediate expensing.
- The total expenses for corporations are apportioned to Minnesota at 1%. Total expenses for individuals are apportioned to Minnesota at 1.9%. Expenses are assumed to grow at 3% a year.
- A prior law baseline is established by amortizing these amounts over five years to calculate how the deductions flow into Minnesota income.
- For 2025 and beyond, the immediate deduction amounts are equal to the estimated annual total research and experimental expenses. The addition is calculated as 80% of that annual total. Adding back 80% of the immediate deductions essentially brings back the five-year amortization schedule of prior law. The subtractions in the four taxable years following the addition are equal to 25% of the addition amount.
- Small businesses (corporations with gross receipts of $31 million or less) accounted for 5% of the research expenses reported on Schedule RD in 2022. It is assumed that 5% of the total research and experimental expenses in 2022-2024 would be eligible for federal retroactive expensing.

REVENUE ANALYSIS DETAIL (Cont.)

- The bill would require an addition equal to 80% of that amount. The subtractions in the four taxable years following the addition are equal to 25% of the addition amount.
- The accelerated expenses are calculated by multiplying the years left on the prior law five-year schedule by the deduction amount for each year. For example, the 2022 prior law deduction amount is multiplied by two because deductions for three of the five years had already been claimed: 2022, 2023 and 2024.
- Taxpayers may claim the accelerated deductions in the first taxable year beginning after December 31, 2024, or ratably over the two taxable year period beginning with the first taxable year beginning after December 31, 2024. It is assumed that 75% of taxpayers will deduct the amount in the first taxable year while 25% of taxpayers deduct the amount ratably over two taxable years. These amounts are an addition in tax years 2025 and 2026, which effectively removes the impact of the accelerated provision.
- Taxpayers are allowed a subtraction equal to the amount of the deduction allowed if the taxpayer did not make the accelerated election under P.L. 119-21, section 70302, subsection (f)(2)(A)(i) or (ii). This effectively returns the accelerated amounts to the prior law five-year schedule.
- The tax year impact of the proposal is estimated by comparing the deductions flowing through to Minnesota under prior law to the deductions flowing through under the proposal and multiplying that amount by the applicable tax rate. For corporate franchise tax, a rate of 9.8% was used. For individual income tax, an average marginal rate of 8% is assumed.
- Retroactive impacts are allocated to fiscal year 2027. All other tax year impacts are allocated 30% to the current fiscal year and 70% to the following fiscal year.

Addition for Exclusion of Gain in Opportunity Zone (Article 1, Secs. 12, 14, 18, 20 & 22)

- The provision would require an addition for capital gains from investments in opportunity zones. It is assumed that the provision would be revenue neutral.

Subtraction for Net CFC Tested Income (Article 1, Secs. 15, 21, 23, & 27)

- The amount of the interest expense component is unknown on an individual taxpayer or aggregate level.
- Because the proposed subtraction is less than the former federal GILTI deduction for taxpayers with qualified interest expenses, the proposal would result in an increase in tax for some taxpayers. The size of the impact is unknown.

<u>Individual Income & Corporate Franchise Taxes –Article 2</u>

Sustainable Aviation Fuel Credit (Article 2, Secs. 1-4)

Effective beginning with tax year 2026. Increased credit allocations are effective beginning with fiscal year 2027.

- No credits were claimed in FY 2025, carrying over the full credit amount to FY 2026.
- As SAF demand increases over time, any unallocated credits from FY 2026 will be carried over and exhausted in FY2027.

REVENUE ANALYSIS DETAIL (Cont.)

- One facility with the capacity of blending up to 30 million gallons of SAF was projected to be completed in the fourth quarter of 2025. The estimate assumes blending 30 million gallons of SAF annually. Of these 30 million gallons, it is assumed that 15 million gallons are eligible for the $1.50 per gallon credit.
- One airline that uses 250 million gallons of aviation fuel a year plans to use 10% SAF by 2027 and 50% by 2035. This estimate assumes SAF demand starts at 5% of 250 million gallons in 2026, growing by 5% each year afterward.
- It is assumed that the immediate impact of the enhanced tax credit rate will be negligible based on current supply.
- Fiscal year impact is assumed to occur in the same fiscal year the credits are allocated.

Pass-Through Entity Tax Reenactment (Article 2, Secs. 5, 6, 8, 9, & 12)
Effective retroactively from January 1, 2026.

- 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.
- 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.

Dependent Care Credit Enhancement and Expenses Addition (Article 2, Secs. 7 & 10)
Effective beginning with tax year 2026. The increased maximum expenses for young children are effective for tax years 2026 through 2030.

- The dependent care credit totaled about $28.2 million on 44,300 returns in 2023.
- The estimate was calculated relative to current law and adjusted to remove the impact of the expanded federal credit.
- Information from the Minnesota dependent care credit and the federal dependent care credit was used to estimate the proposed credit.
- Dependent age information was mostly based on information reported on M1DQC – Dependents and Qualifying Children.
- For taxpayers who did not file M1DQC but claimed the Minnesota credit, dependent age was determined based on information reported on the M1CD – Child and Dependent Care Credit.
- The credit rate was calculated based on federal adjusted gross income. The thresholds were adjusted to 2023 levels based on the change in the chained consumer price index from 2023 to 2026.
- For taxpayers who did not claim the federal credit or the Minnesota credit, expenses were estimated based on the amount of dependent care benefits reported on the W-2. Taxpayers with the maximum exclusion were assumed to have the maximum allowed benefits for the credit.
- About 104,800 returns would qualify for the proposed credit in 2023. The average credit would be $1,818.
- Of the qualifying returns, about 61,100 returns had dependents under the age of 5. Their average increase in credit is $2,061.

REVENUE ANALYSIS DETAIL (Cont.)

- It is assumed that returns with a credit rate less than their marginal tax rate would not claim the credit, since they would get a greater benefit from the federal exclusion.
- Returns with excluded federal dependent care benefits would have to add the excluded amount to their taxable income to claim the credit. The amount of the credit was compared to the increase in tax due to the addition. Taxpayers are assumed to claim the credit only if they have a net reduction in tax.
- About 25,800 returns would have an addition for federally excluded dependent care benefits. The average addition would be $3,559.
- A marginal rate of 7.1% is used to estimate the impact of the addition.
- Growth is based on the projected growth for the current credit in the February 2026 forecast.
- The impact of the enhanced dependent care credit was estimated using The House Income Tax Simulation Model (HITS 7.6). These simulations assume the same economic conditions used by Minnesota Management and Budget for the budget forecast published February 2026. The model uses a stratified random sample of tax year 2023 individual income tax returns compiled by the Minnesota Department of Revenue.
- About 35,800 returns would have an average decrease in tax of $446 in tax year 2026.
- Tax year impacts were allocated to the following fiscal year.

Historic Structure Rehabilitation Credit (Article 2, Secs. 11)
Effective beginning with tax year 2026.

- Based on information provided by SHPO, it appears that no projects are expected to miss the three calendar years of their allocation certificate issue date window.
- Over the long term this might affect eligibility or the timing of credits but is not expected to have a fiscal impact within the forecast window.

<u>Sales & Use Taxes & Gross Receipts Taxes —Article 3</u>

Social Media Tax (Article 3, Secs. 1, 2 & 5)
Effective for consumer data collected beginning with calendar year 2027.

- For fiscal year 2027, it is estimated that 14 social media platforms would be subject to this tax.
- The estimates for the number of national monthly users reported by Ignitesocialmedia.com and eMarketer are based on an analysis of survey and traffic data from research firms and regulatory agencies. Monthly users are assumed to be unique users.
- Minnesota's monthly social media users are estimated to be 1.7% of the national total, based on Minnesota's share of the U.S. population.
- Minnesota's population is assumed to grow at 0.4% per year, based on U.S. Census data.
- The number of social media users is assumed to grow at 2.2% per year, based on data from Statista.com.
- It is assumed that all social media platform businesses collect data on their users.
- Fiscal year 2027 is adjusted for six months of collections.

REVENUE ANALYSIS DETAIL (Cont.)

Firearms/Ammunition Tax (Article 3, Secs. 3 & 4)
Effective for sales and purchases made after September 30, 2026.

- In 2024, federal tax revenue from the Firearms and Ammunition Excise Tax (FAET) was $285 million for handguns, $299 million for other firearms, and $356 million for ammunition, for a total of $940 million.
- Minnesota's annual firearms and ammunition sales are estimated to be 1.7% of the national total, based on Minnesota's share of the U.S. population from U.S. Census data.
- A growth rate of 1% is assumed based on analysis of historical FAET trends.
- The estimate assumes the assault weapons ban proposed in the public safety bill is also enacted.
- An assault weapons ban is estimated to result in a reduction of retail sales of 5% for handguns, 30% for other firearms, and 10% for ammunition, based on analysis of a 2019 national survey of household firearms ownership and national firearm manufacturing and purchasing trends.
- The fiscal year 2027 estimate is adjusted for eight months of impact.

Rate Reduction and Base Expansion (Article 3, Secs. 6-8)
Effective beginning with sales and purchases made after September 30, 2026.

- Estimates are based on Department of Revenue's Consumption Tax model.
- Estimates are grown by the sales tax growth rate from the February 2026 forecast.
- FY 2027 is adjusted for eight months of collection.

Cannabis Taxes—Article 4

Medical Cannabis Exemption Expanded to Tribal Registries (Article 4, Sec. 3)
Effective for gross receipts received on or after July 1, 2026.

- The estimate is based on medical cannabis sales data from the Minnesota Office of Cannabis Management. Tribal medical patient purchases from a state-licensed medical dispensary were $15,350 in fiscal year 2024 and $148,000 in fiscal year 2025.
- First year growth is assumed to be 40%, second year 20% and 10% in each of the remaining years in the forecast window.
- Fiscal year 2027 estimates are adjusted for eleven months of impact.

Miscellaneous—Article 5

Administrative Appropriations (Article 5, Sec. 1)
Effective beginning with fiscal year 2027.

- $1,003,000 in FY27, $1,106,000 in FY28, and $1,045,000 in FY29 is appropriated to the Commissioner of Revenue to administer the bill.
- $885,000 in FY27 and $1,833,000 in both FY28 and FY29 is appropriated to the Commissioner of Revenue to establish a pass-through entity audit unit.

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

sf5052(hf5055) Governors Tax Bill / sr cw tj ms bp mcy ac trc awh sd

2026 DEPARTMENT OF REVENUE
GOVERNOR'S BILL SUMMARY

Appeals, Legal Services, and Disclosure Division
600 N. Robert St.
St. Paul, MN 55146-2220

HF XXXX as proposed to be amended by A26-0150

ARTICLE 1: FEDERAL UPDATE

Sections 1, 6, 8, 29, and 30. Internal Revenue Code. Amends Minn. Stat. §§ 289A.02, subd. 7, 290.01, subds. 19 and 31, 290A.03, subd. 15, and 291.005, subd. 1, to update the date Minnesota statutes recognizes the Internal Revenue Code to March 1, 2026. These sections are effective the day following final enactment, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Sections 2 and 28. Returns by persons, corporations, cooperatives, governmental entities, or school districts. Section 2 amends Minn. Stat. § 289A.12, subd. 4, to delete the requirement that taxpayers only send in informational returns to the IRS, and delete an obsolete provision regarding magnetic media. Section 28 amends Minn. Stat. § 290.92, subd. 26, to clarify the threshold for filing a Minnesota return is $600 instead of the prescribed $2,000 in the Internal Revenue Code. These sections are effective retroactively for payments made after December 31, 2025.

Sections 3-5. Returns relating to payments made in settlement of payment card and third-party network transactions, nonemployee income, and miscellaneous income. Sections 3 and 4 amend Minn. Stat. § 289A.12, subd. 12, and create new subdivision 19. These subdivisions require persons that would be required to file returns relating to payments under sections 6041(a) or 6050W of the Internal Revenue Code file these returns with the commissioner of revenue when the thresholds of $600 are met, regardless of the aggregate number of transactions. Section 5 amends Minn. Stat. § 289A.60, subd. 8, to provide penalties for failure to file these returns. These sections are effective retroactively for payments made after December 31, 2025.

Section 7. Net income. Amends Minn. Stat. § 290.01, subd. 19, paras. (h) and (i), to update the definitions of "net income" for composite return filers and pass-through entity tax filers, to include the new additions and subtractions for research and experimental expenditures, net controlled foreign corporation (CFC) tested income, and opportunity zones. This section is effective retroactively for taxable years beginning after December 31, 2024, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Section 9. Charitable contributions. Amends Minn. Stat. § 290.0122, subd. 4, to introduce a minimum and maximum amount that can be deducted as a charitable contribution. It requires charitable contributions to exceed 0.5% of the taxpayer's federal adjusted gross income (without taking into account net operating loss carrybacks) before the contributions can be deducted. It also limits deductions for cash contributions to 60% of the taxpayer's federal adjusted gross income minus the total non-cash contributions already so deducted. Effective retroactively for taxable years beginning after December 31, 2025, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Sections 10 and 16. Bonus depreciation. These sections amend Minn. Stat. §§ 290.0131, subd. 9; and 290.0133, subd. 11, to include additional items of federal depreciation to the Minnesota bonus depreciation addition. These sections are effective retroactively for taxable years beginning after December 31, 2024, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Sections 11, 13, 17, and 19. Domestic research and experimental expenditures. These sections add new subdivisions creating additions and subtractions in Minn. Stat. §§ 290.0131, subd. 21; 290.0132, subd. 40; 290.0133, subd. 16; and 290.0134, subd. 21. These new additions add back eighty percent of research expensing deducted under Internal Revenue Code section 174A(a) and also adds back the immediate expensing under the transitional rules. The addition must happen in the same year the taxpayer took the expense deduction. The subtraction sections allow four equal subtractions for amounts added back under the new additions. The new subtraction sections also provide for the subtraction of transitional amounts that were added back. These sections are effective retroactively for taxable years beginning after December 31, 2024, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Sections 12, 14, 18, 20, and 22. Opportunity zones. Sections 12 and 18 add new subdivisions creating additions in Minn. Stat. §§ 290.0131, subd. 22 and 290.0133, subd. 17. These additions add amounts deferred or excluded pursuant to Internal Revenue Code section 1400Z-2(a) to taxable income. The addition must be in the year the gain would have been realized absent the treatment under Internal Revenue Code section 1400Z-2(a). Sections 14 and 20 add new subdivisions creating subtractions in Minn. Stat. §§ 290.0132, subd. 41; and 290.0134, subd. 22, to ensure any amounts added back under the additions are not taxed a second time. It also allows a subtraction for gains taxed in Minnesota in tax year 2018. This adjustment must be made in taxable year 2026. Section 22 amends Minn. Stat. § 290.033, the net investment income tax, to include gain attributable to the federally excluded or deferred opportunity zones pursuant to Internal Revenue Code section 1400Z-2(a). The addition must be realized in the same year the gain would have been realized absent the treatment under Internal Revenue Code section 1400Z-2(a). It also provides for a subtraction from the net investment income tax if the gain has already been realized for the purposes of this section but is realized federally in a later year. This adjustment must be made in taxable year 2026. These sections are effective retroactively for taxable years beginning after December 31, 2025, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Sections 15, 21, 23, and 27. Net CFC tested income. Sections 15 and 21 add new subdivisions in Minn. Stat. §§ 290.0132, subd. 42, and 290.0134, subd. 23, allowing a subtraction equal to the qualified business asset investment deduction under section 951A(b)(2) of the Internal Revenue Code as of May 1, 2023. Section 23 creates new Minn. Stat. § 290.034, which defines "Net CFC Tested Income" for purposes of Minnesota statutes. The result is net CFC tested income for Minnesota purposes. Section 27 amends Minn. Stat. § 290.21, subd. 10, to update the name of "Global intangible low-taxed income" to "Net CFC tested income," and provides the amount calculated under new Minn. Stat. § 290.034 is dividend income. These sections are effective for taxable years beginning after December 31, 2025.

Section 24. Schedules of rates for individuals, estates, and trusts. Amends Minn. Stat. § 290.06, subd. 2c, to include the new additions and subtractions for research and experimental expenditures, net CFC tested income, dependent flexible spending accounts, and opportunity zones. Effective retroactively for taxable years beginning after December 31, 2024, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Section 25. Alternative minimum taxable income, definitions. Amends Minn. Stat. § 290.091, subd. 2, to include the new additions for research and experimental expenses and opportunity zones. It also allows for the subtraction of the qualified business asset investment deduction under Minn. Stat. § 290.0132, subd. 42. Effective retroactively for taxable years beginning after December 31, 2024, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Section 26. Alternative minimum taxable income. Amends Minn. Stat. § 290.0921, subd. 3, to allow for a deduction of domestic research and experimental expenditures under Minn. Stat. § 290.0134, subd. 21, from alternative minimum taxable income. Effective retroactively for taxable years beginning after December 31, 2024, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

ARTICLE 2: INDIVIDUAL INCOME AND CORPORATE FRANCHISE TAXES

Sections 1-4. Sustainable aviation fuel credit. Section 1 amends Minn. Stat. § 41A.30, subd. 1, to include additional qualifications for the types of biomass liquid fuel from which the sustainable aviation fuel may be derived. Section 2 amends Minn. Stat. § 41A.30, subd. 2, to include additional qualifications for fuel produced or blended in Minnesota, and to allow a qualifying taxpayer to claim a supplemental tax credit at the rate of $0.02 per gallon for each additional whole percentage of carbon intensity reduction beyond 50%, up to $2.00 per gallon. Section 3 amends Minn. Stat. § 41A.30, subd. 5, to increase the allocation limits for credit certificates issued in fiscal year 2027 from $2,100,000 to $7,400,000; and fiscal year 2028 to $5,300,000; and extends the credit through fiscal year 2035 by adding allocation limits of $2,100,000 for credit certificates issued in fiscal years 2029 through 2035. Section 3 also amends the allocation carryover provision to allow unallocated funds from each fiscal year to be available in the following fiscal years. Section 4 amends Minn. Stat. § 41A.30, subd. 7, to extend the credit sunset from 2030 to 2035. Sections 1 and 2 are effective retroactively for taxable years beginning after December 31, 2025, for sustainable aviation fuel sold after June 30, 2026. Section 3 is effective retroactively for taxable years beginning after December 31, 2025. Section 4 is effective the day following final enactment.

Sections 5, 6, 8, 9, and 12. Pass through entity tax. Section 5 amends Minn. Stat. § 289A.08, subd. 7a, and section 8 amends Minn. Stat. § 290.06, subdivision 23a, to remove the expiration, reviving and making permanent the pass-through entity tax beginning retroactively from January 1, 2026. Section 6 amends Minn. Stat. § 290.01, subdivision 19, to remove superfluous language regarding resident and nonresident qualifying owners. Section 9 amends Minn. Stat. § 290.06, subdivision 40, to clarify that the commissioner may disallow a qualifying owner's credit if the entity has not paid the underlying tax due. Section 12 revives and reenacts expired statute provisions §§ 289A.08, subd. 7a and 290.06, subd. 23a. Sections 5 and 8 are effective retroactively from January 1, 2026. Sections 6, 9, and 12 are effective the day following final enactment.

Section 7. Dependent flexible spending accounts. Amends Minn. Stat. § 290.0131 adding a subdivision to create an addition of the amount of dependent care assistance that is excluded from a taxpayer's gross income under section 129 of the Internal Revenue Code for those taxpayers who claim the credit under section 290.067 or whose spouse claims the credit but files separately. Effective for taxable years beginning after December 31, 2025.

Section 10. Dependent care credit. Amends Minn. Stat. § 290.067 to decouple from section 21 of the Internal Revenue Code and modifies the refundable credit to be a taxpayer's eligible dependent care expenses, subject to limitations, multiplied by a credit percentage of 50%. The amount of employment-related expenses used in determining the credit is limited to $3,000 for one qualifying individual or $6,000 for two or more qualifying individuals. Creates a definition of "young child" as children under age 5. Increases the limitations of employment related expenses for taxpayers with young children to $6,000 for one young child, $12,000 for two young children for tax years 2026 through 2033. The phaseout of the credit is adjusted by 1.0% for each $1,000 dollar of the taxpayer's adjusted gross income exceeding $120,000, or $60,000 for a married taxpayer filing a separate return. The credit for a child under the age of one is expanded to allow all filers to claim with the deemed amount equaling the lesser of earned income of the taxpayer or the maximum limit. Internal Revenue Code sections 21(d) and 21(e) will still apply to the credit, except the section 21(e)(2) joint return requirement does not apply. The inflation adjustment is amended to phaseout by credit percentage instead of by maximum credit. The inflation adjustment statutory year is changed to 2026. Effective for taxable years beginning after December 31, 2025.

Section 11. Historic preservation credit. Amends Minn. Stat. § 290.0681, subd. 3, to clarify that an applicant must apply with the State Historic Preservation Office before any rehabilitation work has commenced to be eligible for the credit. In addition, this section removes the qualification that to be eligible a property must be placed in service within three calendar years of the credit allocation certificate issuance. Effective for applications for allocation certificates submitted after June 30, 2026.

ARTICLE 3: SALES AND USE TAXES AND GROSS RECEIPTS TAXES

Sections 1 and 2. Council on Artificial Intelligence Readiness and account created. Creates new sections, Minn. Stat. §§ 116J.4012 and 116J.4013, establishing and defining the membership and work of the Governor's Council on Artificial Intelligence Readiness (Council) as well as the Artificial Intelligence Readiness Account (Account). Section 1 provides that the Council will consist of eleven members, including from state agencies, legislators, and governor-appointees. The first council meeting must occur before February 1, 2027, and meet at a minimum quarterly thereafter and are subject to the Minn. ch. 13D Open Meeting Law. The commissioner of employment and economic development, or their designee, will chair the Council and provide the meeting venue and administrative services. The Council is required to: (1) review information on adopting and expanding artificial intelligence (AI) in Minnesota; (2) analyze AI impact on the state's workforce; (3) allocate AI readiness account (Account) funds; (4) determine how to use the Account funds to minimize AI effects; and (5) beginning on February 15, 2028, annually report to the legislature the activities required, the Account funds amounts that were allocated and to whom they were allocated, data from the allocations, and outcomes.

Section 2 establishes the Account, funds the Account, appropriates money from the Account, and provides requirements related to Account administration. Subdivision 1 establishes the Account in the special revenue fund in the state treasury and defines categories of money that must be deposited into the Account, including appropriated amounts. It also provides requirements regarding: crediting Account earnings to the Account and requiring money remaining in the Account at the end of a fiscal year remains in the Account. Subdivision 2 states that unless otherwise appropriated in law, funds in the Account are appropriated to the commissioner of employment and economic development for allocation by the Council. Subdivision 3 allows the commissioner of employment and economic development to retain up to 3% of revenues each fiscal year from the Account for Council administration and grants and Council awards. Additionally, $849,000 in fiscal year 2027 and $1,433,000 annually thereafter, is appropriated from the Account to the commissioner of revenue for administration of the newly created social media consumer data collection tax.

These sections are effective the day following final enactment.

Section 3. Handguns, firearms, and ammunition. Creates a new section, Minn. Stat. § 295.85, imposing tax on the sale of handguns, other firearms, and ammunition. Subdivision 2 imposes a 10% gross receipts tax on firearm retailers on retail handgun sales in Minnesota. Additionally, it imposes an 11% gross receipts tax on firearm and ammunition retailers on retail firearm (non-handgun) and ammunition sales in Minnesota. Each of these taxes may be imposed on the purchaser. The taxes are excluded from the sales price for purposes of sales and use tax, if the tax is stated separately on the receipt. The tax applies to the entirety of nonitemized bundled transactions which include handguns, firearms, and ammunition. The tax applies in addition to existing taxes, including sales and use tax.

Subdivision 3 imposes a use tax on a person that receives a handgun, firearm, or ammunition for use or storage in Minnesota, other than from a firearm or ammunition retailer that paid the gross receipts tax. This subdivision also provides credit against tax for any gross receipts tax paid to another state or any subdivision thereof, on the same transaction. Subdivision 4 exempts purchases for use by peace officers and members of the Minnesota National Guard, when used in operation of their employment, and the United States and its agencies and instrumentalities. Subdivision 5 requires firearm retailers with nexus in Minnesota, and that are not subject to the gross receipts tax in subdivision 2, to collect and remit use tax, and give the purchaser a receipt for tax paid. Subdivision 6 gives firearm retailers a credit against tax for any gross receipts tax paid to another state or any subdivision thereof. Subdivision 7 applies the sales and use tax sourcing rules found at Minn. Stat. § 297A.668. Subdivision 8 adopts various administrative provisions of Chapters 270C and 289A, as those provisions apply to Chapter 297A sales and use taxes. Subdivision 9 requires firearm and ammunition retailers to file returns and remit tax as prescribed by the commissioner and according to filing cycles and due dates provided for taxes imposed under Chapter 297A. The subdivision also addresses interest paid on tax overpayments. Subdivision 10 requires that revenues from the tax be deposited in the general fund. Subdivision 11 makes the tax, and any associated interest and penalties, the personal debt of the person required to file the return. It also addresses the handling of tax debts in the context of an estate and in the case of a fiduciary.

Effective for sales and purchases made after September 30, 2026.

Section 4. Handguns, firearms, and ammunition local tax prohibited. Creates a new section, Minn. Stat. § 295.86, which prevents political subdivisions of the state from imposing a tax solely on the sale of handguns, firearms, or ammunition. Effective for sales and purchases made after September 30, 2026.

Section 5. Social media consumer data collection tax. Creates a new section, Minn. Stat. § 295.90, creating a social media consumer data collection tax. Subdivision 2 imposes the tax on social media platform businesses based on the number of Minnesota social media platform consumers whose data is collected by the social media platform business within a month. The rates are: $0 for 100,000 or fewer Minnesota consumers; $0.10 per month for 100,001–500,000 Minnesota consumers; $40,000 plus $0.25 per month for 500,001–1,000,000 Minnesota consumers; and $165,000 plus $0.50 per month for Minnesota consumers over 1,000,000. Subdivision 3 provides that: (1) business entities that are part of a controlled group of corporations as defined in the Internal Revenue Code are a single entity for purposes of meeting the definition of a social media platform business; and (2) the entities constituting the single entity are jointly and severally liable for the tax. Subdivision 4 establishes provisions governing how Minnesota consumers must be counted when determining whether a social media platform business owes tax, generally providing that each Minnesota customer be counted only once when calculating the tax due.

Subdivision 5 provides that a social media platform business may claim a credit against the tax if another state imposes an identical tax with respect to the same consumer. Subdivision 6 requires social media platform businesses to maintain records demonstrating tax compliance. Subdivision 7 provides that certain administrative provisions from chapters 270C and 289A, as applicable to taxes imposed under chapter 297A, apply to the tax. Subdivision 8 establishes requirements for filing tax returns and paying the tax. The subdivision also addresses interest paid on tax overpayments. Subdivision 9 directs the commissioner to deposit tax revenues in the artificial intelligence readiness account in the special revenue fund. Subdivision 10 makes the tax, and any associated interest and penalties, the personal debt of the person required to file the return. It also addresses the handling of tax debts in the context of an estate and in the case of a fiduciary.

Effective for consumer data collected after December 31, 2026.

Section 6-8. Sales and use tax rate reduction and base expansion. Amends Minn. Stat. §§ 297A.61, subd. 3, 297A.62, subd. 1, and 297F.25, subd. 1, reducing the general sales and use tax rate to 6.425%, retaining the cigarette sales tax rate of 6.875%, and expanding the sales and use tax base. The expansion of the base makes the following services taxable when purchased by a person other than a trade or business: accounting services, banking and brokerage services, and legal services. However, the following items are excluded and would remain not taxable: tax preparation services used to claim the Minnesota child tax credit or working family credit, origination fees, overdraft fees, late fees, the management of defined benefit pension funds, and civil legal aid services. These sections are effective for sales and purchases made after September 30, 2026.

ARTICLE 4: CANNABIS TAXES

Sections 1 and 2. Cannabis posting. Amends Minn. Stat. § 270C.726, subds. 2 and 3, to add lower-potency hemp edible manufacturers and lower-potency hemp edible wholesalers to the lists of retailers that are: (1) prohibited from selling or delivering any product to a taxpayer on the posted list; and (2) subject to the related penalty. These sections are effective for sales and purchases made after June 30, 2026.

Sections 3 and 5. Medical cannabis definitions and exemption; use tax required. Amends Minn. Stat. § 295.81, subds. 1 and 4, to reorganize the cannabis gross receipts tax and making clear that medical cannabis purchases are excluded from the cannabis gross receipts tax by: (1) in subdivision 1, expressly excluding medical cannabis from the definition of "taxable cannabis product" in paragraph (s) and incorporating by cross-reference the definitions for "registry program" in paragraph (q) and "Tribal medical cannabis program," in paragraph (u); and (2) in subdivision 4, removing the exemption for medical cannabis. Additionally, subdivision 4 clarifies that a customer that carries into the state taxable cannabis products having a total monthly cost of more than $100 must pay use tax on the entire monthly cost amount, as opposed to the amount that exceeds $100. Section 3, for medical items purchased by or for a patient in the registry program, the amendment to paragraph (s) is effective the day following final enactment. Section 3, for medical items purchased by or for a patient in a Tribal medical cannabis program, the amendment to paragraph (s) is effective for sales and purchases made after June 30, 2026. Section 3, the addition of paragraphs (q) and (u) is effective for sales and purchases made after June 30, 2026. Section 5 is effective the day following final enactment.

Sections 4 and 6. Credit for taxes paid. Amends Minn. Stat. § 295.81, subds. 3 and 6, to clarify that the same gross receipts standard applies to determine whether an individual or retailer is entitled to credit for cannabis taxes paid to another state or subdivision thereof. Subdivisions 3 and 6 currently use similar, but not identical, language. These sections are effective the day following final enactment.

Section 7. Cannabis tax returns and payment dates. Amends Minn. Stat. § 295.81, subd. 9, to clarify that a taxable cannabis product retailer must report and pay the cannabis gross receipts tax using the same filing cycle and due dates as the sales tax. Effective the day following final enactment.

ARTICLE 5: MISCELLANEOUS TAXES

Section 1(a). Creates an uncodified provision appropriating $1,003,000 in fiscal year 2027 to administer this act. The base for this appropriation is $1,106,000 in fiscal year 2028 and $1,045,000 in fiscal year 2029.

Section 1(b). Creates an uncodified provision appropriating $885,000 in fiscal year 2027 from the general fund to the commissioner of revenue to establish a pass-through entity audit unit. The base for this appropriation is $1,833,000 in each fiscal year 2028 and 2029.

April 22, 2026

Federal Update: Public Law 119-21
H.F. 5055, As Proposed to be Amended
($000s)

Provisions with a TY 2025 impact are shaded gray.
Modified or decoupled provisions are in dark 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	$19,900	$21,100	$22,300
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)
No authorization of scholarship granting organizations (beginning tax year 2027)	$0	$0	$0	$0
Exclusion for employer payments of student loans (beginning TY26)	$0	($9,600)	($10,000)	($10,700)
Trump Accounts (beginning TY25)	$0	(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	($16,000)	($16,700)	($17,400)
Subtotal: Individual Provisions	**$0**	**($2,110)**	**($720)**	**($220)**
Business and Investment Provisions				
FICA tip credit expansion (beginning TY25)				
Individual Income Tax	$0	$200	$100	$100
Corporate Franchise Tax	$0	$30	$20	$20
Increased dollar limitation for Section 179 expensing (beginning TY25)				
Individual Income Tax	$0	($26,300)	($9,800)	($6,700)
Corporate Franchise Tax	$0	($9,900)	($3,700)	($2,500)
Bonus depreciation with 80% addition and subtractions over 5 years (beginning TY25)				
Individual Income Tax	$0	$3,700	$9,400	$3,800
Corporate Franchise Tax	$0	$7,500	$19,200	$7,900

	FY 2026	FY 2027	FY 2028	FY 2029
Treatment of certain sound recording productions (beginning TY26)				
Individual Income Tax	$0	($20)	($20)	($30)
Corporate Franchise Tax	$0	($40)	($40)	($50)
Decouple from full expensing of domestic research and experimental expenditures (beginning TY25)				
Individual Income Tax	$0	$0	$0	$0
Corporate Franchise Tax	$0	$0	$0	$0
Modification of limit on business interest (beginning TY25)				
Individual Income Tax	$0	($89,400)	($25,100)	($20,600)
Corporate Franchise Tax	$0	($20,000)	($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)
Addition for exclusion of gain invested in qualified opportunity zone (beginning TY27)				
Individual Income Tax	$0	$0	$0	$0
Corporate Franchise Tax	$0	$0	$0	$0
Subtraction for previously taxed gain in qualified opportunity zone (TY26)				
Individual Income Tax	$0	($5,200)	$0	$0
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	$0	($800)	($900)	($1,200)
Corporate Franchise Tax	$0	($50)	($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

	FY 2026	FY 2027	FY 2028	FY 2029
Termination of 5-year cost recovery for wind and solar energy property (beginning TY25)				
Individual Income Tax	$0	$300	$200	$200
Corporate Franchise Tax	$0	$300	$200	$200
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	**$0**	**($66,120)**	**$15,080**	**$77,670**
Corporate Franchise Tax	**$0**	**$61,940**	**$89,920**	**$80,890**
Subtotal	**$0**	**($4,180)**	**$105,000**	**$158,560**
International Income Provisions				
Allow subtraction for net CFC tested income (beginning TY26)				
Corporate Franchise Tax	$0	Unknown	Unknown	Unknown
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)
Modify pro rata share rules (beginning TY26)				
Corporate Franchise Tax	$0	$7,600	$8,700	$9,300
International Income Provisions				
Corporate Franchise Tax	**$0**	**$5,100**	**$2,800**	**$3,000**
Subtotal	**$0**	**$5,100**	**$2,800**	**$3,000**
All Provisions				
Individual Income Tax	**$0**	**($68,230)**	**$14,360**	**$77,450**
Corporate Franchise Tax	**$0**	**$67,040**	**$92,720**	**$83,890**
General Fund Total	**$0**	**($1,190)**	**$107,080**	**$161,340**