

August 27, 2026

*Revised Estimate: State Taxes Only—
See Separate Analysis for Property Tax Provisions*

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of Session Laws 2026, Chapter 128 (H.F. 2438)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
	(\$000s)			
General Fund				
Federal Update				
Individual Income Tax	\$0	(\$55,320)	\$54,470	\$121,160
Corporate Franchise Tax	\$0	\$58,390	\$91,290	\$84,280
Individual Income Tax				
Beginning Farmer Credit Modification	\$0	(\$1,400)	\$0	\$0
Nursing Facility Wage Supp. Subtraction	\$0	\$0	\$0	\$0
Pass-Through Entity Tax Extension	\$0	\$0	\$0	\$0
Dependent Care Credit				
Newborn Credit	\$0	\$5,000	\$5,100	\$5,300
Phase-Out	\$0	\$3,800	\$3,900	\$4,000
Corporate Franchise Tax				
Sustainable Aviation Fuel Credit	\$0	(\$5,300)	(\$5,300)	(\$2,100)
Sales and Use Tax				
PGA Exemption	\$0	(\$40)	(\$40)	(\$1,910)
Tourism Improvement District Modification	\$0	\$0	\$0	\$0
Mortgage and Deed Tax				
Hennepin/Ramsey County Extension	\$0	\$0	\$0	\$0
Appropriations				
Direct Free Filing Establishment	\$0	(\$2,300)	(\$3,500)	(\$3,500)
General Fund Total	\$0	\$2,830	\$145,920	\$207,230
Housing Assistance Fund				
PGA Exemption	\$0	(Negl.)	(Negl.)	(\$40)
Housing Assistance Fund Total	\$0	(Negl.)	(Negl.)	(\$40)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
	(\$000s)			
Natural Resources and Arts Funds				
PGA Exemption	\$0	(Negl.)	(Negl.)	(\$110)
Natural Resources and Arts Funds Total	\$0	(Negl.)	(Negl.)	(\$110)
Special Revenue Fund				
PGA Exemption	\$0	(Negl.)	(Negl.)	(\$20)
100% Fraud Tax	\$0	Unknown	Unknown	Unknown
Special Revenue Fund Total	\$0	(Negl.)	(Negl.)	(\$20)
Total All Funds	\$0	\$2,830	\$145,920	\$207,060

EXPLANATION AND ANALYSIS OF THE BILL

Federal Update – Article 1

The bill updates references to the Internal Revenue Code to May 1, 2026, adopting the provisions of P.L. 119-21 with certain modifications described below.

Bonus Depreciation (Article 1, Sec. 1) *Effective beginning with tax year 2025.*

Federal law allows a taxpayer to claim bonus depreciation equal to 100% of qualifying property. Under prior law, the eligible percentage of qualifying property was reduced to 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026 and was phased out completely in 2027.

P.L. 119-21 increased the deduction to 100% of property acquired after January 19, 2025. It also expanded the definition of qualified property to include qualified production property, which is nonresidential real property used in production.

The bill conforms to the extension of bonus depreciation in P.L. 119-21, requiring an 80% addition for property defined in Section 168(k) of the Internal Revenue Code. The addition does not apply to qualified production property.

- The estimate is based on the estimate of the federal impact of P.L. 119-21 prepared by the staff of the Joint Committee on Taxation, dated July 1, 2025. The estimate was apportioned to Minnesota and adjusted for the difference between federal and state tax rates and federal and state fiscal years.
- Adjustments were made for additions and subtractions in each tax year beginning in tax year 2025.
- Retroactive impacts were allocated to fiscal year 2027.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

1% Floor on Deduction for Charitable Contributions of Individuals (Article 1, Sec. 4)

Effective beginning with tax year 2026.

P.L. 119-21 reduced the deduction for charitable contributions by 0.5% of the contribution base, which is generally equal to federal adjusted gross income. The bill increases the floor to 1% of the contribution base.

- 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 598,100 returns would have an average increase in tax of \$54 in tax year 2026.
- Tax year impacts were allocated to the following fiscal year.

Addition for Certain Higher Education Expenses (Article 1, Sec. 5)

Effective beginning with tax year 2026.

P.L. 119-21 expanded the definition of qualified higher education expenses that may be paid from a Section 529 college savings plan account to include certain private K-12 expenses and qualified post-secondary credentialing expenses. Minnesota law already requires K-12 expenses paid from a 529 plan account to be added to taxable income.

The bill also requires an addition for post-secondary credentialing expenses paid from a 529 plan account, including tuition, fees, and supplies for a credentialing program, testing fees, and fees for required continuing education.

- Since distributions for those purposes are taxable under current law, the effect of the provision is assumed to be revenue neutral.

Addition for Employer-Provided Education Assistance (Article 1, Sec. 6)

Effective beginning with tax year 2026.

Federal law allows an employee to exclude from taxable income certain education assistance payments from an employer, up to \$5,250 per tax year. That exclusion was temporarily expanded to include student loan payments by an employer. P.L. 119-21 permanently extended the exclusion for student loan payments and adjusted the maximum exclusion for inflation beginning in tax year 2027.

The bill requires an addition for student loan payments made by an employer, plus any federal exclusion over \$5,250 per year.

- The addition maintains the treatment under prior federal law and is assumed to be revenue neutral.

Addition for Services in Sinai Peninsula and other Areas (Article 1, Sec. 8)
Effective beginning with tax year 2026.

Federal law allowed an exclusion for military pay in a qualified hazardous duty area, including the Sinai Peninsula of Egypt. That exclusion was set to expire at the end of calendar year 2025. P.L. 119-21 extended the exclusion and expanded it to include service in Kenya, Mali, Burkina Faso, and Chad.

The bill requires an addition for any excluded military pay for service in those areas.

- The addition maintains the treatment under prior federal law and is assumed to be revenue neutral.

Addition and Subtraction for Gain in Qualified Opportunity Zone (Article 1, Secs. 9, 12, 15, & 19)
Effective beginning with tax year 2027.

Under Federal law, a taxpayer may elect to exclude from gross income the gain on the sale or exchange of property if the gain is reinvested in a qualified opportunity zone. The exclusion was set to expire December 31, 2026.

P.L. 119-21 extended the provision permanently and allowed the Governor of each state to designate rolling 10-year opportunity zones. The new law allows investors to receive an incremental step up in basis starting one year after the investment. In the first through third year after the investment, the basis is increased by 1% each year. In the fourth and fifth year, the basis is increased by 2% each year. In the sixth year, the basis is increased by 3%. In the 7th year, investors are required to realize their gains, reduced by the stepped up basis.

The bill would create an addition for any step-up in basis for investments in an opportunity zone. The amount of a gain that is included in federal taxable income that was previously recognized as an addition is a subtraction. No subtraction is allowed for the step-up in basis allowed under federal law.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- The addition and subsequent subtraction would eliminate any Minnesota tax benefit for capital gains from investments in opportunity zones. However, because the effective date differs from the federal effective date (July 4, 2025), the provision will require taxpayers who made investments into opportunity zone funds prior to the federal law changes that had an increase in basis after the effective date to report an addition under Minnesota law.
- The addition will result in a revenue gain of an unknown amount.

Addition for Interest on Agricultural Loans (Article 1, Sec. 10)

Effective beginning with tax year 2026.

P.L. 119-21 allows a qualified lender to exclude from taxable income 25% of the interest income from loans secured by rural or agricultural property. The bill requires an addition for any excluded interest income from such loans.

- The addition maintains the treatment under prior federal law and is assumed to be revenue neutral.

Addition for Business Meals (Article 1, Sec. 11)

Effective beginning with tax year 2026.

P.L. 119-21 generally disallows an exclusion for employer-provided meals, although exceptions apply for bona fide transactions where meals are sold for full consideration, and meals provided on commercial fishing vessels or at fish processing facilities. Meals on fishing vessels or processing facilities are eligible for a 100% deduction.

The bill requires an addition for any federally excluded amounts for employer-provided meals in bona fide transactions and meals on commercial fishing vessels or facilities that exceed the 50% limit under prior federal law.

- The addition applies to bona fide transactions which were deductible under prior federal law. Because the addition is broader than the change in federal law, it will have a positive revenue impact. The size of the impact is unknown.

Subtraction for Net CFC Tested Income (Article 1, Secs. 13, 20, 22, & 23)

Effective beginning with tax year 2026.

Prior to Public Law 119-21, U.S. shareholders of Controlled Foreign Corporations (CFC) included Global Intangible Low Taxed Income (GILTI) in their gross income for tax purposes. GILTI was tax and calculated as $GILTI = \text{Net CFC Tested Income} - [(10\% \times \text{qualified business asset investment}) - \text{Interest Expense}]$. P.L. 119-21 renamed GILTI to Net CFC Tested Income (NCTI) and removed the second half of the formula, after the minus sign. In effect, NCTI is an expanded pool of GILTI, by removing what is treated as tangible income in the GILTI calculation.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Under the bill, Minnesota taxpayers would include NCTI in their income as it is calculated federally but are allowed a Minnesota subtraction from income equal to the amount calculated under IRC section 951A(b)(2)(A), which is the qualified business asset investment component of the prior law GILTI formula. The subtraction cannot exceed the amount of NCTI for the taxable year.

In effect, for Minnesota purposes $NCTI = NCTI - (10\% \times \text{qualified business asset investment})$. There is no subtraction for interest expenses.

- Prior Federal Law: $GILTI = \text{Net CFC Tested Income} - [(10\% \times \text{qualified business asset investment}) - \text{Interest Expense}]$
- Current Federal Law: $NCTI = \text{Net CFC Tested Income}$
- Proposed MN Law: $MN\ NCTI = \text{Net CFC Tested Income} - (10\% \times \text{qualified business asset investment})$

NCTI would then be treated like GILTI is under current law: included in income, but eligible for a dividend received deduction.

The bill specifies that in determining a US shareholder's NCTI, the extension of the federal look-through rule does not apply, although there is no restriction on the use of the look-through rule for calculating the individual alternative minimum tax.

The look-through rule excludes certain intangible income that is transferred from one CFC to a related company, if the income is attributable to the payor, is not Subpart F income, and is not connected to a trade or business in the United States.

- The amount of the interest expense component is unknown on an individual taxpayer or aggregate level.
- Because the proposed subtraction is not reduced by qualified interest expenses, the proposal would result in a decrease in tax for some taxpayers. The size of the impact is unknown.
- Allowing the look-through rule in computing the individual AMT will result in a negligible revenue loss.

Addition and Subtraction for Research Expenses (Article 1, Secs. 14 & 18)

Effective retroactively beginning with tax year 2022.

Prior federal law generally required domestic research or experimental expenditures to be amortized ratably over five years. Domestic research or experimental expenditures include research or experimental expenditures paid or incurred by the taxpayer in connection with the taxpayer's trade or business other than such expenditures which are attributable to foreign research.

Immediate Expensing

Under P.L. 119-21, beginning with tax year 2025 taxpayers may now deduct the full amount of domestic research or experimental expenditures in the year they are paid or incurred by the taxpayer. Alternatively, taxpayers may elect to charge these expenditures to capital account and amortize them over a period of not less than 60 months or over 10 years.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Transitional Rules

In addition, beginning with tax year 2022 small businesses with average annual gross receipts of \$31 million or less may retroactively elect to deduct domestic research or experimental expenditures in the taxable year they were paid or incurred.

In the case of any domestic research and experimental expenditures which were paid or incurred in taxable years 2022 to 2024, and which were charged to capital account, a taxpayer may elect to:

- (1) deduct any remaining unamortized amounts in the first taxable year beginning after December 31, 2024 or;
- (2) deduct such remaining unamortized amounts ratably over the two taxable year period beginning with the first taxable year beginning after December 31, 2024.

The proposal creates an addition to and subtraction from federal taxable income for C corporations only. The additions and subtractions do not apply to individuals, estates or trusts. The addition equals 80% of the immediate and retroactive deductions and the entire amount of the deduction claimed under the accelerated provision.

The subtraction for corporations is calculated directly from the addition for the immediate and retroactive deduction amounts. In each of the following four taxable years an amount equal to one-fourth of the addition is a subtraction.

The subtraction for the accelerated amounts equals 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), essentially the deduction they would have taken under the prior law five-year schedule.

These additions and subtractions effectively return the immediate, retroactive and accelerated deduction amounts to the five-year amortization schedule of prior law for C corporations only. Individuals, estates and trusts are allowed the immediate, retroactive and accelerated deductions reflected in federal law.

- 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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- 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 proposal would require an addition equal to 80% of the 2025 immediate amount. The subtractions in the four taxable years following the addition are equal to 25% of the addition amount. No additions are required for immediately expensed amounts after tax year 2025.
- 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. The proposal 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 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.
- 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.

Dependent Care Credit (Article 1, Sec. 26)

Effective retroactively beginning with tax year 2022.

P.L. 119-21 significantly revised the federal dependent care credit. Under prior federal law, the federal dependent care credit was a nonrefundable credit equal to a percentage of unreimbursed employment-related expenses related to child or dependent care, up to \$3,000 for one qualifying dependent and \$6,000 for two or more qualifying dependents. The credit percentage varied from 35% to 20% based on adjusted gross income.

The Minnesota dependent care credit is equal to the federal credit except that it is refundable and the maximum credit is phased out by 5% of adjusted gross income over a threshold (\$64,150 in 2025). The threshold is indexed annually for inflation. The credit is generally not available for individuals filing a married separate return. A newborn credit is allowed for a child born in the tax year even if there are no qualifying expenses. The credit is also allowed for operators of a licensed family day care home caring for their own child.

The bill restructured the Minnesota credit to remove references to the federal credit. However, the enacted language differs from the previous credit in two respects. First, the newborn credit incorrectly refers to the deemed expenses for a licensed family daycare home. The effect is that a taxpayer may only claim deemed expenses for a newborn if the taxpayer operates a licensed family day care home. This will result in a reduced credit for some taxpayers with newborns who have less than the maximum expenses.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Second, the income phase-out applies to the actual credit amount, rather than the maximum credit. This will reduce the credit for taxpayers in the phase-out range with less than the maximum credit. For example, a taxpayer has one child and income of \$65,150 (\$1,000 over the phase-out threshold). The taxpayer has expenses of \$1,500. The credit before phase-out equals \$300 (20% of \$1,500). The maximum credit is \$600 (20% of \$3,000). Under prior law, the maximum credit would be reduced by 5% to \$570. Since the taxpayer's credit was less than the maximum, they would receive the full \$300. Under the bill, the actual credit is reduced by 5%, to \$285.

Newborn Credit

- About 9,100 returns claimed deemed expenses for newborns in tax year 2024. Only 25 of those returns also claimed the credit for licensed day care expenses. Disallowing the newborn credits would decrease the total credit by about \$5 million in tax year 2026.

Income Phase-Out

- The House Income Tax Simulation Model (HITS 7.6) was used to estimate the revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the budget forecast published in 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 change in the phase-out calculation will reduce the credit by about \$3.8 million in 2026.

Income and Corporate Franchise Tax – Article 2

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

The supplemental credit is effective beginning with tax year 2025. The increased credit allocations are effective beginning with tax year 2026.

Current Law: A refundable tax credit is allowed of \$1.50 for each gallon of sustainable aviation fuel (SAF) that is produced or blended in Minnesota and sold to a purchaser who certifies it will be used in an aircraft departing from an airport in Minnesota. The credit may be claimed against the individual income tax or corporate franchise tax. A qualifying taxpayer may claim a credit for blending or producing SAF, but not both. If SAF is blended with aviation gasoline or jet fuel, the credit is allowed only for the portion of SAF that is included in the blended fuel.

The credit is administered by the Commissioner of Agriculture in accordance with Minnesota Statutes 41A.15 and 41A.30. The commissioner must not issue credit certificates for more than \$7.4 million in fiscal year 2025 and \$2.1 million in fiscal years 2026 and 2027.

Proposed Law: The bill would add a supplemental tax credit rate for SAF that achieves a lifecycle greenhouse gas reduction (CI reduction) rate greater than 50%. The enhanced tax credit is \$0.02 per gallon of SAF for each additional 1% CI reduction beyond 50%. The total credit is capped at \$2.00 per gallon.

The bill also would increase the maximum credit allocation by \$5.3 million in fiscal year 2027, \$5.3 million in fiscal year 2028 and \$2.1 million in fiscal years 2029 through 2035.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

This increases the total amount of credit certificates that can be issued through June 30, 2035 from \$11.6 million to \$36.9 million. The credit would expire after tax year 2035.

- 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.
- 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.

Beginning Farmer Credit (Article 2, Secs. 5-8)

Effective for tax year 2026 only.

Current Law: The beginning farmer incentive credit is a credit against the individual income tax or corporate franchise tax for the rent or sale of agricultural assets to beginning farmers. An agricultural asset includes land, livestock, facilities, buildings, and machinery used for farming in Minnesota.

A beginning farmer must be a Minnesota resident who is seeking entry or has entered farming within the last 10 years, and who will provide the majority of the labor and management of the farm that is located in Minnesota. Furthermore, they must have adequate experience and knowledge of the type of farming for which they seek assistance from the Rural Finance Authority (RFA), can provide positive projected earnings statements, and have a net worth that does not exceed the eligibility limit for beginning farmer loans.

For a sale to a family member to qualify for the credit, the sales price of the agricultural land must equal or exceed the assessed value of the land as of the date of sale.

The credit is equal to one of the following:

- 8% of the lesser of the sale price or the fair market value of the agricultural asset, up to a maximum of \$50,000;
 - For a sale to an emerging farmer the credit rate is increased to 12%,
- 10% of the gross rental income in each of the first, second, and third years of a rental agreement, up to a maximum of \$7,000 per year; or
- 15% of the cash equivalent of the gross rental income in each of the first, second, and third years of a share rent agreement, up to a maximum of \$10,000 per year.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

Each year, 50% of newly allocated credits are reserved for emerging farmers. Any reserved credits not allocated by September 30 are available for allocation to others beginning on October 1.

Emerging farmers are defined in statute as farmers or aspiring farmers who are women, veterans, persons with disabilities, American Indian or Alaskan Natives, members of a community of color, young, and urban, and any other emerging farmers as determined by the Commissioner of Agriculture.

The credit is nonrefundable but may be carried forward for up to 15 years. The total value of credits allocated by the RFA is capped at \$4 million per year beginning in 2024. Certificates for the credit are issued on a first-come first-served basis, but with a preference for some recertifications. The credit will expire after tax year 2030.

Proposed Law: The bill removes the cap on the total amount of credits that may be allocated by the RFA for tax year 2026, before reverting to the \$4 million per year cap that began in 2024. Since there would be no cap on the total amount of credits for one year, the bill also eliminates the requirement that 50% of newly allocated credits be reserved for emerging farmers and the ‘first-come first-served’ allocation process with associated allocation dates.

- About \$5.2 million in credits were claimed in tax year 2023 on about 600 returns, based on the M-1 Processing Report.
- The credit is currently limited to \$4.0 million per year. The bill removes the cap on the total value of credits that may be allocated by the RFA.
- Credits are expected to be about \$5.3 million in tax year 2025.
- A 1% growth rate is assumed.
- Tax year impacts are allocated to the following fiscal year.

Pass-Through Entity Tax Extension (Article 2, Secs. 9, 12-14, & 16-17)
Effective beginning with tax year 2026.

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.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

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 2027. The bill also extends the sunset on the credit for PTE taxes paid to another state.

Direct Free Filing of Individual Returns (Article 2, Secs. 10 & 18)
Effective the day following enactment.

Proposed Law: The bill creates an electronic filing system where taxpayers may directly file an electronic individual income tax return free of charge. A software vendor may be contracted to develop the system, subject to limitations. The system must coordinate with any federal filing systems for free filing of federal returns, and the system must be available for tax years beginning after Dec. 31, 2026.

At a minimum, the system must allow taxpayers to claim the marriage penalty credit, the education credit, the child and working family credits, the dependent care credit, the student loan credit, and the renter's credit.

The proposal appropriates the following from the general fund to the Commissioner of Revenue for the direct free filing system: \$2,300,000 for fiscal year 2027 and \$3,500,000 for fiscal years 2028 and 2029.

Nursing Facility Wage Supplement Subtraction (Article 2, Sec. 15)
Effective for tax year 2026 only.

Proposed Law: Session Laws 2026, Chapter 121 (S.F. 4476) created a program to provide supplemental wage payments to nursing home employees who work at least 260 hours for a nursing home employer and meet other criteria. Covered employees may receive a one-time payment of up to \$400 if their wages are subject to certain wage standards and are below a specified threshold, and \$200 otherwise.

If appropriations are not sufficient to pay the full amount, each approved applicant will receive an equal amount based on the available funding.

The Commissioner of Human Services will administer the program, which expires June 30, 2028.

The bill would allow an income tax subtraction for supplemental wage payments received under the program.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Since the proposed payments are not included in the February 2026 economic forecast, allowing a subtraction for the payments would not have an impact on the forecast.

Sales and Use Taxes - Article 3

Professional Golfers' Association Exemption (Article 3, Sec. 1)

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

The bill provides an exemption from the sales and use tax for the granting of the privilege of admission to a world championship golf tournament sponsored by the Professional Golfers' Association of America and to related events sponsored by the Professional Golfers' Association of America.

The exemption expires July 1, 2030.

- The estimates assume partial ticket sales for one major golf tournament, the Ryder Cup 2029, will take place in the forecast window. The Women's PGA tournament runs on June 25-28, 2026, before the effective date, and so is assumed to have no impact on the current forecast window.
- Information on past admissions figures for the estimates was provided by industry representatives.
- Growth rates used during the forecast period come from SPGMI.
- The estimates are increased 1% annually to account for additional events that may qualify for the exemption.

Tourism Improvement District (Article 3, Sec. 2)

Effective retroactively for sales and purchases made after June 30, 2025.

Tourism Improvement Districts were established in 2023 where lodging businesses can be assessed a service charge to fund local tourism marketing and improvements. Businesses may, but are not required to, choose to collect the service charge directly from the purchaser.

If the service charge is itemized on the invoice, bill of sale or similar document given to the purchaser, the service charge is excluded from the sales price, and no sales tax is thus imposed on the service charge.

The provision would have no direct impact on state taxes.

Miscellaneous – Article 8

100% Fraud Tax (Article 8, Secs. 1-3 & 5-7)

Effective retroactively for convictions of fraud beginning in calendar year 2026. The data sharing provisions are effective the day following final enactment.

Proposed Law: The bill imposes a tax on any person or organization convicted of fraud in a state or federal court. The tax is equal to 100% of the amount of money acquired by fraud of a public program.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

The tax is imposed regardless of any amount of restitution or penalty imposed on or paid by the person or organization. If multiple persons or organizations are convicted, the liability is joint and several. Any assessment of the tax is considered a jeopardy assessment or collection.

After the conviction, the agency responsible for administering the targeted public program must certify the person or organization, the defrauded program, and the amount of money the court determines the person or organization was responsible for in the conviction to the Commissioner of Revenue, regardless of the restitution amount. The convicted person or organization has the burden of establishing the certification's incorrectness.

In addition, the bill imposes a penalty on any person who receives money due to fraud of a public program, whether reported or not on a tax return and regardless of a criminal conviction. The penalty equals 100% of the amount received due to fraud.

Money collected from the tax and the penalty is to be deposited into a tax relief account established in the special revenue fund. By December 15 of each year, the Commissioner of Revenue must determine the amount of money in the account and whether there is enough funding to reduce the first income tax bracket by at least 0.1% for the following tax year. The rate reduction must be calculated to approximate the amount in the tax relief account and must be only for that year. If the rate is reduced, the amounts in the tax relief fund must be deposited into the general fund.

The Commissioner of Revenue may share active criminal investigative data with the Financial Crimes and Fraud Section (FCFS) of the Bureau of Criminal Apprehension, and the FCFS may disclose investigative data to the Commissioner, only to the extent necessary. Any data shared between the Department of Revenue and the FCFS is classified. Any returns and return information must be disclosed to the inspector general to carry out the duties specified in Minnesota Statutes Chapter 15E, provided that the legislature enacts that Chapter and establishes the inspector general.

- The amount of future program fraud is unknown. The largest known incident of state program fraud is the Feeding our Futures case, which involved approximately \$250 million, according to a report by the Office of the Legislative Auditor (OLA).
- Minnesota Statutes requires the Bureau of Criminal Apprehension (BCA) to publish an annual report on FCFS activity in the past year. In 2025, state agencies reported 652 incidents of state program fraud with a suspected financial loss of \$10,000 or more. A small share of these incidents included estimated amounts of suspected or known fraud, totaling \$4.2 million. The BCA report does not include programs funded by federal dollars.
- Federal dollars allocated to Minnesota programs such as the Minnesota Housing Stability Services program and the Early Intensive Developmental and Behavioral Intervention benefit are currently under investigation for fraud by the U.S. Attorney's Office, District of Minnesota.
- Recovering defrauded funds is often slow and incomplete.
 - Of the total amount from the Feeding Our Future case, about \$75 million has been seized for restitution, according to news reports.
 - Other defrauded money is either lost or tied up in illiquid assets or internationally. For example, according to the OLA report criminals in the Feeding Our Future case spent the money on travel, entertainment, foreign property, and/or deposited the money in overseas accounts.

EXPLANATION AND ANALYSIS OF THE BILL (Cont.)

- Perpetrators of fraud may have large restitution or penalty amounts that would be paid before the tax, making collection of the imposed tax even more difficult.
- Additionally, since the tax is imposed on convicted persons or organizations, revenues may be slowed down as court cases, legal challenges, or appeals can take several years to be completed.

Hennepin and Ramsey County Extension (Article 8, Secs. 8-9)

Effective for mortgages and deeds acknowledged on or after July 1, 2026.

Current Law: The governing bodies of Hennepin and Ramsey Counties have statutory authority to impose a mortgage registry tax and a deed tax similar to the taxes imposed at the state level. The state mortgage registry tax equals 0.23% of principal debt. The state deed tax generally equals 0.33% of consideration.

For Hennepin and Ramsey Counties, the mortgage registry tax equals 0.01% of the principal, and the deed tax equals 0.01% of consideration. Both taxes are currently set to expire January 1, 2028.

Proposed Law: The bill extends the expiration of the current law to January 1, 2036.

- The bill would have no impact on state revenue.
- The State of Minnesota collected \$81.9 million in mortgage and deed tax revenue from Hennepin and Ramsey counties in fiscal year 2024 and \$92.5 million in fiscal year 2025.
- Hennepin County collected approximately \$2.4 million in mortgage and deed taxes in fiscal year 2024 and \$2.7 million in fiscal year 2025. Ramsey County collected approximately \$600,000 in fiscal year 2024 and \$700,000 million in fiscal year 2025.

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

Federal Update: Public Law 119-21 (H.F. 2438)

(\$000s)

Decoupled or modified provisions 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
Addition for transportation fringe benefits (beginning TY26)	\$0	\$0	\$0	\$0
Extension of limitation on deduction and exclusion for moving expenses (beginning TY26)	\$0	\$9,800	\$11,500	\$12,100
One-percent floor on deduction of charitable contributions made by individuals (beginning TY26)	\$0	\$32,500	\$34,400	\$36,400
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)
Addition for certain individuals performing services in the Sinai Peninsula and additional areas (beginning TY26)	\$0	\$0	\$0	\$0
Tax credit for contributions to scholarship granting organizations; exclusion for scholarships received (beginning tax year 2027)	\$0	\$0	\$0	\$0
Addition for employer payments of student loans (beginning TY26)	\$0	\$0	\$0	\$0
Trump Accounts (beginning TY25)	\$0	(Negl.)	(Negl.)	(\$200)
Addition for postsecondary credentialing expenses treated as higher education expenses (beginning TY26)	\$0	\$0	\$0	\$0
Enhancement of dependent care assistance program (beginning TY26)	\$0	(\$5,000)	(\$5,400)	(\$5,800)
Subtotal: Individual Provisions	\$0	\$38,200	\$41,690	\$44,590
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; full conformity for QPP (beginning TY25)				
Individual Income Tax	\$0	(\$2,800)	\$6,400	\$1,500
Corporate Franchise Tax	\$0	(\$5,900)	\$12,900	\$3,100

	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)
Full expensing of domestic research and experimental expenditures (retroactive to TY22)				
Individual Income Tax	\$0	(\$27,400)	(\$800)	(\$800)
Additions and subtractions for domestic research and experimental expenditures (retroactive to TY22)				
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		\$800	\$900	\$1,200
Addition for business meals (beginning TY26)				
Individual Income Tax	\$0	Unknown	Unknown	Unknown
Corporate Franchise Tax	\$0	Unknown	Unknown	Unknown
Addition and subtraction for gains invested in qualified opportunity zone (beginning TY27)				
Individual Income Tax	\$0	Unknown	Unknown	Unknown
Corporate Franchise Tax	\$0	Unknown	Unknown	Unknown
One-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)
Addition for interest on loans secured by rural or agricultural real property (beginning TY25)				
Individual Income Tax	\$0	\$0	\$0	\$0
Corporate Franchise Tax	\$0	\$0	\$0	\$0
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	\$0	\$300	\$200	\$200
Corporate Franchise Tax	\$0	\$300	\$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	\$0	(\$93,520)	\$12,780	\$76,570
Corporate Franchise Tax	\$0	\$48,790	\$83,990	\$76,480
Subtotal	\$0	(\$44,730)	\$96,770	\$153,050
International Income Provisions				
Subtraction for net CFC tested income (beginning TY26)				
Corporate Franchise Tax		(Unknown)	(Unknown)	(Unknown)
Disregard look-thru rule for related Controlled Foreign Corporations (beginning TY26)				
Individual Income Tax	\$0	(Negl.)	(Negl.)	(Negl.)
Corporate Franchise Tax	\$0	\$0	\$0	\$0
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	\$9,600	\$7,300	\$7,800
Subtotal	\$0	\$9,600	\$7,300	\$7,800
All Provisions				
Individual Income Tax	\$0	(\$55,320)	\$54,470	\$121,160
Corporate Franchise Tax	\$0	\$58,390	\$91,290	\$84,280
General Fund Total	\$0	\$3,070	\$145,760	\$205,440