DEPARTMENT OF REVENUE

FINAL DRAFT — 11/4/26

261491

2026 Schedule M1MB, Business Income Additions and Subtractions

See instructions for more information and worksheets to complete Schedule M1MB.

Your First Name and Initial | Your Last Name | Your Social Security Number

Additions to Income

1	Federal bonus depreciation addition *(determine from worksheet in the instructions)*	1	
2	State income taxes passed through to you as a partner, shareholder, or a beneficiary of a pass-through entity	2	
3	Foreign-derived intangible income (FDII) deduction *(see instructions)*	3	
4	Suspended loss from bonus depreciation	4	
5	Net operating loss (NOL) carryover adjustment from WHBA of 2009	5	
6	Accelerated recognition of nonresident installment sales *(enclose Schedule M1AR)*	6	
7	Interest received on loans secured by rural and agricultural real property *(see instructions)*	7	
8	Certain business meals and entertainment *(see instructions)*	8	
9	Certain subpart F income *(see instructions)*	9	
10	This line intentionally left blank	10	
11	This line intentionally left blank	11	
12	Add lines 1 through 11. Include the result on line 2 of Form M1	12	

Subtractions from Income

13	Federal bonus depreciation subtraction	13	
14	Gain from the sale of farm property if you were insolvent at the time of sale *(see instructions)*	14	
15	Net operating loss carryover adjustment from WHBA of 2009	15	
16	Subtraction for railroad maintenance expenses	16	
17	Income from prior-year partnership or S corporation sale	17	
18	Disallowed section 280E expenses for licensed cannabis or hemp businesses	18	
19	Deferred foreign income subtraction	19	
20	Delayed business interest	20	
21	Delayed net operating loss *(see instructions)*	21	

22	QBAI deduction against net CFC tested income *(see instructions)*	**22** ■	
23	Employee Retention Credit subtraction.	**23** ■	
24	This line intentionally left blank	**24** ■	
25	This line intentionally left blank	**25** ■	
26	Add lines 13 through 25. Include the result on line 7 of Form M1	**26**	

2026 Schedule M1MB Instructions

You may have received these additions or subtractions as an individual, as a partner of a partnership, as a shareholder of an S corporation, or as a beneficiary of a trust or estate. Amounts you received as a partner, shareholder, or beneficiary will be reported on the Schedule KPI, KS, or KF you received from the entity.

Additions

Line 1 — Federal Bonus Depreciation Addition

If you chose the special depreciation allowance for qualified property on federal Form 1040, complete the Worksheet for Line 1.

Worksheet for Line 1 — Bonus Depreciation Modification

1 Add line 14 and line 25 of your federal Form 4562. . . . . _____
2 Enter the amount of bonus depreciation for qualified production property under IRC 168(n) to the extent it was included in step 1 . . . . . _____
3 Subtract step 2 from step 1. . . . . _____
4 Total bonus depreciation amounts passed to you as a partner or shareholder (line 4 of Schedule KPI or Schedule KS). . . . . _____
5 Add steps 3 and 4 . . . . . _____
6 Multiply step 5 by 80% (0.80) . . . . . _____
7 Total of the 80% federal bonus depreciation addition passed through to you as a beneficiary (from line 5 of Schedule KF) . . . . . _____
8 Add steps 6 and 7. Enter the result here and on line 1 of Schedule M1MB . . . . . _____

Instructions

If bonus depreciation included on step 3 or step 4 generated a loss in an activity that cannot be deducted in 2026 (e.g. a passive activity loss, excess business loss, or loss in excess of basis), you may reduce step 3 or 4 by the amount of loss not allowed from the activity for 2026, up to the bonus depreciation claimed by the activity. In a future year when the 2026 suspended loss is allowed, you must include the bonus depreciation as an addition. The bonus depreciation is treated as the last suspended loss allowed.

Line 2 — State Income Taxes Passed Through to You as a Partner of a Partnership, a Shareholder of an S Corporation, or a Beneficiary of a Trust

Include state income taxes that were deducted in determining adjusted gross income. Include the total of the amounts reported on line 2 of Schedules KPI, KS, and KF.

Line 3 — Foreign-Derived Intangible Income (FDII) Deduction under section 250 of the Internal Revenue Code

Include the amount of foreign-derived intangible income you deducted from net income under section 250 of the Internal Revenue Code for the taxable year.

Line 4 — Suspended Loss From Bonus Depreciation

Complete the Worksheet for Line 4 if both of the following apply:

- You are claiming a suspended loss from 2001 through 2005 or 2008 through 2025 on your federal return generated by bonus depreciation.
- You did not add back 80 percent of the bonus depreciation in those years.

Complete a separate worksheet for each entity that had a suspended loss. Combine the results for step 6 of each worksheet and enter the result on line 4.

Worksheet for Line 4

1 Bonus depreciation from 2001 through 2005 or 2008 through 2025 that was not added back on your Form M1 . . . . . _____
2 Total suspended loss from activity remaining after 2025 . . . . . _____
3 Subtract step 2 from step 1 (if a negative amount, enter zero) . . . . . _____
4 Multiply step 3 by 80% (0.80) . . . . . _____
5 Total of the 80% bonus depreciation addition passed through to you as a beneficiary (from line 4 of Schedule KF) . . . . . _____
6 Add steps 4 and 5. Enter here and on Schedule M1MB, line 4 . . . . . _____

Line 5 — Net Operating Loss (NOL) Carryover Adjustment

Minnesota did not adopt the provisions of the Worker, Homeownership, and Business Assistance Act of 2009 (WHBA). Under this Act, you may carry back 3, 4, or 5 years of an NOL generated in 2008 or 2009. For federal purposes, any remaining NOL that was not fully absorbed in the carryback years can be carried forward for up to 20 years, beginning in 2010. If you used any of that carryforward on your 2026 federal return, add back that amount as a positive number on line 5.

Line 6 — Accelerated Recognition of Nonresident Installment Sales

If you are required to report accelerated gains from an installment sale in 2026, complete and enclose Schedule M1AR, *Accelerated Recognition of Installment Sale Gains*.

Line 7 — Interest Received on Loans Secured by Rural and Agricultural Real Property

Include the amount of excluded interest income relating to loans secured by rural or agricultural real property as provided under IRC section 139L.

Continued

Line 8 — Certain Business Meals and Entertainment

Include the sum of the following amounts:

- If you deducted 100% of business meals as an expense under IRC section 274(n)(2)(C), include the amount of the business meals expense that exceeds the standard 50% (percent) limitation. Generally, this includes food or beverages provided on commercial vessels, oil and gas platforms, and fishing vessels.
- The amount of expenses you deducted on your federal return under IRC section 274(e)(8) relating to entertainment-related goods or services sold in a bona fide transaction for full consideration. This does not include expenses for entertainment-related goods or services that are part of the taxpayer's trade or business. If this entertainment subject to the addback includes meals, addback only 50% of those meals.

Line 9 — Certain Subpart F Income

Include the amount of Subpart F income you would have incurred by disregarding the federal look-thru rule for related controlled foreign corporations (CFCs) under IRC section 954(c)(6). Offset this addition by the amount of this inclusion in Subpart F income that would then be removed from your net CFC tested income. Net CFC tested income and this addition cannot be reduced below zero. Follow the steps below to determine line 9.

Worksheet for Line 9

1 Sum of dividends, interest, rents, and royalties received or accrued from a CFC which is a related person from federal Forms 5471, Schedule G, line 14 worksheet, statement item 12 . . . . . _____

2 Net CFC tested income before Minnesota QBAI deduction . . . . . _____

3 Enter the lesser of the amount from step 1 or step 2 . . . . . _____

4 Subtract step 3 from step 1. Include the result on line 9 . . . . . _____

Attach a pro-forma copy of Federal Schedule K-2 part VI (2025 version). The schedule should reflect the following adjustments and calculations:

- The tested income or loss lines should reflect the amount of income or loss each CFC has with the Minnesota Subpart F look-thru adjustment.
- The QBAI lines should be calculated as you would have under IRC as of May 1, 2023 with the Minnesota tested income or loss amounts taken into consideration.
- The interest income, interest expense, and tested interest income lines do not need to be filled out.

Subtractions

Line 13 — Federal Bonus Depreciation Subtraction

You may be eligible to reduce your taxable income if either of the following are true:

- You reported 80 percent of the federal bonus depreciation as an addition to income on your 2021 through 2025 Form M1.
- You received a federal bonus depreciation subtraction in 2026 from an estate or trust.

Complete the Worksheet for Line 13 on the next page to determine the amount to enter. If you amend your federal return to recapture previously claimed bonus depreciation, you must amend your Minnesota returns impacted by the previously claimed bonus addition and subsequent subtractions.

Continued

Worksheet for Line 13

If you claimed bonus depreciation as an addition on your 2021 Form M1:

1 Sum of line 1 and line 4 of your 2021 Schedule M1MB . . . . . _____

2 Net operating loss generated for tax year 2021 (line 24, Schedule A of 2021 federal Form 1045). Enter as a positive number . _____

3 Subtract step 2 from step 1 . . . . . _____

4 Multiply step 3 by 20% (0.20) . . . . . _____

If you claimed bonus depreciation as an addition on your 2022 Form M1:

5 Sum of line 1 and line 4 of your 2022 Schedule M1MB . . . . . _____

6 Net operating loss generated for tax year 2022 (line 24, Schedule A of 2022 federal Form 1045). Enter as a positive number . . _____

7 Subtract step 6 from step 5 . . . . . _____

8 Multiply step 7 by 20% (0.20) . . . . . _____

If you claimed bonus depreciation as an addition on your 2023 Form M1:

9 Sum of line 1 and line 4 of your 2023 Schedule M1MB . . . . . _____

10 Net operating loss generated for tax year 2023 (line 24, Schedule A of 2023 federal Form 1045). Enter as a positive number _____

11 Subtract step 10 from step 9 . . . . . _____

12 Multiply step 11 by 20% (0.20) . . . . . _____

If you claimed bonus depreciation as an addition on your 2024 Form M1:

13 Sum of line 1 and line 4 of your 2024 Schedule M1MB . . . . . _____

14 Net operating loss generated for tax year 2024 (line 24, Schedule A of 2024 federal Form 1045). Enter as a positive number _____

15 Subtract step 14 from step 13 . . . . . _____

16 Multiply step 15 by 20% (0.20) . . . . . _____

If you claimed bonus depreciation as an addition on your 2025 Form M1:

17 Sum of line 1 and line 4 of your 2025 Schedule M1MB . . . . . _____

18 Net operating loss generated for tax year 2025 (line 24, Schedule A of 2025 federal Form 1045). Enter as a positive number _____

19 Subtract step 18 from step 17 . . . . . _____

20 Multiply step 19 by 20% (0.20) . . . . . _____

If you received a subtraction in 2026 from an estate or trust:

21 Total bonus depreciation subtraction you received as a beneficiary of an estate or trust (from line 18 of Schedule KF). . . . . _____

Total subtraction

22 Add steps 4, 8, 12, 16, 20 and 21. Enter here and on line 13 of Schedule M1MB . . . . . _____

Line 14 — Gain From the Sale of Farm Property if You Were Insolvent at the Time of Sale

You can reduce your taxable income if you received a gain from the sale of farm property in 2025 and all of the following are true:

- You owned and operated the farm.
- Your debts were greater than the fair market value of your assets immediately before the sale.
- You included the gain from the sale in your federal adjusted gross income on line 11 of federal Form 1040.
- You applied the proceeds from the sale of the property to paying off the mortgage, contract for deed, or lien on the property.

Complete the Worksheet for Line 14.

Worksheet for Line 14

1 Amount of your debts immediately before the sale . . . . . _____

2 Amount of debt forgiveness you were permitted to exclude from income on federal Form 1040 . . . . . _____

3 Subtract step 2 from step 1 . . . . . _____

4 Fair market value of your assets immediately before the sale . . . . . _____

5 Subtract step 4 from step 3 . . . . . _____

6 Gain from the sale included on line 11 of federal Form 1040 . . . . . _____

7 Step 5 or step 6, whichever is less. Also enter this amount on Schedule M1MB, line 14 . . . . . _____

Line 15 — Net Operating Loss (NOL) from 2008 or 2009

Minnesota did not adopt the provisions of the Worker, Homeownership, and Business Assistance Act of 2009 (WHBA). If you chose this federal option, you are limited on your Minnesota return to a carryback period of two years preceding the loss.

Enter the amount you are carrying forward for 2026 for Minnesota purposes. For complete information on how to determine line 15 and any amount to carry forward, go to our website at www.revenue.state.mn.us and enter net operating loss into the Search box.

Line 16 — Railroad Maintenance Expenses

If you claimed a federal credit for railroad maintenance expenses on federal Form 8900, you may be allowed a subtraction for Minnesota purposes. The Minnesota subtraction is the amount of depreciation expenses you were not allowed for federal income tax purposes due to making a basis adjustment as a result of claiming the federal credit under section 45G(a) of the Internal Revenue Code. The Minnesota subtraction is allowed regardless of when the railroad purchased the asset to support the Railroad Track Maintenance Credit.

Line 17 — Income From Prior Year Partnership or S Corporation Sale

Complete this line if both of the following are true:

- You filed Schedule M1AR, *Accelerated Recognition of Installment Sale Gains*, in a prior year to report income from the sale of a partnership or S corporation.
- You recognized a gain on your 2026 federal income tax return from the sale reported on Schedule M1AR in the prior year. Include the gain recognized on your 2026 federal return that is included in your income.

Also complete this line if you accelerated the gain through a composite tax election and have a gain on installment sale reported for an amount previously taxed.

Line 18 — Disallowed Section 280E Expenses for Licensed Cannabis or Hemp Businesses

If you are a licensed cannabis or hemp business with the Office of Cannabis Management in the state of Minnesota, you may subtract expenses that were not allowed for federal tax purposes under section 280E of the Internal Revenue Code.

Line 19 — Deferred foreign income recognized under section 965 of the Internal Revenue Code

Enter the amount of deferred foreign income recognized on your federal return under Internal Revenue Code section 965.

Line 20 — Delayed Business Interest

You may be able to reduce your taxable income if you:

- Reported a nonconformity adjustment in tax years 2019 through 2022 for business interest expense deducted under the special rule (CARES Act Section 2306) in section 163(j)(10)(A) and (B) of the Internal Revenue Code.
- Have an unused Minnesota-only excess business interest expense carried forward from your 2019 through 2022 Minnesota returns.
- Received a delayed business interest subtraction on a 2026 Schedule KF.

If you filed a 2023 return, enter the same amount of the subtraction you claimed on your 2023 return.

If you did not file a 2023 return, determine the amount of your subtraction by summing the amounts reported on the following nonconformity adjustment lines:

- 2019 Schedule M1NC, line 8
- 2020 Schedule M1NC, line 16
- 2021 Schedule M1NC, line 16
- 2022 Schedule M1NC, line 16

Multiply the total of the above lines by 20 percent. If you received an amount on line 24 of a 2026 Schedule KF, add this to the result. The total is the amount of your subtraction in tax year 2026. The remaining 1/5th of the total can be taken as a 20 percent subtraction in tax year 2027.

Line 21 – Delayed Net Operating Loss Deduction

Minnesota did not adopt provisions from the CARES Act which allowed net operating losses generated in tax years 2018 through 2020 to be carried back up to 5 years and exceed 80% of federal taxable income. These disallowed net operating loss deductions are allowed as a carryforward for Minnesota purposes. The disallowed losses may be carried forward up to 20 years from the year in which the loss arose. Use the Worksheet for Line 21 to determine your disallowed Minnesota net operating loss subtraction for tax year 2026.

Worksheet for Line 21

1	Enter the amount of Minnesota NOL carried into 2026 from prior years. Do not include amounts that were already subtracted in a prior year	
2	Enter the amount of federal taxable income from Line 15 of Form 1040 or 1040-SR. If less than zero, enter 0	
3	Multiply step 2 by 80% (0.80)	
4	Enter the lesser of step 1 or 3 here and on line 21 of Schedule M1MB	
5	Subtract step 4 from step 1. This is your Minnesota NOL carried into 2027	

Line 22 – Qualified Business Asset Investment (QBAI) deduction against net Controlled Foreign Corporations (CFC) tested income

Include 10% (percent) of the aggregate of the U.S. shareholder's pro rata share of the qualified business asset investment for each of CFC with respect of the U.S. shareholder for the taxable year. Calculate this amount using IRC section 951A(b)(2)(A), as amended through May 1, 2023. Follow the steps below to determine line 22.

Worksheet for Line 22

1	Sum of the federal net CFC tested income	
2	Include the amount from step 3 from the Subpart F income addition worksheet	
3	Subtract step 2 from step 1. Do not enter less than zero. If this step is zero, stop here, you cannot claim the subtraction.	
4	Sum of Qualified Business Asset Investment (QBAI)*	
5	Multiply step 4 by 10% (0.10)	
6	Enter the lesser of the amount from step 3 or step 5)	

* Include the amount of qualified business asset investment (QBAI) under 2023 Regulations section 1.951A-1(d)(1).

Attach a pro-forma copy of Federal Schedule K-2 part VI (2025 version). The schedule should reflect the following adjustments and calculations:

- The tested income or loss lines should reflect the amount of income or loss each CFC has with the Minnesota Subpart F look-thru adjustment.
- The QBAI lines should be calculated as you would have under IRC as of May 1, 2023 with the Minnesota tested income or loss amounts taken into consideration.
- The interest income, interest expense, and tested interest income lines do not need to be filled out.

Line 23 – Subtraction for federal Employee Retention Credit

Enter the amount of wages not deducted from income in the current taxable year and used for the calculation of the federal Employee Retention Credit under CARES Act Sec. 2301; TCDTR20 Sec. 206 and 207; and/or ARPA Sec. 9651.