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To Tax Committee Members

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Subject Summary the federal tax provisions in the One Big Beautiful Bill Act (OBBBA, or PL 119-21), and their effect on Minnesota's income and corporate franchise tax system

Executive Summary

This memo describes the effect of the federal tax provisions in the One Big Beautiful Bill Act (OBBBA, or PL 119-21) on Minnesota's tax system. The first sections of the memo describe how Minnesota's state income tax system relates to the federal income tax system, as well as the process through which the state may respond to the changes in federal law. Following this discussion, we include a table containing a list of all "conformity items" that Minnesota policymakers will choose to adopt (or not) for state purposes. We also provide estimates of the fiscal effects of conforming to those items.

The relationship between the federal tax system and Minnesota's tax system

Minnesota's individual income tax and corporate franchise tax systems both rely on the federal income tax system. Minnesota's individual income tax uses adjusted gross income (AGI), a definition of income in the federal Internal Revenue Code, as the starting point for state tax calculations. Minnesota's corporate franchise tax uses federal taxable income (FTI) as the starting point for its corporate franchise tax. As a result, any federal changes to adjusted gross income or federal taxable income will typically affect Minnesota's individual income and corporate franchise taxes.

Other aspects of Minnesota's tax code also refer to the federal code. For example, state tax credits like the Minnesota working family credit may reference defined terms defined in federal law, and other state tax credits like the dependent care credit are tied directly to federal calculations. Similarly, state itemized deductions and subtractions often refer to federal law, meaning federal changes affect the state deduction or subtraction.

In summary, there are two main ways that changes to the federal tax code affect Minnesota's tax code:

- **Changes to the income definitions that Minnesota uses as the starting point for its tax system. Most changes in the calculation of business income affect these definitions:** Minnesota's individual income tax and corporate franchise tax rely on

federal income definitions as the starting point for state tax calculations. The individual income tax uses adjusted gross income (AGI) as the starting point for its state tax calculation. The corporate franchise tax and income tax on estates and trusts use federal taxable income (FTI) as their starting point. Federal changes to the calculation of business income affect both AGI and FTI, meaning they affect Minnesota's tax system.

- **Changes to federal tax credits and deductions that Minnesota references in state law:** Tax deductions that are applied after the calculation of AGI or FTI do not affect state tax liability, unless Minnesota makes direct reference to federal law in a state itemized deduction or subtraction. Similarly, federal tax credits generally do not affect state liability, unless an existing state policy references a definition or calculation in federal law.

Policymakers must choose which federal provisions to adopt for state purposes

OBBBA contains tax policy changes in all three of the above groups. Minnesota policymakers will need to decide which of these changes to adopt, if any.

- **Federal changes are not adopted automatically:** When Congress changes federal tax law, those changes do not automatically affect state taxation. Minnesota's tax system is called a "static date conformity" tax system. This means that the Minnesota tax code uses a specific version federal Internal Revenue Code, as amended through a specific date.

Minnesota's individual income tax system and corporate franchise tax system currently reference the federal Internal Revenue Code, as amended through May 1, 2023. As a result, any changes to federal law made after May 1, 2023, are ignored for the purposes of state income taxes.

- **Minnesota periodically passes "tax conformity" bills to adopt federal changes:** Tax conformity bills update the version of the Internal Revenue Code in statute that is used for state tax calculations. This allows Minnesota's system to respond to changes in federal law, and to make a choice about whether to adopt or reject federal changes.
- **Conforming to federal tax code changes is a policy choice—but it usually simplifies the tax code to conform:** Policymakers can usually opt out of specific tax provisions in the process of passing a tax conformity bill. However, adopting federal changes simplifies the state tax filing process, because it allows taxpayers, tax preparers, and the Department of Revenue to track one set of rules rather than two. At the same time, conforming may raise or lower revenue, or may have distributional effects that policymakers dislike. As a result, policymakers must balance tradeoffs when deciding which federal provisions to adopt.
- **Nonconformity to certain provisions (especially those affecting businesses) can add significant complexity:** Some provisions of the tax code span multiple years, and opting out of such provisions can significantly increase complexity for taxpayers, tax preparers, and the Department of Revenue. Many of these provisions affect

businesses, including depreciation, interest deductions and carryforwards, and net operating losses. While lawmakers have sometimes chosen not to adopt federal policies in these areas, they often choose to conform to federal changes to avoid adding complexity to the state tax system.

Nonconformity and administrative complexity

In general, conforming to federal tax changes results in the simplest tax system for Minnesota. When the state adopts federal tax changes, taxpayers do not need to make separate tax calculations on their Minnesota returns—the federal changes are “baked in” to either AGI or FTI.

Nonconformity to federal changes always adds additional complexity for taxpayers filing their returns, and for the Department of Revenue in administering the income tax. However, nonconformity to certain provisions adds more complexity than others. Some federal tax provisions operate in relative isolation from the rest of the tax code, and generally affect only a single year of tax returns. Nonconformity to those provisions can usually be administered by providing an income tax subtraction (to offset income that is being taxed federally) or addition (to offset income being deducted federally).

Nonconformity to other tax changes would add high amounts of complexity to the state tax code. Nonconformity to business deductions that affect multiple tax years will generally add more complexity to the tax code, and will require taxpayers to track separate Minnesota deductions over the course of multiple tax years. Examples of these kinds of provisions include:

- **Business interest deductions:** Federal limitations in the deductibility of business interest affect multiple tax years, because interest in excess of federal limits is carried forward to future tax years. When the state does not conform to changes in interest deductions, it requires taxpayers to track separate state and federal interest deductions (and carryforwards).
- **Property depreciation/expense amortization:** Federal tax provisions allowing accelerated depreciation or expensing of costs allow taxpayers to deduct a large expense in a single tax year, rather than spreading the deduction over many tax years (either through depreciation or amortization). Nonconformity to these provisions require taxpayers and DOR to track separate depreciation or amortization schedules for federal and Minnesota tax purposes. In the case of depreciation, it also requires taxpayers to track separate basis for federal and state property, which can result in different federal and state capital gains tax calculations.

Nonconformity to certain structural tax system rules can also introduce significant complexity. For example, provisions that determine the timing of when income is recognized, categories of businesses that qualify for certain tax preferences, or rules for determining how corporate entities are related to one another for tax purposes.

Analysis of individual provisions

The tables below provide information about all tax provisions in the OBBBA law. The tables include the OBBBA section number, the headnote for the change in OBBBA, a brief description of the provision, and a description of the effect of conforming on Minnesota's tax system.

We have attempted to group together the provisions in the tables below based on their subject matter. The tables cover the following topics:

- Table 1: Individual provisions related to education
- Table 2: Individual provisions related to child care
- Table 3: Miscellaneous individual provisions
- Table 4: Provisions affecting capital gains
- Table 5: Provisions affecting losses
- Table 6: Provisions affecting depreciation/expensing
- Table 7: Provisions affecting interest
- Table 8: Provisions affecting international taxation
- Table 9: Miscellaneous business provisions

We also include an appendix that discusses provisions that do not affect Minnesota liability and are therefore not conformity items.

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Table 1: Individual provisions related to education

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact ¹
70117	EXTENSION OF ROLLOVERS FROM QUALIFIED TUITION PROGRAMS TO ABLE ACCOUNTS PERMITTED.	Makes permanent TCJA rules allowing rollovers from 529 accounts to ABLE accounts.	Conformity item—under current law, distributions for a rollover to an ABLE account after 2025 would be included in gross income. Conforming would reduce revenues.	FY 2026-27 Biennium: (negligible) FY 2028-29 Biennium: (\$0.020 million)
70411	TAX CREDIT FOR CONTRIBUTIONS OF INDIVIDUALS TO SCHOLARSHIP GRANTING ORGANIZATIONS.	Establishes a 100% federal tax credit of \$1,700 for taxpayers who make a donation to a “qualifying organization” that awards scholarships for K-12 education. The tax credit of up to \$1,700 per taxpayer may go to a qualifying organization (of the taxpayer's choice) that then awards scholarships for K12 education; starts in 2027. In states that have these programs, the scholarships are primarily for traditional nonpublic and homeschool student tuition and education materials costs. Taxpayers are not allowed to take charitable contribution deductions for	Conformity item. This provision has two offsetting revenue effects. Amounts contributed to scholarship granting organizations (SGOs) cannot be deducted as charitable contributions, which raises revenue. However, excluding scholarships from gross income reduces revenue.	FY 2026-27 Biennium: \$0 FY 2028-29 Biennium: \$7.200 million

¹ Estimates based on federal conformity estimate for PL 119-21 published December 15, 2025. Positive dollars indicate revenue gain and negative dollars indicate revenue loss.

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact ¹
		amounts contributed, and scholarships are excluded from the gross income of scholarship recipients.		
70412	EXCLUSION FOR EMPLOYER PAYMENTS OF STUDENT LOANS.	Makes permanent the exclusion from gross income for employer payments of an employee’s student loans. Indexes the \$5,250 limit in current federal law for inflation, beginning in TY 27.	Conformity item. Minnesota adopted the exclusion, but it was scheduled to expire after TY 25. Conforming would permanently extend the provision for Minnesota purposes. This would reduce revenues in TY 26 and later.	FY 2026-27 Biennium: (\$9.600 million) FY 2028-29 Biennium: (\$20.700 million)
70413	ADDITIONAL EXPENSES TREATED AS QUALIFIED HIGHER EDUCATION EXPENSES FOR PURPOSES OF 529 ACCOUNTS.	Expands an existing provision allowing distributions from 529 plans to be used to pay for elementary and secondary tuition. The new language allows distribution to be used for tuition, curricular materials, books, online education materials, tuition for tutoring, standardized test fees, and certain educational therapies. Under old law, these distributions were limited to \$10,000. PL 119-21 increases the limit to \$20,000.	Conformity item. Minnesota explicitly opted out of conformity to the TCJA version of this exclusion, meaning that simply modifying the conformity date in statute would not adopt the expansion in PL 119-21. However, a conformity bill could choose to adopt the PL 119-21 exclusion, which would reduce revenues.	No current estimate of the fiscal impact because there is no fiscal impact to "mechanical conformity."

Table 2: Individual provisions related to child care

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
70404	ENHANCEMENT OF THE DEPENDENT CARE ASSISTANCE PROGRAM.	Increases the amount of “dependent care assistance” allowed to be excluded from gross income. This covers employer-provided dependent care and dependent care flex spending accounts. Under old law the limit was \$5,000 for married joint returns and \$2,500 for other taxpayers. PL 119-21 increases the limits to \$7,500 for married joint returns and \$3,750 for other taxpayers.	Conformity item. Dependent care assistance is excluded from gross income. Conforming would reduce revenues by excluding the amount of assistance that is not subject to tax.	FY 2026-27 Biennium: (\$5.000 million) FY 2028-29 Biennium: (\$11.200 million)
70405	ENHANCEMENT OF CHILD AND DEPENDENT CARE TAX CREDIT.	Increases the phaseout on the federal dependent care credit. Under old law, the credit rate was 35%, but was reduced to 20% by \$43,000 of adjusted gross income. Under PL 119-21, the credit rate starts at 50%, and is phased from 50% to 35% as AGI increases from \$15,000 to \$43,000. The credit rate then plateaus at 35%, and a second phaseout begins at \$150,000 of AGI for married joint returns and \$75,000 for other filers. The credit rate remains at 20% for married joint taxpayers with AGI above \$206,000 and single taxpayers with incomes above \$103,000.	Conformity item. Minnesota’s credit is set equal to the federal credit (though we have a state specific phaseout beginning at \$64,150 in TY 2025). Conforming will give taxpayers below the phaseout a higher credit percentage, which will reduce revenue.	FY 2026-27 Biennium: (\$15.800 million) FY 2028-29 Biennium: (\$33.900 million)

Table 3: Miscellaneous individual provisions

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
70425	0.5 PERCENT FLOOR ON DEDUCTION OF CONTRIBUTIONS MADE BY INDIVIDUALS.	Limits the federal itemized deduction for charitable contributions to amounts in excess of 0.5% of the “contribution base,” which is adjusted gross income for most taxpayers. Allows taxpayers to carry forward contributions in excess of the limit.	Conformity item. Minnesota’ itemized deduction for charities is tied to federal law. Conforming would raise revenues by reducing itemized deductions.	FY 2026-27 Biennium: \$19.900 million FY 2028-29 Biennium: \$42.600 million
70113	EXTENSION AND MODIFICATION OF LIMITATION ON DEDUCTION AND EXCLUSION FOR MOVING EXPENSES.	Makes permanent the TCJA limitations on the moving expense deduction; TCJA limited the deduction to members of the armed forces.	Conformity item—the moving expense deduction is an above the line deduction affecting AGI. Minnesota conformed to the TCJA limitations in 2019 and conforming to the PL 119-21 limitation would raise revenue.	FY 2026-27 Biennium: \$9.800 million FY 2028-29 Biennium: \$23.600 million
70204	TRUMP ACCOUNTS AND CONTRIBUTION PILOT PROGRAM.	Establishes a pilot program for so-called “Trump accounts,” which are a new tax-preferenced savings account. Contributions to the account are limited to \$5,000 per year, and citizen children born in the years 2025 to 2028 receive a onetime \$1,000 deposit from the federal government. These are traditional (non-Roth) IRAs that are created for the exclusive benefit of an individual who is younger than 18,	Conformity item. Up to \$2,500 of employer contributions to Trump accounts are excluded from gross income. Adopting this exclusion for state income tax purposes would have a cost. The exclusion from gross income for distributions of contributions by the individual, the individual’s employer, or the \$1,000 initial deposit may also be a conformity item (it’s unclear if that is	FY 2026-27 Biennium: (negligible) FY 2028-29 Biennium: (\$0.200 million)

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
		<p>or are created by the government for the benefit of a person younger than 18.</p> <p>Taxpayers may make contributions to Trump accounts beginning one year after the law is enacted.</p> <p>No distributions are allowed before the beneficiary turns 18. Once the beneficiary turns 18, distributions are subject to the rules that apply to IRAs—a 10% penalty applies for distributions before age 59 ½, with exceptions for things like higher education expenses, first-time homebuyer expenses, etc.</p> <p>Before the beneficiary turns 18, contributions to the account are made after-tax (meaning there is no tax benefit for contributions). Earnings in the account are tax deferred until distribution.</p> <p>Distributions of contributions (from the individual, employer, or the \$1,000 initial contribution from the government) are not included in gross income, but distributions of earnings are included in gross income and taxable at the time of distribution.</p>	<p>covered by the IRA rules), but any revenue effect will be minimal.</p> <p>Other tax benefits flow from existing benefits for IRAs, which the state has already adopted.</p>	

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
70112	EXTENSION AND MODIFICATION OF QUALIFIED TRANSPORTATION FRINGE BENEFITS.	<p>Permanently eliminates the exclusion for bicycle commuting reimbursements.</p> <p>Adds an additional year of inflation adjustments for other qualified transportation fringe benefits.</p>	<p>Conformity item—this exclusion affects AGI.</p> <p>Bicycle commuting: MN currently conforms to this provision, which will expire in 2026. Conforming to the changes would raise revenue.</p> <p>Transportation fringe: Reduces AGI by allowing more transportation fringe benefits to be excluded from the employee’s gross income.</p>	<p><i>Bicycle commuting transportation fringe.</i></p> <p>FY 2026-27 Biennium: \$0.100 million</p> <p>FY 2028-29 Biennium: \$0.300 million</p> <p><i>Inflationary increase in the limit on for other transportation fringe benefits.</i></p> <p>FY 2026-27 Biennium: (\$1.900 million)</p> <p>FY 2028-29 Biennium: (\$4.500 million)</p>
70118	EXTENSION OF TREATMENT OF CERTAIN INDIVIDUALS PERFORMING SERVICES IN THE SINAI PENINSULA AND ENHANCEMENT TO INCLUDE ADDITIONAL AREAS.	Expands qualified hazardous duty areas qualifying for special tax treatment to include additional areas.	Conformity item—would allow an exclusion for certain income earned in the hazardous duty area. Conforming would reduce revenues to the extent any MN taxpayers qualify for the exclusion, but similar provisions in the past have had minor revenue effects.	<p>FY 2026-27 Biennium: (\$0.010 million)</p> <p>FY 2028-29 Biennium: (\$0.020 million)</p>

Table 4: Provisions affecting capital gains

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
70421	PERMANENT RENEWAL AND ENHANCEMENT OF OPPORTUNITY ZONES.	Makes opportunity zones permanent and expands the program. OBBBA also establishes new rules for “Qualified Rural Opportunity” funds that would invest in rural OZs. Makes designation of a Census tract as an OZ as a rolling 10-year designation. OBBBA also eliminates a TCJA provision that allowed non-low-income Census tracts adjacent to a low-income community to be designated as OZs.	Conformity item—affects taxation of capital gain from investments (deferral or exclusion) which will reduce revenue.	FY 2026-27 Biennium: (\$47.000 million) FY 2028-29 Biennium: (\$173.400 million)
70431	EXPANSION OF QUALIFIED SMALL BUSINESS STOCK GAIN EXCLUSION.	Modifies percentage of gain excluded from gross income, increase cap on excludable gain, increase threshold for qualifying as a qualifying small business.	Conformity item—in the long run, increases the amount of gain that is not taxable which will reduce revenue. JCT is forecasting a short-term revenue gain, likely due to behavioral effects.	FY 2026-27 Biennium: \$0.900 million FY 2028-29 Biennium: \$0.200 million

Table 5: Provisions affecting losses

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
70601	MODIFICATION AND EXTENSION OF LIMITATION ON	Makes the excess business loss provision permanent (it currently expires in 2029).	Conformity item—conforming to this provision will continue to limit business loss deductions in a taxable year, which	FY 2026-27 Biennium: \$1.400 million

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
	EXCESS BUSINESS LOSSES OF NONCORPORATE TAXPAYERS.		will raise state revenues in tax years after 2029.	FY 2028-29 Biennium: \$29.000 million
70114	EXTENSION AND MODIFICATION OF LIMITATION ON WAGERING LOSSES.	Limits the amount of wagering losses that are deductible against wagering gains to 90%.	Conformity item—the state itemized deductions reference the federal wagering loss deduction. Conforming would raise revenue.	FY 2026-27 Biennium: \$0.800 million FY 2028-29 Biennium: \$3.000 million

Table 6: Provisions affecting depreciation/expensing

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
70301	FULL EXPENSING FOR CERTAIN BUSINESS PROPERTY.	Increases the bonus depreciation deduction to 100% and makes the deduction permanent.	Conformity item—modifies amount of MN additions and subtractions for bonus depreciation. Increases revenue due to interaction between MN 5-year add back and property having a class life of less than 5 years.	*FY 2026-27 Biennium: \$11.200 million *FY 2028-29 Biennium: \$40.300 million *Assumes full conformity. Fiscal impact also includes the special depreciation allowance for qualified production property, section 70307.

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
70302	FULL EXPENSING OF DOMESTIC RESEARCH AND EXPERIMENTAL EXPENDITURES.	Allows expensing of R&D expenses. Expensing is retroactive for certain small businesses. Deduction for currently amortized expenses may be accelerated.	Conformity item—increases the amount of the deduction for certain R&D expenses in a taxable year. This will reduce revenues.	FY 2026-27 Biennium: (\$349.100 million) FY 2028-29 Biennium: (\$21.100 million)
70306	INCREASED DOLLAR LIMITATIONS FOR EXPENSING OF CERTAIN DEPRECIABLE BUSINESS ASSETS.	Section 179 expansion—increases amount deductible and phaseout threshold.	Conformity item—will reduce revenues by increasing the amount of the section 179 deduction.	* FY 2026-27 Biennium: (\$36.200 million) * FY 2028-29 Biennium: (\$22.700 million)
70307	SPECIAL DEPRECIATION ALLOWANCE FOR QUALIFIED PRODUCTION PROPERTY.	New expensing provision for building qualifying production property.	Conformity item—will create new business deduction to expense production property, which will reduce AGI. Conforming will reduce revenues.	Fiscal impact included in bonus expensing (Section 70301).
70434	TREATMENT OF CERTAIN SOUND RECORDING PRODUCTIONS.	Expands the expensing provisions for film, television, and theater productions to cover certain sound recordings. Allows certain sound recordings to qualify for bonus depreciation.	Conformity item—affects depreciation deduction for sound recording productions.	FY 2026-27 Biennium: (\$0.060 million) FY 2028-29 Biennium: (\$0.140 million)
70509	TERMINATION OF 5-YEAR COST RECOVERY	Terminates accelerated depreciation for certain wind and solar property.	Conformity item—extends the length of time over which the deduction for	FY 2026-27 Biennium: \$0.600 million

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
	FOR WIND AND SOLAR PROPERTY.		certain wind and solar property is claimed.	FY 2028-29 Biennium: \$0.800 million

Table 7: Provisions affecting interest

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
70303	MODIFICATION OF LIMITATION ON BUSINESS INTEREST.	Increases the amount of business interest that may be deducted (via restoring EBITDA in the calculation of ATI)	Conformity item—increases the amount of business interest deductible in a taxable year. This will reduce revenues.	FY 2026-27 Biennium: (\$109.400 million) FY 2028-29 Biennium: (\$55.900 million) Fiscal impact also includes sections 70341 and 70342.
70341	COORDINATION OF BUSINESS INTEREST LIMITATION WITH INTEREST CAPITALIZATION PROVISIONS.	Subjects capitalized interest to the section 163(j) interest deduction limits.	Conformity item—will reduce the amount of business interest that is deductible in a taxable year, which will raise revenue.	Fiscal impact included in business interest limitation provision (section 70303).

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
70342	DEFINITION OF ADJUSTED TAXABLE INCOME FOR BUSINESS INTEREST LIMITATION.	Increases the amount of business interest that can be deducted by modifying adjusted taxable income to include EBITDA versus EBIT.	Conformity item—will increase the amount of business interest that is deductible in a taxable year, which will reduce revenue.	Fiscal impact included in business interest limitation provision (section 70303).

Table 8: Provisions affecting international taxation

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
70323	RULES RELATED TO DEEMED INTANGIBLE INCOME.	Eliminates the deduction for QBAI used in determining NCTI (formerly GILTI).	Conformity item—increases the amount of NCTI (GILTI) that is calculated which increases taxable income and should raise state revenues.	FY 2026-27 Biennium: \$3.900 million FY 2028-29 Biennium: \$9.300 million
70351	PERMANENT EXTENSION OF LOOK-THRU RULE FOR RELATED CONTROLLED FOREIGN CORPORATIONS.	Permanently excludes certain income not attributable to US business (and which is not subpart F) from subpart F income.	Conformity item—will reduce the amount of subpart F subject to tax in Minnesota compared to baseline assumption. This will reduce revenues.	FY 2026-27 Biennium: (\$4.500 million) FY 2028-29 Biennium: (\$9.300 million)
70352	REPEAL OF ELECTION FOR 1-MONTH DEFERRAL IN	Modification of tax year for certain foreign corporations.	Will affect return filing deadlines which could affect timing of tax collections.	FY 2026-27 Biennium: \$3.400 million

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
	DETERMINATION OF TAXABLE YEAR OF SPECIFIED FOREIGN CORPORATIONS.			FY 2028-29 Biennium: \$0
70353	RESTORATION OF LIMITATION ON DOWNWARD ATTRIBUTION OF STOCK OWNERSHIP IN APPLYING CONSTRUCTIVE OWNERSHIP RULES.	Narrows the constructive ownership rules for controlled foreign corporation (CFC) determination.	Conformity item—CFC determinations affect subpart F and NCTI (GILTI) and this may reduce revenue by reducing the number of corporations that are CFCs.	FY 2026-27 Biennium: (\$1.400 million) FY 2028-29 Biennium: (\$2.900 million)
70354	MODIFICATIONS TO PRO RATA SHARE RULES.	Modifies the stock ownership rules for determining CFCs that are based on when during the year the requisite ownership interest is held (would allow ownership at any point during the year to qualify).	Conformity item—CFC determinations affect subpart F and NCTI (GILTI) and this may increase revenue by increasing the number of corporations that are CFCs.	FY 2026-27 Biennium: \$7.600 million FY 2028-29 Biennium: \$18.000 million

Table 9: Miscellaneous business provisions

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
70401	ENHANCEMENT OF EMPLOYER-PROVIDED CHILD CARE CREDIT.	Increases the credit rate and maximum for the employer tax credit for employers providing child care. Indexes for inflation the \$500,000 maximum credit. Modifies the definition of “eligible small business,” allows credits for third-party intermediaries. Allows jointly owned facilities to qualify.	Conformity item. Businesses that claim the credit are not allowed to deduct associated expenses. Expanding the credit reduces the amount of deductible business expenses.	FY 2026-27 Biennium: \$131.800 million FY 2028-29 Biennium: \$241.800 million
70426	1-PERCENT FLOOR ON DEDUCTION OF CHARITABLE CONTRIBUTIONS MADE BY CORPORATIONS.	Limits the charitable contribution deduction for corporations to amounts that exceed 1% of the corporation’s taxable income.	Conformity item—conforming will affect federal taxable income (FTI) and increase revenue by reducing the amount of deductible contributions made by corporations.	FY 2026-27 Biennium: \$0 FY 2028-29 Biennium: \$22.200 million
70305	EXCEPTIONS FROM LIMITATIONS ON DEDUCTION FOR BUSINESS MEALS.	Establishes an exception to the denial of the business deduction for meals sold to employees by employers and for meals provided on fishing vessels.	Conformity item—will reduce revenue by allowing increased deductions over baseline assumption.	FY 2026-27 Biennium: (\$0.700 million) FY 2028-29 Biennium: (\$2.000 million)
70435	EXCLUSION OF INTEREST ON LOANS SECURED BY RURAL OR AGRICULTURAL REAL PROPERTY.	Excludes 25% of the interest received by a lender on certain ag loans from the lender’s gross income.	Conformity item—allows a deduction for certain interest income which will reduce revenue.	FY 2026-27 Biennium: (\$0.850 million) FY 2028-29 Biennium: (\$2.260 million)

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
70507	TERMINATION OF ENERGY EFFICIENT COMMERCIAL BUILDING DEDUCTION.	Terminates the energy efficient buildings deduction for property constructed after June 30, 2026.	Conformity item—will increase revenue by reducing a business deduction.	FY 2026-27 Biennium: \$0 FY 2028-29 Biennium: \$0.220 million
70304	EXTENSION AND ENHANCEMENT OF PAID FAMILY AND MEDICAL LEAVE CREDIT.	Allows paid leave premiums to qualify for the credit.	Conformity item—employers are not allowed to deduct costs used to claim the credit, so expanding the credit will reduce business expense deductions.	FY 2026-27 Biennium: \$1.600 million FY 2028-29 Biennium: \$4.200 million
70430	EXCEPTION TO PERCENTAGE OF COMPLETION METHOD OF ACCOUNTING FOR CERTAIN RESIDENTIAL CONSTRUCTION CONTRACTS.	Expands exception to the percentage completion requirements for long-term home construction contracts to include all residential construction contracts.	Conformity item—modifies the timing of when income from certain construction contracts is included in gross income.	FY 2026-27 Biennium: (\$7.000 million) FY 2028-29 Biennium: (\$6.700 million)
70201	NO TAX ON TIPS.	Establishes a means-tested deduction for up to \$25,000 in tip income, regardless of filing status. The deduction is phased out by \$100 for each \$1,000 of income above \$150,000 in MAGI (\$300,000 for married joint returns). The deduction is calculated after adjusted gross income, and is available	No effect of tip deduction itself under mechanical conformity, because the deduction applies after AGI. However, this provision will slightly expand the FICA Tip Credit, which will result in a small reduction in the	FY 2026-27 Biennium: \$0.230 million FY 2028-29 Biennium: \$0.240 million

OBBBA Section #	OBBBA Headnote	Description	Effect on Minnesota	DOR Estimated Fiscal Impact
		to both taxpayers who itemize and taxpayers who claim the standard deduction. Effective for TY 25 and later.	amount of deductible taxes by employers, which raises revenue.	
70439	RESTORATION OF TAXABLE REIT SUBSIDIARY ASSET TEST.	Increases asset test limit to 25%.	Conformity item—will reduce revenue.	FY 2026-27 Biennium: (\$0.700 million) FY 2028-29 Biennium: (\$1.700 million)
70603	EXCESSIVE EMPLOYEE REMUNERATION FROM CONTROLLED GROUP MEMBERS AND ALLOCATION OF DEDUCTIONS.	Broadens the \$1 million limit on deducting excessive employee remuneration by including compensation paid by all members of a controlled group when aggregating the compensation paid to an employee.	Conformity item – will increase revenue.	FY 2026-27 Biennium: \$8.200 million FY 2028-29 Biennium: \$16.000 million

Appendix 1: Section-by-section summary of OBBBA provisions with no direct effect on state revenues

CHAPTER 1—PROVIDING PERMANENT TAX RELIEF FOR MIDDLE-CLASS FAMILIES AND WORKERS

Section #	Headnote	Description	Effect on Minnesota
70101	EXTENSION AND ENHANCEMENT OF REDUCED RATES.	Makes permanent the TCJA rate and bracket structure, effective TY 26 and later.	None.

Section #	Headnote	Description	Effect on Minnesota
70102	EXTENSION AND ENHANCEMENT OF INCREASED STANDARD DEDUCTION.	Makes permanent the TCJA expansion of the standard deduction.	None.
70103	TERMINATION OF DEDUCTION FOR PERSONAL EXEMPTIONS OTHER THAN TEMPORARY SENIOR DEDUCTION.	Establishes a means-tested additional standard deduction of \$6,000 for taxpayers ages 65+. Deduction phased out beginning at \$75,000/\$150,000. Effective for TY 25-28.	None.
70104	EXTENSION AND ENHANCEMENT OF INCREASED CHILD TAX CREDIT.	(a) Makes permanent TCJA's expansion of the federal child tax credit. Increases the credit to \$2,200 in TY 26. (b) Limits the federal CTC to taxpayers with a Social Security number and children with a Social Security number. Defines "Social Security number" as a number issued by the Social Security Administration to a citizen. (c) Adjusts the \$1,400 limit on child credit refundability for inflation, beginning in TY 25. Increases the \$2,200 child credit amount for inflation, beginning in TY 26.	None.
70105	EXTENSION AND ENHANCEMENT OF DEDUCTION FOR QUALIFIED BUSINESS INCOME.	Makes the qualified business income deduction permanent and increases qualifying income thresholds.	None.
70106	EXTENSION AND ENHANCEMENT OF INCREASED ESTATE AND GIFT TAX EXEMPTION AMOUNTS.	Permanently increases the estate and gift tax exclusion.	None.
70107	EXTENSION OF INCREASED ALTERNATIVE MINIMUM TAX EXEMPTION AMOUNTS AND	Makes permanent the TCJA expansion of the federal AMT exemption, and the changes in the AMT exemption phaseout.	None.

Section #	Headnote	Description	Effect on Minnesota
	MODIFICATION OF PHASEOUT THRESHOLDS.		
70108	EXTENSION AND MODIFICATION OF LIMITATION ON DEDUCTION FOR QUALIFIED RESIDENCE INTEREST.	Makes permanent the TCJA reduction in the amount of mortgage interest. TCJA reduced the amount of acquisition indebtedness eligible for the deduction from \$1 million to \$750,000.	None—Minnesota permanently adopted the \$750,000 limit in the 2019 tax bill.
70109	EXTENSION AND MODIFICATION OF LIMITATION ON CASUALTY LOSS DEDUCTION.	(a) Makes permanent the TCJA suspension of the itemized deduction for personal casualty and theft losses. (b) Allows the casualty loss deduction for losses in state-declared disasters.	None Paragraph (a) has no effect, because Minnesota opted to permanently allow the deduction for personal casualty losses in the 2019 tax bill. Minnesota’s existing deduction should allow the new category of losses in state-declared disaster areas, so there would not be any effect of conforming.
70110	TERMINATION OF MISCELLANEOUS ITEMIZED DEDUCTIONS OTHER THAN EDUCATOR EXPENSES.	(a) Makes permanent TCJA’s suspension of “miscellaneous itemized deductions” subject to the 2% AGI limit. (b) Allows unreimbursed educator expenses in excess of 2% of AGI to be taken as an itemized deduction. Those deductions are allowed as an above-the-line deduction under current law but are limited to \$200. The itemized deduction would also allow expenses for “nonathletic supplies for courses of instruction in	(a) None—Minnesota only partially conformed to the federal suspension—the state retained the itemized deduction for

Section #	Headnote	Description	Effect on Minnesota
		health or physical education,” and allow “interscholastic sports administrators or coach[es]” to claim the deduction.	unreimbursed employee expenses in 2019. (b) None by default. Minnesota’s itemized deductions are specified in state law. Simply updating our reference to the Internal Revenue Code would not allow this deduction for state purposes. Policymakers could choose to adopt this deduction in a potential conformity bill, but the state would not do so under a “mechanical” conformity bill that just updated our Internal Revenue Code reference.

Section #	Headnote	Description	Effect on Minnesota
70111	LIMITATION ON TAX BENEFIT OF ITEMIZED DEDUCTIONS.	Establishes a new federal itemized deduction limitation. A taxpayer's itemized deductions are reduced by the lesser of approximately 5.4% of the taxpayer's itemized deductions or the amount by which the taxpayer's taxable income exceeds the top income tax bracket (37%).	None.
70115	EXTENSION AND ENHANCEMENT OF INCREASED LIMITATION ON CONTRIBUTIONS TO ABLE ACCOUNTS.	Makes permanent TCJA's expansion of the maximum contributions to ABLE accounts.	None—ABLE account contributions do not affect AGI.
70116	EXTENSION AND ENHANCEMENT OF SAVERS CREDIT ALLOWED FOR ABLE CONTRIBUTIONS.	Allows ABLE account contributions to qualify for the federal savers credit.	None.
70119	EXTENSION AND MODIFICATION OF EXCLUSION FROM GROSS INCOME OF STUDENT LOANS DISCHARGED ON ACCOUNT OF DEATH OR DISABILITY.	Makes permanent the TCJA exemption from gross income for student loans discharged due to death or disability. Does not extend the broad federal exclusion from gross income for discharged student loans, which was originally enacted in the CARES Act and is scheduled to expire after 2025.	None; Minnesota permanently adopted the broad CARES Act exemption in the 2023 tax bill.
70120	LIMITATION ON INDIVIDUAL DEDUCTIONS FOR CERTAIN STATE AND LOCAL TAXES, ETC.	Establishes a new cap on the deduction for state and local taxes. The cap is the same regardless of filing status, and is set at the following amounts: TY 2025: \$40,000 TY 2026: \$40,000 TY 2027-2029: 101% of the limit in the previous year TY 2030 and later: \$10,000	No direct effect on Minnesota's tax system.

Section #	Headnote	Description	Effect on Minnesota
		The cap is reduced by 30% of modified adjusted gross income (MAGI) above \$500,000 in 2025. The cap cannot be lower than \$10,000. The income limit at which the cap is means tested grows at the same rate as the cap itself. The means testing on the limit expires in TY 2030, at the same time the cap reverts to \$10,000.	

CHAPTER 2—DELIVERING ON PRESIDENTIAL PRIORITIES TO PROVIDE NEW MIDDLE-CLASS TAX RELIEF

Section #	Headnote	Description	Effect on Minnesota
70201	NO TAX ON TIPS.	<p>Establishes a means-tested deduction for up to \$25,000 in tip income, regardless of filing status. The deduction is phased out by \$100 for each \$1,000 of income above \$150,000 in MAGI (\$300,000 for married joint returns).</p> <p>The deduction is calculated after adjusted gross income, and is available to both taxpayers who itemize and taxpayers who claim the standard deduction.</p> <p>Effective for TY 25 and later.</p>	<p>No effect of tip deduction itself, because the deduction applies after AGI.</p> <p>However, this provision will slightly expand the FICA Tip Credit, which will result in a small reduction in the amount of deductible taxes by employers, which raises revenue.</p>
70202	NO TAX ON OVERTIME.	<p>Establishes a means-tested deduction for up to \$12,500 in overtime income (\$25,000 for married joint returns). Similar to the tips deduction, this is phased out by \$100 for each \$1,000 of income above \$150,000 in MAGI (\$300,000 for married joint returns).</p> <p>The deduction is calculated after adjusted gross income, and is available to both taxpayers who itemize and taxpayers who claim the standard deduction.</p>	<p>None—deduction applies after AGI.</p>

Section #	Headnote	Description	Effect on Minnesota
		Effective for TY 25 and later.	
70203	NO TAX ON CAR LOAN INTEREST.	<p>Establishes a temporary deduction for certain car loan interest, effective for TY 25 to TY 28. The deduction is limited to \$10,000 regardless of filing status, and is phased out by \$200 for each \$1,000 of MAGI above \$100,000 (\$200,000 for married joint returns).</p> <p>The deduction is for “qualified passenger vehicle loan interest.” It does not apply to fleet vehicles, commercial vehicles, lease financing, loans to purchase vehicles with a salvaged title, or for scrap parts.</p> <p>The passenger vehicles are new cars whose first use is by the taxpayer, which have at least 2 wheels, are a car, minivan, van, SUV, pickup truck, or motorcycle, and with a gross vehicle weight rating of less than 14,000 pounds. Final assembly of the vehicle must have occurred in the US.</p> <p>The deduction is calculated after adjusted gross income, and is available to both taxpayers who itemize and taxpayers who claim the standard deduction.</p>	None—deduction applies after AGI.

CHAPTER 3—ESTABLISHING CERTAINTY AND COMPETITIVENESS FOR AMERICAN JOB CREATORS

Section #	Headnote	Description	Effect on Minnesota
SUBCHAPTER A – PERMANENT U.S. BUSINESS TAX REFORM AND BOOSTING DOMESTIC INVESTMENT			
70308	ENHANCEMENT OF ADVANCED MANUFACTURING INVESTMENT CREDIT.	Increase credit rate from 25% to 35%.	No impact.
70309	SPACEPORTS ARE TREATED LIKE AIRPORTS UNDER EXEMPT FACILITY BOND RULES.	Treats spaceports like airports for purposes of the tax exempt bond rules.	No impact.

Section #	Headnote	Description	Effect on Minnesota
SUBCHAPTER B – PERMANENT AMERICA-FIRST INTERNATIONAL TAX REFORMS			
PART I – FOREIGN TAX CREDIT			
70311	MODIFICATIONS RELATED TO FOREIGN TAX CREDIT LIMITATION.	Modifies allocation of interest and R&D expenses for purposes of determining the foreign tax credit limit.	No impact.
70312	MODIFICATIONS TO DETERMINATION OF DEEMED PAID CREDIT FOR TAXES PROPERLY ATTRIBUTABLE TO TESTED INCOME.	Reduces the foreign tax credit reduction applicable to NCTI (formerly “GILTI”).	No impact.
70313	SOURCING CERTAIN INCOME FROM THE SALE OF INVENTORY PRODUCED IN THE UNITED STATES.	Treats income from the sale of certain inventory as foreign source income, for purposes of the foreign tax credit limit.	No impact.
PART II – FOREIGN-DERIVED DEDUCTION ELIGIBLE INCOME AND NET CFC TESTED INCOME			
70321	MODIFICATION OF DEDUCTION FOR FOREIGN-DERIVED DEDUCTION ELIGIBLE INCOME AND NET CFC TESTED INCOME.	Modifies the federal deductions for NCTI (formerly GILTI) and FDDEI (formerly FDII).	No impact (Minnesota does not conform to these federal deductions).
70322	DETERMINATION OF DEDUCTION ELIGIBLE INCOME.	Excludes income from the sale of certain property from the FDDEI deduction.	No impact (Minnesota does not conform to FDII/FDDEI).
PART III – BASE EROSION MINIMUM TAX			

Section #	Headnote	Description	Effect on Minnesota
70331	EXTENSION AND MODIFICATION OF BASE EROSION MINIMUM TAX AMOUNT.	Modifies the rate under the base erosion minimum tax.	No impact.
PART IV – BUSINESS INTEREST LIMITATION			
PART V – OTHER INTERNATIONAL TAX REFORMS			

CHAPTER 4—INVESTING IN AMERICAN FAMILIES, COMMUNITIES, AND SMALL BUSINESSES

Section #	Headnote	Description	Effect on Minnesota
SUBCHAPTER A – PERMANENT INVESTMENTS IN FAMILIES AND CHILDREN			
70402	ENHANCEMENT OF ADOPTION CREDIT.	Makes the federal adoption credit partially refundable, with the refundable amount limited to \$5,000. Indexes for inflation the \$10,000 limit on eligible expenses and the income limit for the credit.	None.
70403	RECOGNIZING INDIAN TRIBAL GOVERNMENTS FOR PURPOSES OF DETERMINING WHETHER A CHILD HAS SPECIAL NEEDS FOR PURPOSES OF THE ADOPTION CREDIT.	Allows Tribal government determinations of whether a child has “special needs” for the purposes of the adoption credit.	None.
SUBCHAPTER B – PERMANENT INVESTMENTS IN STUDENTS AND REFORMS TO TAX EXEMPT INSTITUTIONS			
70415	MODIFICATION OF EXCISE TAX ON INVESTMENT INCOME OF	Expands the federal excise tax on the net investment income of certain higher education institutions.	None.

Section #	Headnote	Description	Effect on Minnesota
	CERTAIN PRIVATE COLLEGES AND UNIVERSITIES.		
70416	EXPANDING APPLICATION OF TAX ON EXCESS COMPENSATION WITHIN TAX-EXEMPT ORGANIZATIONS.	Expands the federal excess tax on nonprofit organizations with highly compensated employees.	None.
SUBCHAPTER C – PERMANENT INVESTMENTS IN COMMUNITY DEVELOPMENT			
70422	PERMANENT ENHANCEMENT OF LOW-INCOME HOUSING TAX CREDIT.	The LIHTC is a federal income tax credit for developers of low-income housing. The credit comes in two forms: one is awarded through a competitive selection process and one is awarded automatically to projects receiving a requisite allocation of tax-exempt bonds. The competitive form of the credit is subject to a federal volume cap; the tax-exempt bonds which allow for automatic award of the LIHTC are also subject to a federal volume cap. The act permanently increased the federal volume cap of the competitive form of the credit, and it halved the amount of a project required to be financed by tax-exempt bonds to qualify for the noncompetitive form of the credit.	No impact on Minnesota’s tax system.
70423	PERMANENT EXTENSION OF NEW MARKETS TAX CREDIT.	Makes the new markets tax credit program permanent.	No impact.
70424	PERMANENT AND EXPANDED REINSTATEMENT OF PARTIAL DEDUCTION FOR CHARITABLE CONTRIBUTIONS OF INDIVIDUALS WHO DO NOT ELECT TO ITEMIZE.	Establishes a permanent charitable contribution deduction for taxpayers who do not itemize their deductions. The deduction is limited to \$2,000 for married joint filers and \$1,000 for other taxpayers.	No impact—the deduction is applied after the calculation of adjusted gross income so it does not affect Minnesota.

Section #	Headnote	Description	Effect on Minnesota
70427	PERMANENT INCREASE IN LIMITATION ON COVER OVER OF TAX ON DISTILLED SPIRITS.	Modifies the rate of the transfer of the federal excise tax on imported spirits to Puerto Rico and the Virgin Islands.	No impact.
SUBCHAPTER D – PERMANENT INVESTMENTS IN SMALL BUSINESS AND RURAL AMERICA			
70432	REPEAL OF REVISION TO DE MINIMIS RULES FOR THIRD PARTY NETWORK TRANSACTIONS.	Reinstates the \$20,000/200 transaction exception to the third party network transaction reporting requirements.	No impact.
70433	INCREASE IN THRESHOLD FOR REQUIRING INFORMATION REPORTING WITH RESPECT TO CERTAIN PAYERS.	Increases limit for reporting payments to persons from \$600 to \$2,000.	No impact.
70436	REDUCTION OF TRANSFER AND MANUFACTURING TAXES FOR CERTAIN DEVICES.	Modifies the tax on certain firearms.	No impact.
70437	TREATMENT OF CAPITAL GAINS FROM THE SALE OF CERTAIN FARMLAND PROPERTY.	Allows a taxpayers selling certain farmland property to pay tax on the gains in installments.	No impact, just affects the timing of federal tax payments.
70438	EXTENSION OF RULES FOR TREATMENT OF CERTAIN DISASTER-RELATED PERSONAL CASUALTY LOSSES.	Applies special rules for disaster-related casualty loss deductions to disasters with an incident period beginning between December 12, 2024, and July 4, 2025.	No impact—Minnesota has a state itemized casualty loss deduction which is more generous than the disaster-related casualty loss deduction (\$100 vs. \$500 threshold for

Section #	Headnote	Description	Effect on Minnesota
			losses). The federal provision allows the casualty loss deduction to taxpayers who claim the standard deduction, but does not affect the ability of taxpayers to claim casualty losses for the purposes of the state standard deduction.

CHAPTER 5—ENDING GREEN NEW DEAL SPENDING, PROMOTING AMERICA-FIRST ENERGY, AND OTHER REFORMS

Section #	Headnote	Description	Effect on Minnesota
SUBCHAPTER A – TERMINATION OF GREEN NEW DEAL SUBSIDIES			
70501— 70515	VARIOUS	Ends or modifies various federal energy tax credits.	None.
SUBCHAPTER B – ENHANCEMENT OF AMERICA-FIRST ENERGY POLICY			
70521- 70525	VARIOUS	Other modifications of various federal energy tax policies.	None.
SUBCHAPTER C – OTHER REFORMS			

Section #	Headnote	Description	Effect on Minnesota
70531	MODIFICATIONS TO DE MINIMIS ENTRY PRIVILEGE FOR COMMERCIAL SHIPMENTS.	Eliminates the de minimis exemption for duties on imports.	No impact.

CHAPTER 6— ENHANCING DEDUCTION AND INCOME TAX CREDIT GUARDRAILS, AND OTHER REFORMS

Section #	Headnote	Description	Effect on Minnesota
70602	TREATMENT OF PAYMENTS FROM PARTNERSHIPS TO PARTNERS FOR PROPERTY OR SERVICES.	Disguised sales rules codified.	No impact.
70604	EXCISE TAX ON CERTAIN REMITTANCE TRANSFERS.	Imposes a new tax of 1% on remittance transfers.	No impact.
70605	ENFORCEMENT PROVISIONS WITH RESPECT TO COVID-RELATED EMPLOYEE RETENTION CREDITS.	Imposes new requirements on promoters of the COVID-era federal employee retention credit (ERC).	No impact.
70606	SOCIAL SECURITY NUMBER REQUIREMENT FOR AMERICAN OPPORTUNITY AND LIFETIME LEARNING CREDITS.	Limits federal higher education tax credits to individuals with Social Security numbers.	No impact.
70607	TASK FORCE ON THE REPLACEMENT OF DIRECT FILE.	Appropriates \$15 million to the Department of the Treasury to complete a report on free filing options for federal tax returns.	No impact.