

April 28, 2026

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 1041 (Smith), As Proposed to be Amended (H1041A1)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
		(000's)		
General Fund	\$0	\$32,100	\$106,800	\$106,700

Effective beginning with tax year 2027.

EXPLANATION OF THE BILL

Current Law: The Dodd–Frank Wall Street Reform and Consumer Protection Act, a federal law passed in 2010, created a requirement for a public company to release information showing the ratio of the compensation of its chief executive officer to the median compensation of its employees. The U.S. Securities and Exchange Commission finalized the disclosure rule in 2015, and it began implementation in 2017.

The current corporate franchise tax rate is 9.8%.

Proposed Law: The proposal would increase tax rates on publicly held companies subject to the corporate franchise tax in Minnesota if the ratio of CEO to employee pay exceeds 50:1, with higher rates on companies that have a higher ratio. For unitary businesses, the pay ratio would be calculated based on the pay of all members of the unitary group. For non-unitary filers, the pay ratio would be the ratio disclosed under Code of Federal Regulations, title 17, section 229.402(u)(1)(iii).

The corporate franchise tax rate would equal 9.8% plus an additional percentage according to the following schedule:

- 0.2% if the entity’s pay ratio is at least 50:1 but less than 100:1,
- 0.4% if the entity’s pay ratio is at least 100:1 but less than 200:1,
- 0.6% if the entity’s pay ratio is at least 200:1 but less than 300:1,
- 0.8% if the entity’s pay ratio is at least 300:1 but less than 400:1,
- 1.0% if the entity’s pay ratio is at least 400:1 but less than 500:1, and,
- 1.5% if the entity’s pay ratio is at least 500:1.

A corporation that is subject to the additional tax would not be eligible for grants administered by the State of Minnesota.

REVENUE ANALYSIS DETAIL

- The estimate is based on data from corporate franchise tax returns. The database includes returns whose final due date were in 2023. Returns in the dataset include tax years 2021 and 2022.

REVENUE ANALYSIS DETAIL (Cont.)

- Eligible Minnesota returns were matched to pay ratios in a web-scraped database collected from corporate proxy statements on salary.com using a fuzzy-matching procedure on corporate names. False positives from this procedure were discarded manually. Over 1,000 false negatives were matched manually.
- The estimate is grown for future tax years using the percentage growth rate of corporate franchise tax revenue in the February 2026 forecast from the Minnesota Management and Budget.
- The estimate does not include any potential savings from the state grant restriction.
- Tax year impacts are allocated 30% to the current fiscal year, and 70% to the following fiscal year.

Minnesota Department of Revenue
Tax Research Division
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