

March 23, 2026

Preliminary Estimates

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 916 (Baker), As Proposed to Be Amended (H0916A1)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
		(000's)		
Corporate Franchise Tax	\$0	(\$800)	(\$600)	(\$700)
Individual Income Tax	<u>\$0</u>	<u>(\$100)</u>	<u>(\$100)</u>	<u>(\$100)</u>
General Fund Total	\$0	(\$900)	(\$700)	(\$800)

Effective beginning with tax year 2026.

EXPLANATION OF THE BILL

Proposed Law: The bill would create a new subtraction for S corporations and C corporations which receive income from certain commercial loans. A taxpayer would be eligible to subtract this income if the taxpayer is a financial institution with \$2 billion or less in consolidated assets, if the loan was provided to a person residing or located in Minnesota, and if the loan:

- is used for a business purpose and has a value of \$1 million or less; or,
- is used for an agricultural purpose and has a value of \$500,000 or less.

REVENUE ANALYSIS DETAIL

- This estimate is based on 2022 data from the Board of Governors of the Federal Reserve System's release, "H.8: Assets and Liabilities of Commercial Banks in the United States," which estimates the commercial loan assets of banks in the U.S.
- Annual income from commercial loans nationally was estimated by applying median interest rates and maturities from the Kansas City Fed's 2022 Small Business Lending Survey to the H.8 data.
- Minnesota's share of annual national income from commercial loans was apportioned using Minnesota's share of finance & insurance employment from the U.S. Census's 2022 County Business Patterns survey. The County Business Patterns data was also used to apportion this income to S-corps and C-corps.
- A U.S. Government Accountability Office report on the Federal Reserve's Main Street Lending Program provides information on the distribution of commercial loan sizes. The above estimate was adjusted to remove the imputed share of loans greater than \$1 million for non-agricultural businesses and \$500,000 for agricultural businesses.
- Assumed marginal tax rates were applied to the estimate of commercial loan income for S-corps and C-corps. For S-corps, an assumed rate of 8.5% was chosen based on the distribution of income from S corporations and partnerships. For C-corps, the average effective corporate tax rate after deductions and credits from the Department of Revenue's corporate tax dataset was used.

REVENUE ANALYSIS DETAIL (Cont.)

- Growth rates are assumed to equal the observed proportional growth rate of the H.8 series for 2022 through 2025. Growth rates for future years are assumed to equal the average annual growth rate of the H.8 series from 2016 to 2025.
- The tax year 2026 impact was 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.

Minnesota Department of Revenue
Tax Research Division
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hf0916(sf3364) Commercial Loan Subtraction_2 / mey