

March 2, 2026

	<b>Yes</b>	<b>No</b>
DOR Administrative Costs/Savings	X	

Department of Revenue  
Analysis of H.F. 3525 (Robbins) / S.F. 3738 (Housley)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b>	<b><u>F.Y. 2028</u></b>	<b><u>F.Y. 2029</u></b>
		(000's)		
General Fund	\$0	(\$126,000)	(\$67,900)	(\$69,900)

Effective retroactively beginning with tax year 2025.

**EXPLANATION OF THE BILL**

**Current Law:** Wages, tips, and other compensation are included in federal adjusted gross income, the starting point for Minnesota individual income tax purposes. There is no deduction or subtraction for tip income in Minnesota.

Federal Public Law 119-21 created a deduction for qualified tips reported by employers on the form W-2. A qualified tip is any cash tip received in an occupation that customarily and regularly received tips prior to calendar year 2025. The federal law also expands the FICA tip credit to include employers in certain beauty service businesses.

The deduction is effective for tax years 2025 through 2028 and is limited to \$25,000 per year. The deduction is reduced by \$100 for every \$1,000 of modified adjusted gross income that exceeds \$150,000 (\$300,000 for married joint filers). Taxpayers must file with a social security number to be eligible, and married taxpayers must file a joint return to claim the deduction. The deduction may be claimed whether the taxpayer itemizes deductions or claims the standard deduction.

The federal deduction does not affect adjusted gross income, the starting point for calculating Minnesota taxable income, and will not have an impact on Minnesota tax liability.

**Proposed Law:** The bill creates a Minnesota subtraction equal to the federal deduction for qualified tips. The subtraction would not expire with the federal deduction and would continue to be allowed after tax year 2028.

**REVENUE ANALYSIS DETAIL**

- The estimate is based on estimates for the federal deduction prepared by the staff of the Joint Committee on Taxation, dated July 1, 2025. The JCT estimate includes the deduction for tips and the expanded tip credit on one line. The estimate was adjusted to remove the impact of the tip credit.
- The estimate was apportioned to Minnesota based on Minnesota’s share of the United States population. The estimate was adjusted for the difference between federal and state tax rates and federal and state fiscal years.

**REVENUE ANALYSIS DETAIL (Cont.)**

- The retroactive impact from tax year 2025 is allocated to fiscal year 2027. All other tax year impacts are allocated to the following fiscal year.

**Number of Taxpayers:** Unknown

Minnesota Department of Revenue  
Tax Research Division  
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hf3525(sf3738) Subtraction for Tip Income / sr