

Conformity to Public Law 119-21, the One, Big, Beautiful Bill Act (OBABA)

CHRIS KLEMAN AND SEAN WILLIAMS

LEGISLATIVE ANALYSTS, MINNESOTA HOUSE RESEARCH DEPARTMENT

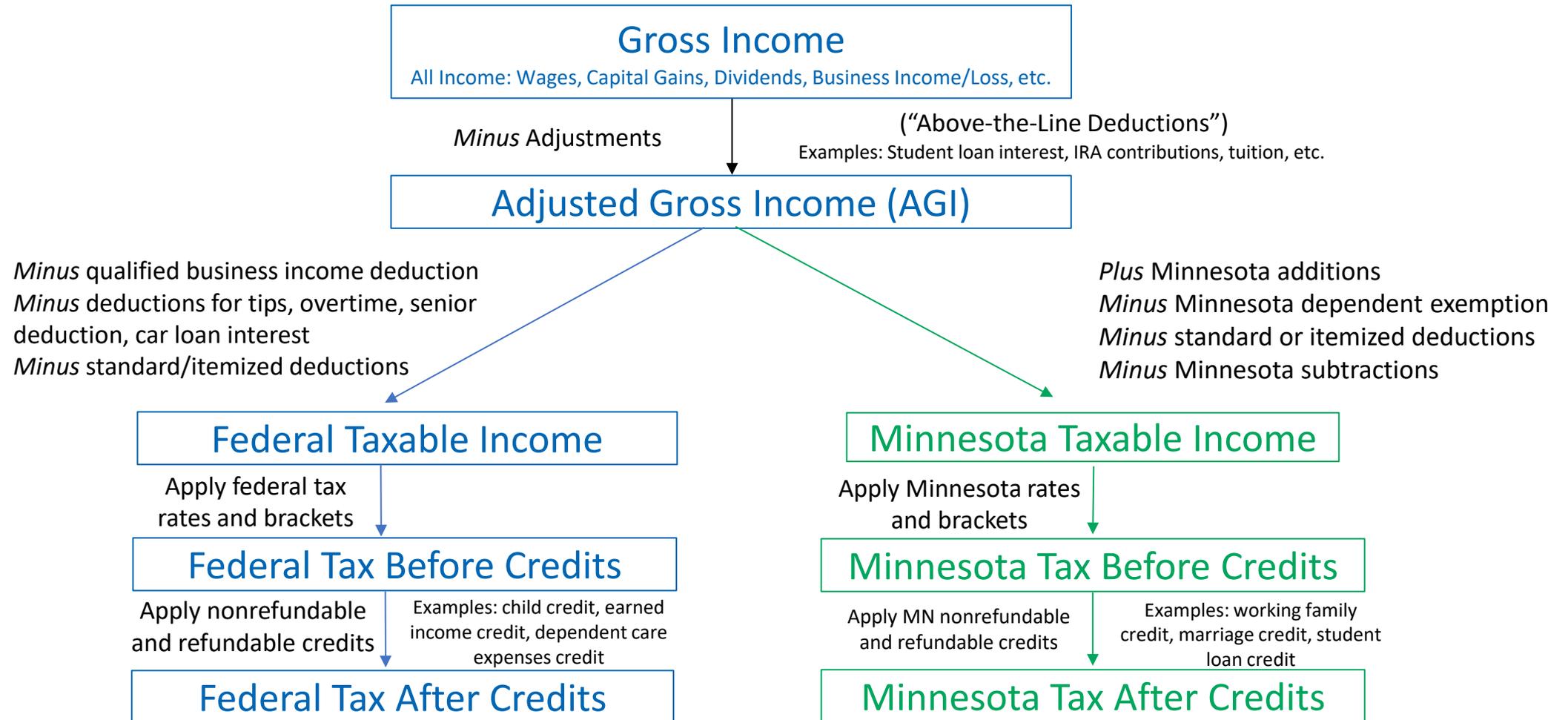
Presentation to the House Taxes Committee

February 25, 2026

Conformity to federal law changes

- Minnesota's tax system is built on the federal system.
 - Individual income tax calculation starts with adjusted gross income (AGI)
 - Corporate franchise tax starts with federal taxable income (FTI)
- Federal laws and rules that affect AGI/FTI also affect Minnesota liability. Most rules for calculating business income affect AGI/FTI.
- Changes in federal rules are not automatically adopted; Minnesota is a "static date" conformity state.
- Minnesota's tax system is currently tied to the federal Internal Revenue Code, as amended through May 1, 2023.

Minnesota's individual income tax system



Conformity simplifies Minnesota's tax code

- Starting with federal income definitions simplifies Minnesota's income and corporate franchise taxes.
 - Makes it easier for taxpayers to file their returns.
 - Reduces costs of tax preparation.
 - Reduces Department of Revenue administration.
- This simplicity comes at a cost of less state control over the tax system.
- Nonconformity adds complexity to the tax code. Policymakers typically balance simplicity with other tax policy principles like progressivity, competitiveness, and revenue sufficiency.

Short-term complexity

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2025 Schedule M1NC, Federal Adjustments

Minnesota has not adopted certain federal law changes enacted after May 1, 2023, that affect federal adjusted gross income for tax year 2025. This schedule allows for any necessary adjustments required to file a state tax return.

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

Read the instructions before you complete this schedule. Enter amounts as a positive or negative. Round amounts to the nearest whole dollar.

Adjustments to federal adjusted gross income (FAGI)

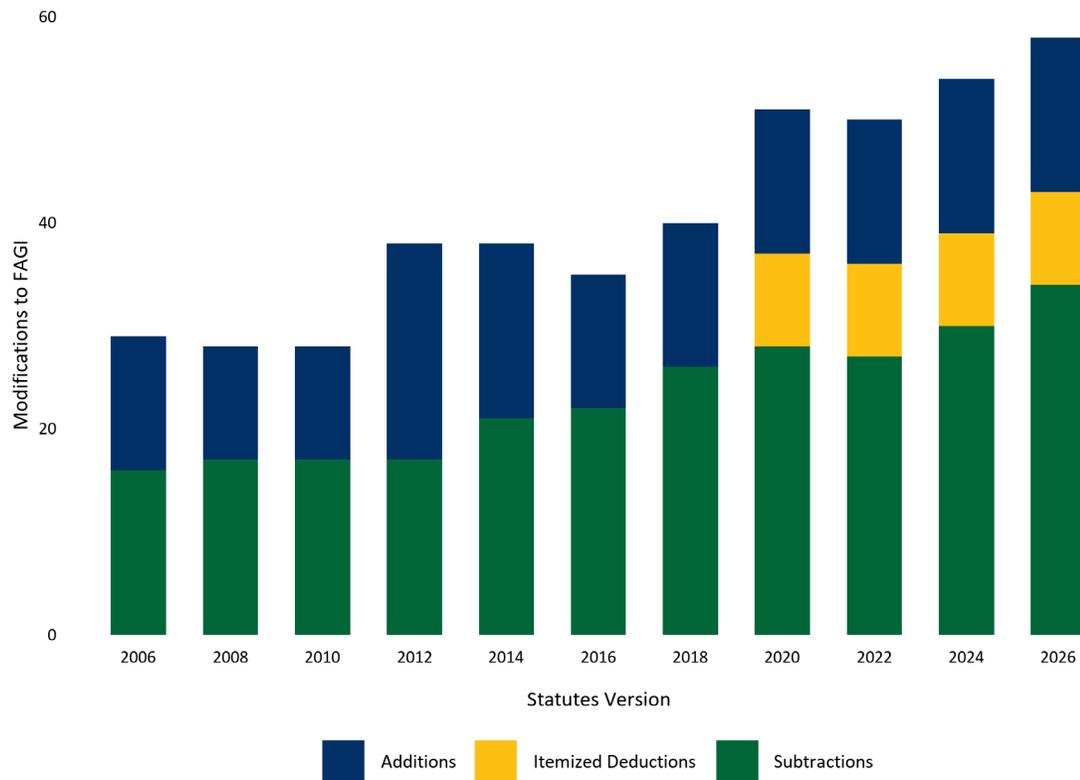
1	Certain Postsecondary Credentialing Expenses Treated as Qualified Higher Education Expenses for Purposes of 529 Accounts (H.R. 1 Sec 70414)	1
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3	This line intentionally left blank	3
4	This line intentionally left blank	4
5	This line intentionally left blank	5
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7	This line intentionally left blank	7
8	Expansion of FICA Tip Credit (H.R. 1 Sec. 70201)	8
9	Full Expensing for Bonus Depreciation Property (H.R. 1 Sec. 70301)	9a
	b Enter the amount of allowable depreciation for assets on line 9a	9b
	c Enter the amount of allowable depreciation for prior year assets adjusted for Sec. 70301	9c
10	Full Expensing for Domestic Research and Experimental Expenditures (H.R. 1 Sec. 70302)	10a
	b Enter the amount of allowable depreciation for assets on line 10a	10b
	c Enter the amount of allowable depreciation for prior year assets adjusted for Sec. 70302	10c
11	Modification of Limitation on Business Interest (H.R. 1 Sec. 70303)	11
12	Limitation on Deduction for Business Meals (H.R. 1 Sec. 70305)	12
13	Limitation for Expensing of Certain Depreciation Property (H.R. 1 Sec. 70306)	13a
	b Enter the amount of allowable depreciation for assets on line 13a	13b
	c Enter the amount of allowable depreciation for prior year assets adjusted for Sec. 70306	13c
14	Special Depreciation Allowance for Qualified Production Property (H.R. 1 Sec. 70307)	14a
	b Enter the amount of allowable depreciation for assets on line 14a	14b
	c Enter the amount of allowable depreciation for prior year assets adjusted for Sec. 70307	14c

Rev. 1/26 9995

- 2025 M1NC for individuals is 3 pages and 43 lines long
- Some provisions have multi-year effects—for example businesses must track separate depreciation schedules or separate tax years
- Many Minnesota tax provisions are phased out using adjusted gross income—need to calculate “Minnesota AGI” separately and use to phase out other credits

Long-term complexity

Change in additions, subtractions, and deductions in Minnesota Statutes, 2006-2026



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MN House Research. 2026 estimate based on current law.

- Since 2006, the number of additions, subtractions, and deductions used to calculate Minnesota taxable income has doubled from 29 to 58
- Some are policy choices, some reflect nonconformity
- Each new addition, subtraction, deduction due to nonconformity adds complexity

Structure of discussion

- Individual provisions:
 - Education
 - Child care
 - Other significant individual provisions
 - Significant provisions not part of “mechanical conformity”
- Business provisions:
 - Provisions related to capital gains
 - Provisions related to business losses
 - Depreciation/expensing
 - Interest
 - International income
 - Other

Individual provisions related to education (1/2)

OBBBA section #	Description	Effect on Minnesota
70117	Rollovers from 529 accounts to ABLE accounts: Makes permanent existing rules allowing section 529 college savings account rollovers to “Achieving a Better Life Experience” (ABLE) accounts for persons with disabilities.	Reduces revenues: without conformity, rollover distributions would be considered nonqualified distributions and investment earnings would be included in gross income.
70411	Tax credit for scholarship-granting organizations. Establishes a 100% federal tax credit for up to \$1,700 contributions to Scholarship-granting Organizations (SGOs). SGOs must give scholarships for tuition and other educational expenses such as tutoring, special needs services, books, supplies, room and board, and technology. State must elect whether to opt in and allow state SGOs to participate in the program—election made by governor or the entity designated in state law to make such decisions.	<ol style="list-style-type: none"> 1) Policy choice for the state about whether to participate in the program. 2) Conformity raises revenues by denying charitable contribution deductions for amounts contributed. 3) Conformity reduces a small amount of revenue by making the scholarships nontaxable.

Individual provisions related to education (2/2)

OBBBA section #	Description	Effect on Minnesota
70413	Expansion of expenses treated as qualified higher education expenses: Allows up to \$20,000 in distributions from a 529 account to pay for elementary and secondary school tuition (limit under old law was \$10,000). Also allows distributions for other educational supplies, such as curricular materials, books, online education materials, tutoring, standardized test fees, and educational therapies.	No effect from mechanical conformity—Minnesota has opted out of allowing 529 distributions for K-12 tuition.
70414	529 distributions for postsecondary credentialing expenses: Allows 529 distributions to cover tuition, fees, books, supplies, and equipment required for postsecondary credentialing programs.	Reduces revenue—a portion of these distributions would be taxable if we do not conform.
70412	Employer student loan exclusion: Makes permanent the current exclusion from gross income for up to \$5,250 in employer student loan payments. Indexes the limit for inflation.	Reduces revenues by excluding employer student loan payments from income.

Individual provisions related to child care (1/2)

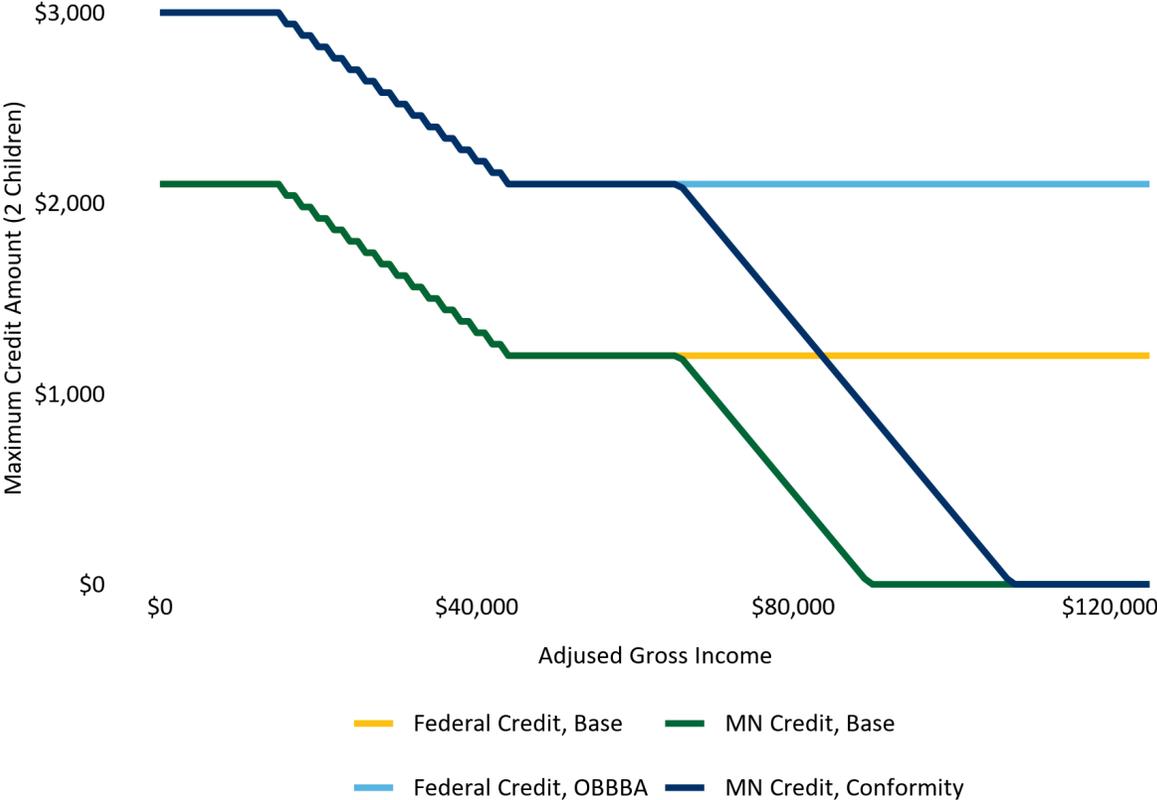
OBBBA section #	Description	Effect on Minnesota
70404	<p>Dependent care assistance (Dependent care FSA) expansion: Increases the amount of “dependent care assistance” (employer-provided child care and dependent care FSAs) excluded from gross income from \$5,000 to \$7,500. Effective for TY 26 and later.</p>	Reduces revenue by excluding dependent care assistance from gross income.
70405	<p>Dependent care credit expansion: Increases the phaseout on the federal dependent care credit. Under old law, the credit rate started at 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.</p>	Reduces revenue by increasing the amount of federal dependent care credits. Minnesota’s state credit is set to equal the federal credit amount, but starts to phase out at \$65,610 of adjusted gross income.

Individual provisions related to child care (2/2)

OBBBA section #	Description	Effect on Minnesota
70401	Enhancement of the 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.	Raises revenue. Businesses that claim the credit are not allowed to deduct associated expenses. Expanding the credit reduces the amount of deductible business expenses.

Dependent care credit, old law vs. OBBBA

Dependent Care Credit for Taxpayers with 2 Children, OBBBA vs. Previous Law



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Graph by House Research. Credit numbers for TY 26.

Other individual provisions

OBBBA section #	Description	Effect on Minnesota
70425	Charitable contribution deduction limit: Limits the charitable contribution deduction to amounts deducted in excess of 0.5% of the contribution base (AGI for most taxpayers).	Raises revenue by restricting the itemized deduction for charitable contributions.
70113	Limitation on the moving expense deduction: TCJA restricted the above-the-line deduction for moving expenses to members of the armed forces. OBBBA makes this restriction permanent.	Raises revenue by limiting an above-the-line deduction that reduces adjusted gross income.
70204	Trump accounts: OBBBA establishes new tax-preferenced savings accounts called “Trump Accounts” for individuals younger than 18. Up to \$2,500 in employer contributions are excluded from gross income.	Reduces revenue by excluding employer contributions from gross income.
70112	Modification of treatment of qualified transportation fringe: Permanently eliminates the exclusion for bicycle commuting reimbursement; increases the limitation on transportation fringe.	Offsetting effects that net to revenue loss: eliminating the exclusion for bicycle commuting raises revenue, indexing the threshold reduces revenue.

“Mechanical Conformity”

- Staff sometime use the term “mechanical conformity” to describe what would happen if we updated the Internal Revenue Code date in state law and made no other changes.
- Describes changes that will “automatically flow through” to Minnesota under conformity.
- This leaves out many provisions of OBBBA, including some high-profile tax provisions:
 - Provisions that don’t affect adjusted gross income
 - Modifications to parts of federal law that the state has already opted out of

Individual provisions not part of “mechanical conformity”

OBBBA section #	Description	Effect on Minnesota
70201	Deduction for tip income. Establishes a deduction for up to \$25,000 in tip income, regardless of filing status. Phased out starting at \$150,000/\$300,000 of MAGI. Effective for TY 25-28.	None: deduction applies after the calculation of AGI.
70202	Deduction for overtime income. Establishes a deduction for up to \$12,500/\$25,000 in tip income, regardless of filing status. Phased out starting at \$150,000/\$300,000 of MAGI. Effective for TY 25-28.	None: deduction applies after the calculation of AGI.
70203	Deduction for car loan interest: Establishes a temporary deduction for \$10,000 in certain car loan interest. The deduction beginning at \$100,000/\$200,000. Effective for TY 25-28.	None: deduction applies after the calculation of AGI.
703103	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: deduction applies after the calculation of AGI.

Provisions affecting capital gains

OBBBA section #	Description	Effect on Minnesota
70421	<p>Opportunity Zones: Makes Opportunity Zones capital gains tax preferences permanent. Taxpayers who reinvest a capital gain in an OZ defer the gain, receive a 10% or 15% reduction in the gain if held for 5 or 7 years, and a permanent exclusion of future gains if held for 10 years. 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.</p>	Reduces revenue by deferring capital gains and permanently excluding capital gains from tax.
70431	<p>Small business stock capital gain exclusion: Modifies percentage of gain excluded from gross income, increase cap on excludable gain, increase threshold for qualifying as a qualifying small business.</p>	Reduces revenue by excluding a portion of capital gains from gross income and allowing larger businesses to qualify for the exclusion.

Provisions affecting losses

OBBBA section #	Description	Effect on Minnesota
70601	Excess business losses for noncorporate taxpayers: TCJA limited the extent to which individuals can offset nonbusiness income with “excess” business losses. OBBBA makes the excess business loss provision permanent (it currently expires in 2029).	Raises revenue by limiting the extent to which individuals can offset nonbusiness income with net operating losses.
70114	Limitation on wagering losses: Limits the extent to which wagering losses can be deducted. Prior to OBBBA, wagering losses were deductible up to the amount of wagering gains. Under OBBBA the losses are limited to 90% of wagering gains.	Raises revenue by reducing the itemized deduction for wagering losses.

Business taxes; depreciation and expensing (1/2)

OBBBA section #	Description	Effect on Minnesota
70301	Expands bonus depreciation deduction to 100% and makes the deduction permanent.	Raises revenue, because Minnesota law currently requires this deduction to be spread out over an additional 5 years.
70302	Allows expensing for experimental and research expenditures.	Reduces revenue by accelerating the timing of this deduction in Minnesota.
70306	Expands section 179 expensing by increasing the total amount that is deductible and the phaseout threshold.	Reduces revenue by expanding the amount of section 179 property businesses can deduct.
70307	Provides a new federal expensing provision for qualified production property (nonresidential real property used in manufacturing production or refining).	Reduces revenue by allowing accelerated depreciation for qualified production property.

Business taxes; depreciation and expensing (2/2)

OBBBA section #	Description	Effect on Minnesota
70434	Expands expensing for film, television, and theater productions to include certain sound recordings.	Reduces revenue by accelerating the timing of this deduction in Minnesota.
70509	Termination of 5-year cost recovery for wind and solar property.	Raises revenue by disallowing accelerated depreciation on this property in Minnesota.

Business taxes; international taxation

OBBBA section #	Description	Effect on Minnesota
70323	Eliminates the federal QBAI deduction for GILTI which broadens the tax base for this tax. Without this deduction, GILTI becomes NCTI.	Raises revenue by increasing the amount of NCTI taxed in Minnesota.
70353 70354	Modifies certain rules for defining controlled foreign corporations (CFCs), which are used in determining GILTI/NCTI and subpart F income.	Offsetting revenue effects that increase and reduce the amount of GILTI/NCTI and subpart F income taxed by Minnesota.
70351	Permanent extension of look-through rule for CFCs, which excludes non-U.S. business income from subpart F income.	Reduces revenue by reducing the amount of subpart F income taxable in Minnesota.
70352	Repeals the election for certain CFCs to use a tax year starting a month earlier.	Raises onetime revenue by modifying the tax year of returns filed by affected CFCs in Minnesota.

Business taxes; business interest deduction

OBBBA section #	Description	Effect on Minnesota
70303 70341 70342	Narrows the base (adjusted taxable income) used to determine the limit on the business interest deduction (goes from EBITDA to EBIT; also expands floor plan financing interest exclusion).	Reduces revenue by increasing the amount this deduction in Minnesota.

Business taxes; miscellaneous provisions (1/2)

OBBBA section #	Description	Effect on Minnesota
70426	Establishes 1 percent (of FTI) floor on corporate charitable contributions and 10 percent ceiling, the excess of which may be carried forward 5 years.	Raises revenue by reducing the deduction available to corporations in Minnesota.
70305	Establishes an exception to the denial of the business deduction for meals sold to employees by employers and for meals provided on fishing vessels.	Reduces revenue by increasing the amount of the deduction available in Minnesota.
70435	Provides an exclusion for 25 percent of the interest received by lenders on loans secured by agricultural property.	Reduces revenue by allowing this new deduction in Minnesota.
70507	Terminates the energy efficient building deduction.	Raises revenue by eliminating this deduction in Minnesota.

Business taxes; miscellaneous provisions (2/2)

OBBBA section #	Description	Effect on Minnesota
70430	Expands the completed construction accounting method to be used for all residential construction contracts.	Reduces revenue by delaying the timing of when income from residential construction projects is included in gross income.
70439	Restoration of subsidiary asset test for REITs (taxable REIT subsidiaries may represent 25 percent of the REIT's assets).	Reduces revenue by increasing the deduction allowed to REITs for their dividends paid.
70603	Modifies the \$1 million limit on the deduction for compensation paid to covered employees by a publicly traded corporation by broadening the allocation of the limit to a controlled group.	Raises revenue by reducing the amount of the deduction in Minnesota.

Business provisions; no impact

OBBBA section #	Description	Effect on Minnesota
70120	Increases the SALT cap to \$40,000 but phases out this limit for modifies adjusted gross income over \$500,000.	No impact, but conformity will revive the state's pass-through-entity tax (PTET) which is currently expired.

Questions?



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