

Subject Conformity; bonus depreciation

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Summary

H.F. 3817 would selectively conform to the federal changes for 100 percent bonus depreciation in the One Big Beautiful Bill Act (OBBBA).

Bonus depreciation allows an accelerated depreciation deduction for tangible personal property used in a trade or business or to produce income, although a narrow range of improvements to real property also qualify for bonus depreciation as well.

OBBBA increased the percentage of a property's basis on which bonus depreciation is allowed to 100 percent. Prior to OBBBA, bonus depreciation was limited to a phased-down percentage of the property's basis. For tax year 2025, the percentage is 40 percent, for 2026 the percentage is 20 percent, and for 2027, the percentage is zero. Minnesota currently conforms to the pre-OBBBA phase-down, as modified by the state's add-back for bonus depreciation, described below.

Minnesota does not conform fully to bonus depreciation because state law does not allow the full amount of bonus depreciation to be claimed in the tax year allowed federally. Instead, a percentage of the amount allowed federally is added back to a taxpayer's taxable income and the remaining amount is deducted over the course of five successive years. H.F. 3817 would not eliminate this five-year add-back for bonus depreciation.

H.F. 3817 would be effective retroactively to the federal changes, which are effective for property placed in service after January 19, 2025.