



Report on H.R. 1

February 18, 2026

- What is tax conformity?
- H.R. 1 Impacts to Minnesota Income Tax
 - Business provisions
 - Individual provisions
- Timing of conformity
- Next steps

What is Tax Conformity?



How Minnesota Uses the IRC

- Recent federal tax bill passed in July of 2025, H.R. 1
- Minnesota is a static conformity state, not a rolling conformity state
- State legislature must pass legislation to adopt or decouple from any provisions in H.R. 1

How Tax Conformity Works

Two important definitions in the Internal Revenue Code:

- Federal adjusted gross income or FAGI for individuals
- Federal Taxable Income or FTI for C corporations, estates, and trusts

These definitions are the starting points for Minnesota tax filing calculations

Addressing Nonconformity

Minnesota's Static
Conformity Date:
May 1, 2023

m DEPARTMENT OF REVENUE

2025 Schedule M4NC, Federal Adjustments

Minnesota has not adopted the federal law changes enacted after May 1, 2023 that affect federal taxable income for tax year 2025.

Tax year beginning _____, ending _____

Name of Corporation/Designated Filer

Federal ID Number (FEIN)

Minnesota Tax ID Number

Before you complete this schedule, read the instructions which are on a separate sheet.

Enter amounts as a positive or negative. Round amounts to nearest whole dollar.

Adjustments to federal taxable income (FTI)

1	Expansion of FICA Tip Credit (H.R. 1 Sec. 70201)	1 ■	_____
2	a Full Expensing for Bonus Depreciation Property (H.R. 1 Sec. 70301)	2a ■	_____
	b Enter the amount of allowable depreciation for assets on line 2a.	2b ■	_____
	c Enter the amount of allowable depreciation for prior year assets adjusted for Sec. 70301	2c ■	_____
3	a Full Expensing for Domestic Research and Experimental Expenditures (H.R. 1 Sec. 70302)	3a ■	_____
	b Enter the amount of allowable depreciation for assets on line 3a	3b ■	_____
	c Enter the amount of allowable depreciation for prior year assets adjusted for Sec. 70302	3c ■	_____
4	Modification of Limitation on Business Interest (H.R. 1 Sec. 70303)	4 ■	_____
5	Limitation on Deduction for Business Meals (H.R. 1 Sec. 70305)	5 ■	_____

Tax Conformity Options

- Not conform
- Conform with federal update
- Decouple and modify
 - Additions
 - Subtractions



Revenue Impact of General Conformity

Revenue impact of conforming with all H.R. 1 tax provisions that impact Minnesota income tax based on Nov. 2025 forecast*

FY2026-2027

FY26 – (\$383.7M)

FY27 – (\$4.3M)

Total – (\$388M)

FY2028-2029

FY28 – \$17M

FY29 – \$72.8M

Total – \$89.8M

H.R. 1 Impacts to MN Income Tax – Business Provisions



Cost Estimates of Business Provisions

Provision	FY 2026-27	FY 2028-29
R&E Expensing	(\$349.1M)	(\$21.1M)
Opportunity Zones	(\$47M)	(\$173.4M)
Limit on business interest	(\$109.4M)	(\$55.8M)
Section 179 Expensing	(\$36.2M)	(\$22.7M)
Residential construction contracts	(\$7M)	(\$6.7M)
Employer-provided childcare credit	\$131.8M	\$241.8M
Bonus Depreciation	\$11.2M	\$40.3M
Limitation on excess business loss	\$1.4M	\$29M
1% floor on corporation charitable contributions	\$0	\$22.2M
Replace GILTI and NCTI	\$3.9M	\$9.3M
Repeal of 1-month deferral for foreign corp.	(\$4.5M)	(\$9.3M)

This is a select portion of the business provisions in H.R. 1 with estimated larger impacts to taxpayers
 Parentheses indicate revenue loss, no parentheses indicate a revenue gain

Research & Experimental (R&E) Expensing

Pre-H.R. 1 (Tax Cuts and Jobs Act or TCJA)

- Foreign Research – Capitalized and amortized over 15 years
- Domestic Research – Capitalized and amortized over 5 years

H.R. 1

- Foreign Research – Capitalized and amortized over 15 years
- Domestic Research – Various Elections
 - Immediately deduct
 - Amortize over 5 years or 10 years
 - Retroactive amending
 - Immediate catch-up

Opportunity Zones



Permanently extends the federal Opportunity Zone program

- The federal program defers or excludes gains when the funds are invested into a qualified opportunity zone.

Limitation on Business Interest

Permanently extends and changes the business interest expense limitation

- Business interest expense is limited to 30% of Adjusted Taxable Income
- H. R. 1 changes the limitation calculation to not include a reduction for:
 - Depreciation
 - Amortization
 - Depletion

Section 179 Expensing

Adjusts the Section 179 expensing deduction threshold amounts increase:

- Expensing limitation from \$1.25 million to \$2.5 million
- Phasedown threshold from \$3.13 million to \$4 million



Residential Construction Contracts

Broadens the exceptions to the percentage of completion method for residential construction contracts

- Percentage of completion method recognizes revenue and expenses over the life of a project
- Completed contract method defers any recognition of income and expenses until the project is completed
- Allows more projects to use the completed contract method, resulting in deferral of income recognition until the project is complete

Employer-Provided Childcare Credit

Increases employer-provided child-care credit on "qualified childcare expenditures"

- Credit percentage increases from 25% to 40%
 - 50% for small businesses
- Maximum annual credit amount increases from \$150,000 to \$500,000
 - \$600,000 for small businesses

Bonus Depreciation

Permanently reinstates 100% bonus depreciation for qualified property

- Under the Tax Cuts and Jobs Act, the bonus depreciation is phased down to 40% for tax year 2025
- Other expanded bonus depreciation provisions:
 - Qualified Production Property
 - Qualified Sound Recording Productions

Limitation on Excess Business Loss

Makes permanent the excess business loss for noncorporate taxpayers

- Limits the amount of trade or business losses an individual can use to offset other nonbusiness income
- Reduces threshold amounts to the Tax Cuts and Jobs Act limitations
 - \$250,000 for single filers
 - \$500,000 for married filing joint returns

1% Floor on Corporate Deductions of Charitable Contributions

Imposes a new 1% "floor" limit for the corporate charitable contribution deduction

- Corporations still limited to 10% "ceiling" limit



Net CFC Tested Income (GILTI)

Net Controlled Foreign Corporation (CFC) Tested Income, Formerly GILTI

Eliminates the Deemed Tangible Income Return (DTIR) deduction for tangible asset returns

Formulas

GILTI	Equals Net CFC Tested Income less DTIR deduction
DTIR Deduction	Equals 10% Qualified Business Asset Investment (QBAI) less Specific Interest Expense

Subpart F Income Provisions

- Repeal of election for one-month deferral
- Permanent extension of look-through rules for related CFCs
- Restoration of limitation on downward attribution of stock ownership
- Modifications to pro rata share rules

No Impacts to Minnesota

- GILTI and Foreign Derived Intangible Income (FDII) deduction
- Base Erosion Minimum Tax amount
- Foreign Tax Credit provisions

Energy Credits and Incentives

Impacts to Minnesota Tax

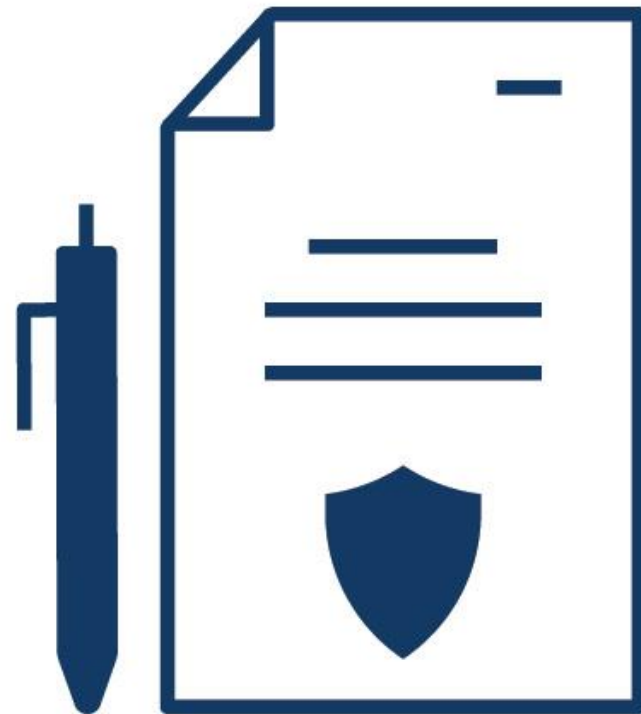
- Terminated energy efficient commercial buildings deduction
- Terminated cost recovery for energy property

No impacts to Minnesota Tax

- 15 terminated and modified federal energy credits

SALT Deduction Limitation and PTE Tax

- Previous federal cap of \$10,000 on state and local taxes (SALT)
- Now expanded to \$40,000 and phases down to \$10,000 for \$600,000 income
- Minnesota Pass-Through Entity (PTE) Tax
- Expiration



H.R. 1 Impacts to MN Income Tax – Individual Provisions



Cost Estimates of Individual Provisions

Provision	FY2026-27	FY2028-29
Enhancement of dependent care tax credit	(\$15.8M)	(\$33.9M)
Enhancement of dependent care program	(\$5M)	(\$11.3M)
Exclusion for employer student loan payments	(\$9.6M)	(\$20.7M)
0.5% floor on deductions for charitable contributions	\$19.9M	\$42.6M
Extension of limitation on moving expenses	\$9.8M	\$23.6M

This is a select portion of the individual provisions in H.R. 1 with larger estimated impacts to taxpayers
 Parentheses indicate revenue loss, no parentheses indicate a revenue gain

Child and Dependent Care Credit

- Credit range increased from 20%-35% to 35%-50%

Employer Provided Dependent Care Assistance Programs

- Increased max. Assistance from \$5,000 to \$7,500

Employer Paid Student Loans

- Up to \$5,250 made permanent



Individual Provisions, continued



Charitable Contribution Limitations

- Cash contributions up to 60% of AGI made permanent
- Created a 0.5% floor for all contributions

Moving Expense Deduction and Exclusion

- Permanently suspended
- Returns for Minnesota after tax year 2025



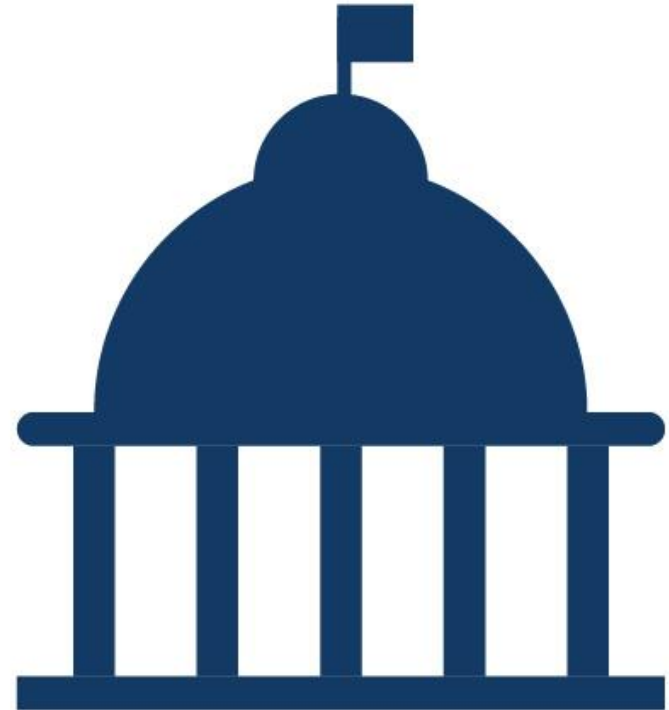
529 Accounts

- Additional expenses for elementary or secondary, private, or religious schools
- Certain postsecondary credential programs

ABLE Accounts

- Increased contribution limit
- Tax-Free rollovers from 529 to ABLE

- Scholarship Granting Organizations
 - Contributions excluded from income
- Trump Accounts
 - Similar to a traditional IRA





1099-MISC

- \$2,000 reporting threshold

1099-NEC

- \$2,000 reporting threshold

1099-K

- \$20,000 and 200 transactions reporting threshold

H.R. 1 Provisions Not Impacting Minnesota Tax

These provisions do not impact FAGI calculation and therefore are below the line:

- No tax on tips*
- No tax on OT*
- No tax on car loan interest
- Deductions for seniors* - Applies to any income, not linked to Social Security benefits

*Only SSN holders eligible for these provisions, not allowed for ITIN filers (immigrant, non-citizens).

Cost Estimates to Create Minnesota Deductions

- **No tax on tips** – Maximum deduction of \$25,000 with phase out beginning at income over \$150,000 (\$300,000 MFJ). MN version: FY26-27 (\$126M); FY28-29 (\$137.8).
- **No tax on OT** – Max deduction of \$12,500 (\$25,000 MFJ) with phase out beginning at income over \$150,000 (\$300,000 MFJ). MN version: FY26-27 (\$365.9M); FY28-29 (\$400.4M).
- **No tax on car loan interest** – Cars purchased for personal use and new vehicle assembled in U.S. Maximum deduction of \$10,000 with phase out beginning at income over \$100,000 (\$200,000 MFJ). MN version: FY26-27 (\$129M); FY28-29 (\$142M).
- **Deduction for seniors** – **Applies to any income, not linked to Social Security benefits.** Individuals aged 65 or older deduct an additional \$6,000 (\$12,000 if both spouses qualify). Phase out begins at income over \$75,000 (\$150,000 MFJ). MN version: FY26-27 (\$362.1M); FY28-29 (\$364.2M).

Items Minnesota Has Decoupled From



- Casualty Losses
- Overall Limitation on Itemized Deductions

Timing of Conformity

- 2026 Provisions
- Additional Tax Returns
- Tax Planning Decisions



Revenue's Priorities

- Minimize impact to customers
- Level of complexity for taxpayer compliance and tax administration
- Support voluntary compliance
- Provide guidance
- Protect integrity of the tax system
- Impact to state revenues



Next Steps