

2026 DEPARTMENT OF REVENUE GOVERNOR'S BILL SUMMARY



Appeals, Legal Services, and Disclosure Division
600 N. Robert St.
St. Paul, MN 55146-2220

SF 5052 as proposed to be amended by A26-0152

ARTICLE 1: FEDERAL UPDATE

Sections 1, 6, 8, 29, and 30. Internal Revenue Code. Amends Minn. Stat. §§ 289A.02, subd. 7, 290.01, subds. 19 and 31, 290A.03, subd. 15, and 291.005, subd. 1, to update the date Minnesota statutes recognize the Internal Revenue Code to March 1, 2026. These sections are effective the day following final enactment, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Sections 2 and 28. Returns by persons, corporations, cooperatives, governmental entities, or school districts. Section 2 amends Minn. Stat. § 289A.12, subd. 4, to delete the requirement that taxpayers only send in informational returns to the IRS, and delete an obsolete provision regarding magnetic media. Section 28 amends Minn. Stat. § 290.92, subd. 26, to clarify the threshold for filing a Minnesota return is \$600 instead of the prescribed \$2,000 in the Internal Revenue Code. These sections are effective retroactively for payments made after December 31, 2025.

Sections 3-5. Returns relating to payments made in settlement of payment card and third-party network transactions, nonemployee income, and miscellaneous income. Sections 3 and 4 amend Minn. Stat. § 289A.12, subd. 12, and create new subdivision 19. These subdivisions require persons that would be required to file returns relating to payments under sections 6041(a) or 6050W of the Internal Revenue Code file these returns with the commissioner of revenue when the thresholds of \$600 are met, regardless of the aggregate number of transactions. Section 5 amends Minn. Stat. § 289A.60, subd. 8, to provide penalties for failure to file these returns. These sections are effective retroactively for payments made after December 31, 2025.

Section 7. Net income. Amends Minn. Stat. § 290.01, subd. 19, paras. (h) and (i), to update the definitions of “net income” for composite return filers and pass-through entity tax filers, to include the new additions and subtractions for research and experimental expenditures, net controlled foreign corporation (CFC) tested income, and opportunity zones. This section is effective retroactively for taxable years beginning after December 31, 2024, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Section 9. Charitable contributions. Amends Minn. Stat. § 290.0122, subd. 4, to introduce a minimum and maximum amount that can be deducted as a charitable contribution. It requires charitable contributions to exceed 0.5% of the taxpayer’s federal adjusted gross income (without taking into account net operating loss carrybacks) before the contributions can be deducted. It also limits deductions for cash contributions to 60% of the taxpayer’s federal adjusted gross income minus the

total non-cash contributions already so deducted. Effective retroactively for taxable years beginning after December 31, 2025, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Sections 10 and 16. Bonus depreciation. These sections amend Minn. Stat. §§ 290.0131, subd. 9; and 290.0133, subd. 11, to include additional items of federal depreciation to the Minnesota bonus depreciation addition. These sections are effective retroactively for taxable years beginning after December 31, 2024, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Sections 11, 13, 17, and 19. Domestic research and experimental expenditures. These sections add new subdivisions creating additions and subtractions in Minn. Stat. §§ 290.0131, subd. 21; 290.0132, subd. 40; 290.0133, subd. 16; and 290.0134, subd. 21. These new additions add back eighty percent of research expensing deducted under Internal Revenue Code section 174A(a) and also adds back the immediate expensing under the transitional rules. The addition must happen in the same year the taxpayer took the expense deduction. The subtraction sections allow four equal subtractions for amounts added back under the new additions. The new subtraction sections also provide for the subtraction of transitional amounts that were added back. These sections are effective retroactively for taxable years beginning after December 31, 2024, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Sections 12, 14, 18, 20, and 22. Opportunity zones. Sections 12 and 18 add new subdivisions creating additions in Minn. Stat. §§ 290.0131, subd. 22 and 290.0133, subd. 17. These additions add amounts deferred or excluded pursuant to Internal Revenue Code section 1400Z-2(a) to taxable income. The addition must be in the year the gain would have been realized absent the treatment under Internal Revenue Code section 1400Z-2(a). Sections 14 and 20 add new subdivisions creating subtractions in Minn. Stat. §§ 290.0132, subd. 41; and 290.0134, subd. 22, to ensure any amounts added back under the additions are not taxed a second time. It also allows a subtraction for gains taxed in Minnesota in tax year 2018. This adjustment must be made in taxable year 2026. Section 22 amends Minn. Stat. § 290.033, the net investment income tax, to include gain attributable to the federally excluded or deferred opportunity zones pursuant to Internal Revenue Code section 1400Z-2(a). The addition must be realized in the same year the gain would have been realized absent the treatment under Internal Revenue Code section 1400Z-2(a). It also provides for a subtraction from the net investment income tax if the gain has already been realized for the purposes of this section but is realized federally in a later year. This adjustment must be made in taxable year 2026. These sections are effective retroactively for taxable years beginning after December 31, 2025, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Sections 15, 21, 23, and 27. Net CFC tested income. Sections 15 and 21 add new subdivisions in Minn. Stat. §§ 290.0132, subd. 42, and 290.0134, subd. 23, allowing a subtraction equal to the qualified business asset investment deduction under section 951A(b)(2) of the Internal Revenue Code as of May 1, 2023. Section 23 creates new Minn. Stat. § 290.034, which defines “Net CFC Tested Income” for purposes of Minnesota statutes. The result is net CFC tested income for Minnesota purposes. Section 27 amends Minn. Stat. § 290.21, subd. 10, to update the name of “Global intangible low-taxed income” to “Net CFC tested income,” and provides the amount calculated under new Minn. Stat. § 290.034 is dividend income. These sections are effective for taxable years beginning after December 31, 2025.

Section 24. Schedules of rates for individuals, estates, and trusts. Amends Minn. Stat. § 290.06, subd. 2c, to include the new additions and subtractions for research and experimental expenditures, net CFC tested income, dependent flexible spending accounts, and opportunity zones. Effective retroactively for taxable years beginning after December 31, 2024, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Section 25. Alternative minimum taxable income, definitions. Amends Minn. Stat. § 290.091, subd. 2, to include the new additions for research and experimental expenses and opportunity zones. It also allows for the subtraction of the qualified business asset investment deduction under Minn. Stat. § 290.0132, subd. 42. Effective retroactively for taxable years beginning after December 31, 2024, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

Section 26. Alternative minimum taxable income. Amends Minn. Stat. § 290.0921, subd. 3, to allow for a deduction of domestic research and experimental expenditures under Minn. Stat. § 290.0134, subd. 21, from alternative minimum taxable income. Effective retroactively for taxable years beginning after December 31, 2024, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

ARTICLE 2: INDIVIDUAL INCOME AND CORPORATE FRANCHISE TAXES

Sections 1-4. Sustainable aviation fuel credit. Section 1 amends Minn. Stat. § 41A.30, subd. 1, to include additional qualifications for the types of biomass liquid fuel from which the sustainable aviation fuel may be derived. Section 2 amends Minn. Stat. § 41A.30, subd. 2, to include additional qualifications for fuel produced or blended in Minnesota, and to allow a qualifying taxpayer to claim a supplemental tax credit at the rate of \$0.02 per gallon for each additional whole percentage of carbon intensity reduction beyond 50%, up to \$2.00 per gallon. Section 3 amends Minn. Stat. § 41A.30, subd. 5, to increase the allocation limits for credit certificates issued in fiscal year 2027 from \$2,100,000 to \$7,400,000; and fiscal year 2028 to \$5,300,000; and extends the credit through fiscal year 2035 by adding allocation limits of \$2,100,000 for credit certificates issued in fiscal years 2029 through 2035. Section 3 also amends the allocation carryover provision to allow unallocated funds from each fiscal year to be available in the following fiscal years. Section 4 amends Minn. Stat. § 41A.30, subd. 7, to extend the credit sunset from 2030 to 2035. Sections 1 and 2 are effective retroactively for taxable years beginning after December 31, 2025, for sustainable aviation fuel sold after June 30, 2026. Section 3 is effective retroactively for taxable years beginning after December 31, 2025. Section 4 is effective the day following final enactment.

Sections 5, 6, 8, 9, and 12. Pass through entity tax. Section 5 amends Minn. Stat. § 289A.08, subd. 7a, and section 8 amends Minn. Stat. § 290.06, subdivision 23a, to remove the expiration, reviving and making permanent the pass-through entity tax beginning retroactively from January 1, 2026. Section 6 amends Minn. Stat. § 290.01, subdivision 19, to remove superfluous language regarding resident and nonresident qualifying owners. Section 9 amends Minn. Stat. § 290.06, subdivision 40, to clarify that the commissioner may disallow a qualifying owner's credit if the entity has not paid the underlying tax due. Section 12 revives and reenacts expired statute provisions §§ 289A.08, subd. 7a and 290.06, subd. 23a. Sections 5 and 8 are effective retroactively from January 1, 2026. Sections 6, 9, and 12 are effective the day following final enactment.

Section 7. Dependent flexible spending accounts. Amends Minn. Stat. § 290.0131 adding a subdivision to create an addition of the amount of dependent care assistance that is excluded from a taxpayer's gross income under section 129 of the Internal Revenue Code for those taxpayers who claim the credit under section 290.067 or whose spouse claims the credit but files separately. Effective for taxable years beginning after December 31, 2025.

Section 10. Dependent care credit. Amends Minn. Stat. § 290.067 to decouple from section 21 of the Internal Revenue Code and modifies the refundable credit to be a taxpayer's eligible dependent care expenses, subject to limitations, multiplied by a credit percentage of 50%. The amount of employment-related expenses used in determining the credit is limited to \$3,000 for one qualifying individual or \$6,000 for two or more qualifying individuals. Creates a definition of "young child" as children under age 5. Increases the limitations of employment related expenses for taxpayers with young children to \$6,000 for one young child, \$12,000 for two young children for tax years 2026 through 2033. The phaseout of the credit is adjusted by 1.0% for each \$1,000 dollar of the taxpayer's adjusted gross income exceeding \$120,000, or \$60,000 for a married taxpayer filing a separate return. The credit for a child under the age of one is expanded to allow all filers to claim with the deemed amount equaling the lesser of earned income of the taxpayer or the maximum limit. Internal Revenue Code sections 21(d) and 21(e) will still apply to the credit, except the section 21(e)(2) joint return requirement does not apply. The inflation adjustment is amended to phaseout by credit percentage instead of by maximum credit. The inflation adjustment statutory year is changed to 2026. Effective for taxable years beginning after December 31, 2025.

Section 11. Historic preservation credit. Amends Minn. Stat. § 290.0681, subd. 3, to clarify that an applicant must apply with the State Historic Preservation Office before any rehabilitation work has commenced to be eligible for the credit. In addition, this section removes the qualification that to be eligible a property must be placed in service within three calendar years of the credit allocation certificate issuance. Effective for applications for allocation certificates submitted after June 30, 2026.

ARTICLE 3: SALES AND USE TAXES AND GROSS RECEIPTS TAXES

Sections 1 and 2. Council on Artificial Intelligence Readiness and account created. Creates new sections, Minn. Stat. §§ 116J.4012 and 116J.4013, establishing and defining the membership and work of the Governor's Council on Artificial Intelligence Readiness (Council) as well as the Artificial Intelligence Readiness Account (Account). Section 1 provides that the Council will consist of eleven members, including from state agencies, legislators, and governor-appointees. The first council meeting must occur before February 1, 2027, and meet at a minimum quarterly thereafter and are subject to the Minn. ch. 13D Open Meeting Law. The commissioner of employment and economic development, or their designee, will chair the Council and provide the meeting venue and administrative services. The Council is required to: (1) review information on adopting and expanding artificial intelligence (AI) in Minnesota; (2) analyze AI impact on the state's workforce; (3) allocate AI readiness account (Account) funds; (4) determine how to use the Account funds to minimize AI effects; and (5) beginning on February 15, 2028, annually report to the legislature the activities required, the Account funds amounts that were allocated and to whom they were allocated, data from the allocations, and outcomes.

Section 2 establishes the Account, funds the Account, appropriates money from the Account, and provides requirements related to Account administration. Subdivision 1 establishes the Account in the special revenue fund in the state treasury and defines categories of money that must be deposited into

the Account, including appropriated amounts. It also provides requirements regarding: crediting Account earnings to the Account and requiring money remaining in the Account at the end of a fiscal year remains in the Account. Subdivision 2 states that unless otherwise appropriated in law, funds in the Account are appropriated to the commissioner of employment and economic development for allocation by the Council. Subdivision 3 allows the commissioner of employment and economic development to retain up to 3% of revenues each fiscal year from the Account for Council administration and grants and Council awards. Additionally, \$849,000 in fiscal year 2027 and \$1,433,000 annually thereafter, is appropriated from the Account to the commissioner of revenue for administration of the newly created social media consumer data collection tax.

These sections are effective the day following final enactment.

Section 3. Handguns, firearms, and ammunition. Creates a new section, Minn. Stat. § 295.85, imposing tax on the sale of handguns, other firearms, and ammunition. Subdivision 2 imposes a 10% gross receipts tax on firearm retailers on retail handgun sales in Minnesota. Additionally, it imposes an 11% gross receipts tax on firearm and ammunition retailers on retail firearm (non-handgun) and ammunition sales in Minnesota. Each of these taxes may be imposed on the purchaser. The taxes are excluded from the sales price for purposes of sales and use tax, if the tax is stated separately on the receipt. The tax applies to the entirety of nonitemized bundled transactions which include handguns, firearms, and ammunition. The tax applies in addition to existing taxes, including sales and use tax.

Subdivision 3 imposes a use tax on a person that receives a handgun, firearm, or ammunition for use or storage in Minnesota, other than from a firearm or ammunition retailer that paid the gross receipts tax. This subdivision also provides credit against tax for any gross receipts tax paid to another state or any subdivision thereof, on the same transaction. Subdivision 4 exempts purchases for use by peace officers and members of the Minnesota National Guard, when used in operation of their employment, and the United States and its agencies and instrumentalities. Subdivision 5 requires firearm retailers with nexus in Minnesota, and that are not subject to the gross receipts tax in subdivision 2, to collect and remit use tax, and give the purchaser a receipt for tax paid. Subdivision 6 gives firearm retailers a credit against tax for any gross receipts tax paid to another state or any subdivision thereof. Subdivision 7 applies the sales and use tax sourcing rules found at Minn. Stat. § 297A.668. Subdivision 8 adopts various administrative provisions of Chapters 270C and 289A, as those provisions apply to Chapter 297A sales and use taxes. Subdivision 9 requires firearm and ammunition retailers to file returns and remit tax as prescribed by the commissioner and according to filing cycles and due dates provided for taxes imposed under Chapter 297A. The subdivision also addresses interest paid on tax overpayments. Subdivision 10 requires that revenues from the tax be deposited in the general fund. Subdivision 11 makes the tax, and any associated interest and penalties, the personal debt of the person required to file the return. It also addresses the handling of tax debts in the context of an estate and in the case of a fiduciary.

Effective for sales and purchases made after September 30, 2026.

Section 4. Handguns, firearms, and ammunition local tax prohibited. Creates a new section, Minn. Stat. § 295.86, which prevents political subdivisions of the state from imposing a tax solely on the sale of handguns, firearms, or ammunition. Effective for sales and purchases made after September 30, 2026.

Section 5. Social media consumer data collection tax. Creates a new section, Minn. Stat. § 295.90, creating a social media consumer data collection tax. Subdivision 2 imposes the tax on social media platform businesses based on the number of Minnesota social media platform consumers whose data is collected by the social media platform business within a month. The rates are: \$0 for 100,000 or fewer Minnesota consumers; \$0.10 per month for 100,001–500,000 Minnesota consumers; \$40,000 plus \$0.25 per month for 500,001–1,000,000 Minnesota consumers; and \$165,000 plus \$0.50 per month for Minnesota consumers over 1,000,000. Subdivision 3 provides that: (1) business entities that are part of a controlled group of corporations as defined in the Internal Revenue Code are a single entity for purposes of meeting the definition of a social media platform business; and (2) the entities constituting the single entity are jointly and severally liable for the tax. Subdivision 4 establishes provisions governing how Minnesota consumers must be counted when determining whether a social media platform business owes tax, generally providing that each Minnesota customer be counted only once when calculating the tax due.

Subdivision 5 provides that a social media platform business may claim a credit against the tax if another state imposes an identical tax with respect to the same consumer. Subdivision 6 requires social media platform businesses to maintain records demonstrating tax compliance. Subdivision 7 provides that certain administrative provisions from chapters 270C and 289A, as applicable to taxes imposed under chapter 297A, apply to the tax. Subdivision 8 establishes requirements for filing tax returns and paying the tax. The subdivision also addresses interest paid on tax overpayments. Subdivision 9 directs the commissioner to deposit tax revenues in the artificial intelligence readiness account in the special revenue fund. Subdivision 10 makes the tax, and any associated interest and penalties, the personal debt of the person required to file the return. It also addresses the handling of tax debts in the context of an estate and in the case of a fiduciary.

Effective for consumer data collected after December 31, 2026.

Section 6-8. Sales and use tax rate reduction and base expansion. Amends Minn. Stat. §§ 297A.61, subd. 3, 297A.62, subd. 1, and 297F.25, subd. 1, reducing the general sales and use tax rate to 6.425%, retaining the cigarette sales tax rate of 6.875%, and expanding the sales and use tax base. The expansion of the base makes the following services taxable when purchased by a person other than a trade or business: accounting services, banking and brokerage services, and legal services. However, the following items are excluded and would remain not taxable: tax preparation services used to claim the Minnesota child tax credit or working family credit, origination fees, overdraft fees, late fees, the management of defined benefit pension funds, and civil legal aid services. These sections are effective for sales and purchases made after September 30, 2026.

ARTICLE 4: CANNABIS TAXES

Sections 1 and 2. Cannabis posting. Amends Minn. Stat. § 270C.726, subds. 2 and 3, to add lower-potency hemp edible manufacturers and lower-potency hemp edible wholesalers to the lists of retailers that are: (1) prohibited from selling or delivering any product to a taxpayer on the posted list; and (2) subject to the related penalty. These sections are effective for sales and purchases made after June 30, 2026.

Sections 3 and 5. Medical cannabis definitions and exemption; use tax required. Amends Minn. Stat. § 295.81, subds. 1 and 4, to reorganize the cannabis gross receipts tax and making clear that medical cannabis purchases are excluded from the cannabis gross receipts tax by: (1) in subdivision 1, expressly excluding medical cannabis from the definition of “taxable cannabis product” in paragraph (s) and incorporating by cross-reference the definitions for “registry program” in paragraph (q) and “Tribal medical cannabis program,” in paragraph (u); and (2) in subdivision 4, removing the exemption for medical cannabis. Additionally, subdivision 4 clarifies that a customer that carries into the state taxable cannabis products having a total monthly cost of more than \$100 must pay use tax on the entire monthly cost amount, as opposed to the amount that exceeds \$100. Section 3, for medical items purchased by or for a patient in the registry program, the amendment to paragraph (s) is effective the day following final enactment. Section 3, for medical items purchased by or for a patient in a Tribal medical cannabis program, the amendment to paragraph (s) is effective for sales and purchases made after June 30, 2026. Section 3, the addition of paragraphs (q) and (u) is effective for sales and purchases made after June 30, 2026. Section 5 is effective the day following final enactment.

Sections 4 and 6. Credit for taxes paid. Amends Minn. Stat. § 295.81, subds. 3 and 6, to clarify that the same gross receipts standard applies to determine whether an individual or retailer is entitled to credit for cannabis taxes paid to another state or subdivision thereof. Subdivisions 3 and 6 currently use similar, but not identical, language. These sections are effective the day following final enactment.

Section 7. Cannabis tax returns and payment dates. Amends Minn. Stat. § 295.81, subd. 9, to clarify that a taxable cannabis product retailer must report and pay the cannabis gross receipts tax using the same filing cycle and due dates as the sales tax. Effective the day following final enactment.

ARTICLE 5: MISCELLANEOUS TAXES

Section 1(a). Creates an uncodified provision appropriating \$1,003,000 in fiscal year 2027 to administer this act. The base for this appropriation is \$1,106,000 in fiscal year 2028 and \$1,045,000 in fiscal year 2029.

Section 1(b). Creates an uncodified provision appropriating \$885,000 in fiscal year 2027 from the general fund to the commissioner of revenue to establish a pass-through entity audit unit. The base for this appropriation is \$1,833,000 in each fiscal year 2028 and 2029.