



MULTISTATE INCOME/FRANCHISE TAX

Minnesota updates IRC conformity and enacts other tax changes

Tax Alert

Overview

Minnesota [House File 2438](#) ("H.F. 2438") was enacted into law on May 27, 2026, making several changes to Minnesota's tax code. The bill includes updates to federal tax conformity and changes to individual and corporate income tax provisions. This Tax Alert provides a summary of some of the key provisions and their effective dates.

Internal Revenue Code conformity

H.F. 2438 updates Minnesota's conformity date to the Internal Revenue Code ("IRC") in effect as of May 1, 2026, from the previous IRC conformity date of May 1, 2023. The updated conformity date applies to both individual and corporate income taxes, as well as estate tax and other references to the IRC in Minnesota law. Conformity is generally effective the day following final enactment, with retroactive application to the effective dates of the corresponding federal changes, unless specifically stated.

Corporate income tax

Research and experimental expenditures

H.F. 2438 decouples Minnesota from the new federal rule under IRC section 174A(a) to elect to expense current year domestic research and experimental ("R&E") expenditures. Taxpayers who elect to fully expense current year domestic R&E expenditures must add back 80% of the federal deduction taken under IRC section 174A(a) and take an equal deduction of the amount added back over the next four years. This change is effective retroactively to tax years beginning after December 31, 2024.

H.F. 2438 also decouples from the election under IRC section 174A in which eligible small businesses may elect to retroactively deduct domestic R&E unamortized expenditures for tax years ending December 31, 2021, through December 31, 2024. For taxpayers who make this election, H.F. 2438 requires taxpayers to add back 80% of the federal deduction and allows an equal deduction of the amount added back over the next four years. This change is effective retroactively to tax years beginning after December 31, 2021.

Additionally, H.F. 2438 decouples from the election under IRC section 174A to deduct unamortized domestic R&E expenditures from tax years 2022-2024 over one or two years. Under H.F. 2438, taxpayers who elect to deduct unamortized domestic R&E expenditures over one or two years must add back the amount of the deduction to taxable income. The prior year unamortized domestic R&E expenditures will be required to be amortized under the 5 year amortization schedule under the pre-OBBBA IRC section 174, as if the election under IRC section 174A was not made. This change is effective retroactively to tax years beginning after December 31, 2024.

GILTI and CFC tested income

H.F. 2438 provides that net CFC tested income (“NCTI”) as computed for Minnesota purposes is dividend income and therefore eligible for the state’s 50% dividend received deduction. H.F. 2438 defines NCTI as the amount under IRC section 951A less the amount computed under IRC section 951A(b)(2)(A) in effect as of May 1, 2023. IRC section 951A(b)(2)(A) in effect as of May 1, 2023, is the computation of 10% of the shareholder’s qualified business asset investments (“QBAI”). Furthermore, the bill provides a subtraction from income for the amount of IRC section 951A(b)(2)(A) in effect as of May 1, 2023 (i.e., the state provides a deduction to taxable income for 10% of QBAI). These provisions effectively compute a Minnesota GILTI analog by providing a deduction for 10% of QBAI and treating NCTI less 10% of QBAI as a dividend and eligible for the state’s DRD. This change is effective for tax years beginning after December 31, 2025.

H.F. 2438 also provides that the provisions of P.L. 119-21 (otherwise known as OBBBA), section 7035, related to the permanent extension of the look-thru rules, do not apply in computing NCTI or Subpart F income.

Opportunity zone capital gains

H.F. 2438 decouples Minnesota from the deferral or exclusion of gains from opportunity zones under IRC sections 1400Z-2(a), 2(b)(1), 2(b)(2)(B), and 2(c). The bill requires taxpayers to add to federal taxable income any deferred or excluded opportunity zone capital gains in the current tax year. The bill provides a subsequent deduction when the opportunity zone capital gain is recognized in a later tax year. H.F. 2438 also requires taxpayers to include in income any gain on investment during the taxable year that increased the taxpayer’s basis in the investment under IRC section 1400Z-2(b)(2)(B); 2(c). Under these provisions, Minnesota will subject not only the capital gain from opportunity zones, but also the federal basis adjustment on your investment in opportunity zones. This change is effective for tax years beginning after December 31, 2026.

Charitable contribution deduction

H.F. 2438 increases the charitable contribution deduction floor to contributions in excess of 1% of the taxpayer’s contribution base; this is an increase from the previous amount of 0.5% and is now higher than the federal charitable contribution deduction floor. This change is effective for tax years beginning after December 31, 2025.

Individual income tax

Net investment income tax

H.F. 2438 updates Minnesota’s Net Investment Income tax, which is 1% tax on net investment income over \$1 million, to include the qualified opportunity zone capital gain modifications discussed above. This change is effective for tax years beginning after December 31, 2026.

Charitable contribution deduction

Similar to the change for corporate tax purposes, H.F. 2438 increases the charitable contribution deduction floor to contributions in excess of 1% of the taxpayer’s contribution base; this is an increase from the previous amount of 0.5% and is now higher than the federal charitable contribution deduction floor. This change is effective for tax years beginning after December 31, 2025.

Passthrough entity tax ("PTE")

H.F. 2438 extends Minnesota’s PTE tax election for tax years through December 31, 2027. Additionally, the bill provides a temporary waiver of estimated tax penalties for taxable years beginning after December 31, 2025, and before January 1, 2027, if the first estimated payment is paid in full when making the second estimated payment.

The bill also extends the credit for PTE taxes paid to other states through December 31, 2027. These changes are retroactive to January 1, 2026.

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