

**SENATE
STATE OF MINNESOTA
NINETY-FOURTH SESSION**

S.F. No. 1636

(SENATE AUTHORS: HAUSCHILD)

DATE
02/20/2025

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Introduction and first reading
Referred to Taxes

OFFICIAL STATUS

1.1 A bill for an act
1.2 relating to taxation; corporate franchise; providing a reduced rate for certain
1.3 corporations; amending Minnesota Statutes 2024, sections 290.06, by adding a
1.4 subdivision; 290.068, subdivision 2; 290.0921, subdivisions 1, 8.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. Minnesota Statutes 2024, section 290.06, is amended by adding a subdivision
1.7 to read:

1.8 Subdivision 1b. Tax rate for eligible corporations. (a) For purposes of this subdivision,
1.9 the terms in paragraphs (b) to (h) have the meanings given.

1.10 (b) "Contractor hourly compensation" means, for contractors whose wages are not subject
1.11 to withholding under section 290.92, the amount paid by a corporation to an individual and
1.12 included in federal adjusted gross income in the immediately preceding taxable year,
1.13 expressed as an hourly amount equal to the total amount of compensation divided by the
1.14 number of hours worked by the individual.

1.15 (c) "Eligible corporation" means a corporation with a pay ratio not greater than 15 to 1
1.16 in a taxable year.

1.17 (d) "Executive hourly compensation" means wages subject to withholding under section
1.18 290.92, and any noncash amounts, including benefits, paid or otherwise provided by a
1.19 corporation to an executive or officer that are included in federal adjusted gross income in
1.20 the immediately preceding taxable year, expressed as an hourly amount equal to the executive
1.21 or officer's total annual compensation, divided by:

1.22 (1) 52 weeks; and

2.1 (2) 40 hours.

2.2 (e) "Hourly employee compensation" means, for employees paid on an hourly basis, the
 2.3 hourly wage amount for wages subject to withholding under section 290.92 that is paid by
 2.4 a corporation to an employee and included in federal adjusted gross income in the
 2.5 immediately preceding taxable year.

2.6 (f) "Pay ratio" means the ratio of the average executive hourly compensation paid to the
 2.7 five most highly compensated executives or officers in the immediately preceding taxable
 2.8 year to the lesser of:

2.9 (1) the average salaried employee hourly compensation paid to the lowest five percent
 2.10 of salaried employees in the immediately preceding taxable year;

2.11 (2) the average hourly employee compensation paid to the lowest five percent of hourly
 2.12 employees in the immediately preceding taxable year; or

2.13 (3) the average contractor hourly compensation paid to the lowest five percent of
 2.14 contractors in the immediately preceding taxable year.

2.15 (g) "Salaried employee hourly compensation" means for employees paid on a salary
 2.16 basis, the amount of wages subject to withholding under section 290.92 and any noncash
 2.17 amounts, including benefits, paid or otherwise provided by a corporation to an employee
 2.18 that are included in federal adjusted gross income in the immediately preceding taxable
 2.19 year, expressed as an hourly amount equal to the employee's total annual compensation,
 2.20 divided by:

2.21 (1) 52 weeks; and

2.22 (2) 40 hours.

2.23 (h) Notwithstanding subdivision 1, the franchise tax imposed upon an eligible corporation
 2.24 is computed by applying to their taxable income the rate of five percent.

2.25 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
 2.26 31, 2025.

2.27 Sec. 2. Minnesota Statutes 2024, section 290.068, subdivision 2, is amended to read:

2.28 Subd. 2. **Definitions.** For purposes of this section, the following terms have the meanings
 2.29 given.

2.30 (a) "Qualified research expenses" means (i) qualified research expenses and basic research
 2.31 payments as defined in section 41(b) and (e) of the Internal Revenue Code, except it does

3.1 not include expenses incurred for qualified research or basic research conducted outside
3.2 the state of Minnesota pursuant to section 41(d) and (e) of the Internal Revenue Code; and
3.3 (ii) contributions to a nonprofit corporation established and operated pursuant to the
3.4 provisions of chapter 317A for the purpose of promoting the establishment and expansion
3.5 of business in this state, provided the contributions are invested by the nonprofit corporation
3.6 for the purpose of providing funds for small, technologically innovative enterprises in
3.7 Minnesota during the early stages of their development.

3.8 (b) "Qualified research" means qualified research as defined in section 41(d) of the
3.9 Internal Revenue Code, except that the term does not include qualified research conducted
3.10 outside the state of Minnesota.

3.11 (c) "Base amount" means base amount as defined in section 41(c) of the Internal Revenue
3.12 Code, except that the average annual gross receipts and aggregate gross receipts must be
3.13 calculated using Minnesota sales or receipts under section 290.191 and the definitions
3.14 contained in paragraphs (a) and (b) shall apply.

3.15 (d) "Liability for tax" means the sum of the tax imposed under section 290.06,
3.16 subdivisions 1, 1b, and 2c, for the taxable year reduced by the sum of the nonrefundable
3.17 credits allowed under this chapter, on all of the entities required to be included on the
3.18 combined report of the unitary business.

3.19 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
3.20 31, 2025.

3.21 Sec. 3. Minnesota Statutes 2024, section 290.0921, subdivision 1, is amended to read:

3.22 Subdivision 1. **Tax imposed.** In addition to the taxes computed under this chapter without
3.23 regard to this section, the franchise tax imposed on corporations includes a tax equal to the
3.24 excess, if any, for the taxable year of:

3.25 (1) 5.8 percent of Minnesota alternative minimum taxable income; over

3.26 (2) the tax imposed under section 290.06, ~~subdivision~~ subdivisions 1 and 1b, without
3.27 regard to this section.

3.28 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
3.29 31, 2025.

4.1 Sec. 4. Minnesota Statutes 2024, section 290.0921, subdivision 8, is amended to read:

4.2 Subd. 8. **Carryover credit.** (a) A corporation is allowed a credit against qualified regular
4.3 tax for qualified alternative minimum tax previously paid. The credit is allowable only if
4.4 the corporation has no tax liability under this section for the taxable year and if the
4.5 corporation has an alternative minimum tax credit carryover from a previous year. The
4.6 credit allowable in a taxable year equals the lesser of

4.7 (1) the excess of the qualified regular tax for the taxable year over the amount computed
4.8 under subdivision 1, clause (1), for the taxable year or

4.9 (2) the carryover credit to the taxable year.

4.10 (b) For purposes of this subdivision, the following terms have the meanings given.

4.11 (1) "Qualified alternative minimum tax" equals the amount determined under subdivision
4.12 1 for the taxable year.

4.13 (2) "Qualified regular tax" means the tax imposed under section 290.06, ~~subdivision~~
4.14 subdivisions 1 and 1b.

4.15 (c) The qualified alternative minimum tax for a taxable year is an alternative minimum
4.16 tax credit carryover to each of the taxable years succeeding the taxable year. The entire
4.17 amount of the credit must be carried to the earliest taxable year to which the amount may
4.18 be carried. Any unused portion of the credit must be carried to the following taxable year.
4.19 No credit may be carried to a taxable year in which alternative minimum tax was paid.

4.20 (d) An acquiring corporation may carry over this credit from a transferor or distributor
4.21 corporation in a corporate acquisition. The provisions of section 381 of the Internal Revenue
4.22 Code apply in determining the amount of the carryover, if any.

4.23 **EFFECTIVE DATE.** This section is effective for taxable years beginning after December
4.24 31, 2025.