

**CORPORATE FRANCHISE TAX  
INDIVIDUAL INCOME TAX  
Commercial Loan Income Subtraction**

April 23, 2025

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue  
Analysis of H.F. 916 (Baker) / S.F. 3364 (Putnam)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b>	<b><u>F.Y. 2028</u></b>	<b><u>F.Y. 2029</u></b>
	(000's)			
Corporate Franchise Tax	(\$89,900)	(\$73,200)	(\$77,200)	(\$81,400)
Individual Income Tax	<u>(\$11,100)</u>	<u>(\$9,000)</u>	<u>(\$9,500)</u>	<u>(\$10,000)</u>
General Fund Total	(\$101,000)	(\$82,200)	(\$86,700)	(\$91,400)

Effective beginning with tax year 2025.

## EXPLANATION OF THE BILL

**Proposed Law:** The bill would create a new subtraction for S corporations and C corporations which receive income from certain commercial loans. A taxpayer would be eligible to subtract this income if the value of the underlying loan is \$5 million or less, and if the loan was provided to a person residing or located in Minnesota and used primarily for a business or agricultural purpose.

## REVENUE ANALYSIS DETAIL

- This estimate is based on 2021 data from the Board of Governors of the Federal Reserve System's release, "H.8: Assets and Liabilities of Commercial Banks in the United States," which estimates the commercial loan assets of banks in the U.S.
- Annual income from commercial loans nationally was estimated by applying median interest rates and maturities from the Kansas City Fed's 2021 Small Business Lending Survey to the H.8 data.
- Minnesota's share of annual national income from commercial loans was apportioned using Minnesota's share of finance & insurance employment from the U.S. Census's 2021 County Business Patterns survey. The County Business Patterns data was also used to apportion this income to S-corps and C-corps.
- A U.S. Government Accountability Office report on the Federal Reserve's Main Street Lending Program provides information on the distribution of commercial loan sizes. The above estimate was adjusted to remove the imputed share of loans greater than \$5 million.
- Assumed marginal tax rates were applied to the estimate of commercial loan income for S-corps and C-corps. For S-corps, an assumed rate of 8.5% was chosen based on the distribution of income from S corporations and partnerships. For C-corps, the average effective corporate tax rate after deductions and credits from the Department of Revenue's corporate tax dataset was used.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Growth rates are assumed to equal the observed proportional growth rate of the H.8 series for 2022 through 2024. Growth rates for future years are assumed to equal the average annual growth rate of the H.8 series from 2015 to 2024.
- The tax year 2025 impact was allocated to fiscal year 2026. All other tax year impacts are allocated 30% to the current fiscal year, and 70% to the following fiscal year.

Minnesota Department of Revenue  
Tax Research Division  
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