MN renews PTE for 2026-27

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Minutes before midnight on the last day of the legislature, the bill that extends the Pass-Through Entity (PTE) tax through the 2027 tax year was passed. Sounds like the beginning of a horror story – logistically – it was!

The bill has been signed and will extend the Minnesota PTE tax for taxable years 2026 and 2027.

A bit of background, the tax deadline for these Pass-Through Entities was March 15th, without this legislation the first quarter PTE tax was not available. Now, it is catch up time.

For many owners of S corporations, partnerships, and LLC taxed as partnerships or S corporations, this preserves a tax planning opportunity they have used in recent years. Minnesota's PTE tax election allows qualifying pass-through entities to pay Minnesota income tax at the entity level on behalf of their owners. The owners receive Minnesota credit for their share of the tax paid.

The main benefit is federal. The entity is allowed to deduct the state taxes paid, whereas if paid by the individual they may have been limited due to Itemized Deduction limitation of $10,000- $40,000 (referred to as the SALT cap). Therefore, PTE reduces the federal income the shareholder reports.

For Minnesota purposes it is added back therefore no effect for Minnesota, just federal.

The 2026 Minnesota legislation renews the election, but the renewal is temporary and is currently scheduled to expire after the 2027 tax year. As a result, business owners should view this as a continued planning opportunity for a limited window, not a permanent change.

A business electing to pay PTE tax must make four equal, on-time estimated payments. For 2026, Minnesota has provided relief related to missed opportunity for the first quarter estimated tax payment. The first quarter estimated tax payment for the 2026 PTE tax election may be combined with the second quarter payment due June 15, 2026.

No underpayment penalties will be charged for the first quarter payments that are made with the second quarter.

The renewal of Minnesota's PTE tax election is a positive development for pass-through business owners, but it is not indefinite.

This election is not automatic, and it may not be the best answer for every entity.

We have annually reviewed those entities who have not participated in PTE but may benefit. We have contacted those already utilizing this tax benefit to adjust your second quarter estimates.

We will continue to review all entities for eligibility and benefit. If you would like to discuss further, please contact us.

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