

Federal Update

March 20, 2023

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2581 (Gomez) / S.F. 2893 (Rest)

	Fund Impact			
	F.Y. 2024	F.Y. 2025	F.Y. 2026	F.Y. 2027
		(000's)		
Individual Income Tax	\$2,700	(\$800)	(\$800)	(\$2,000)
Corporate Franchise Tax	\$0	\$0	\$0	\$0
General Fund Total	\$2,700	(\$800)	(\$800)	(\$2,000)

EXPLANATION OF THE BILL

Current Law: Current Minnesota law refers to the Internal Revenue Code as amended through December 15, 2022.

Proposed Law: The bill would update reference to the Internal Revenue Code as amended through March 1, 2023, thereby adopting the changes in the SECURE 2.0 Act.

The Consolidated Appropriations Act, 2023 (Public Law 117-328) was enacted on December 29, 2022. Division T of the Act, known as the SECURE 2.0 Act of 2022, includes the following provisions which would affect the definition of income for Minnesota individual income tax purposes.

Deferral for Sales of Stock to an Employee Stock Ownership Plan. Effective beginning with tax year 2028, the Act allows shareholders of an S corporation to defer recognition of gains on the sale of stock to an employee stock ownership plan. The deferral will reduce taxable income at the time of the sale.

Retirement Account Withdrawals for Emergency Expenses. Effective beginning with tax year 2024, the Act allows an individual to withdraw up to \$1,000 from a retirement account for emergency expenses. The withdrawal is exempt from the federal 10% penalty on early withdrawals but is included in taxable income. The taxpayer may choose to repay the withdrawal within three years. If the amount is repaid, the individual may adjust the prior year's return to exclude the withdrawal from income. Conforming to this provision would reduce taxable income for taxpayers who repaid the withdrawn amount.

Simplified Employee Pension Plans. Effective beginning with tax year 2023, the Act allows employers of domestic employees to offer retirement benefits through a Simplified Employee Pension (SEP) plan. Tax is deferred on contributions to a SEP plan until the time of withdrawal. This provision will reduce taxable income at the time of the contributions.

Distributions from 529 Plans to Roth IRAs. Effective beginning in tax year 2024, the Act allows a beneficiary of a Section 529 college savings plan to roll over up to \$35,000 into a Roth IRA. The provision will reduce taxable income at the time of the rollover.

Charitable Distributions from IRA. Effective beginning December 29, 2022, the Act allows a one-time charitable distribution from an Individual Retirement Account (IRA) of up to \$50,000 to a charitable gift annuity, charitable remainder trust, or charitable remainder annuity trust. The Act also adds inflation indexing to the annual \$100,000 limit on charitable distributions from an IRA. The provision will reduce taxable income.

Exclusion of First Responder Retirement Benefits. Effective beginning with tax year 2027, the Act excludes qualified service-connected disability pension payments to first responders from gross income. First responders include law enforcement officers, firefighters, paramedics, and emergency medical technicians. Since the benefits otherwise would be taxable, the provision will reduce taxable income.

Distributions from IRA for Federal Disasters. Effective retroactively for disasters occurring on or after January 26, 2021, the Act allows penalty-free withdrawals up to \$22,000 from a retirement account for expenses related to a declared federal disaster. The distribution is included in income over three years, and the amount may be repaid within three years. The provision will spread tax liability for distributions over three years, reducing taxable income in the year of the distribution and increasing taxable income in the next two years.

In addition, individuals who withdrew money from a retirement account to purchase a home but did not complete the purchase due to a federally declared disaster may repay the withdrawn amount to their retirement account. For individuals who recontribute withdrawals, the provision will reduce taxable income.

Limit Deduction for Charitable Conservation Easements. Effective December 29, 2022, the Act limits the deduction for contributions of property to a charitable conservation easement. For each partner in a contributing partnership, the deduction is limited to two and a half times the partner's basis in the partnership. Certain exceptions apply if a 3-year holding period is met, for a family-owned partnership, and for certified historic structures. The provision will increase taxable income for partners in the contributing partnerships.

A table showing the fiscal impact of each provision is attached.

REVENUE ANALYSIS DETAIL

- The estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated December 22, 2022.
- The estimates for each provision were apportioned to Minnesota based on information relevant to that provision. The estimates were adjusted for the difference between federal and state tax rates and federal and state fiscal years.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)

Federal Update
Consolidated Appropriations Act, 2023, Division T
(SECURE 2.0 Act of 2022)
(\$000s)

	FY 2024	FY 2025	FY 2026	FY 2027
Deferral for Sales of Stock to an Employee Stock Ownership Plan (beginning TY28)* Individual Income Tax	\$0	\$0	\$0	\$0
Retirement Account Withdrawals for Emergency Expenses (beginning TY24) Individual Income Tax	\$0	(\$1,300)	(\$1,300)	(\$1,300)
Simplified Employee Pension Plans (beginning TY23) Individual Income Tax	(\$100)	(\$100)	(\$100)	(\$100)
Distributions from 529 Plans to Roth IRAs (beginning TY24) Individual Income Tax	\$0	(\$1,200)	(\$1,200)	(\$1,300)
Qualified Charitable Distributions from IRA (beginning TY23) Individual Income Tax	(\$500)	(\$1,000)	(\$1,000)	(\$1,200)
Exclusion of First Responder Retirement Benefits (beginning TY27)* Individual Income Tax	\$0	\$0	\$0	\$0
Distributions from IRA for Federal Disasters (beginning 1/26/2021) Individual Income Tax	(\$900)	(\$500)	\$0	\$0
Limit Deduction for Charitable Conservation Easements (beginning 12/29/2022) Individual Income Tax	\$4,200	\$3,300	\$2,800	\$1,900
SECURE 2.0 Act: All Provisions				
Individual Income Tax	\$2,700	(\$800)	(\$800)	(\$2,000)
Corporate Franchise Tax	\$0	\$0	\$0	\$0
General Fund Total	\$2,700	(\$800)	(\$800)	(\$2,000)

*Fiscal impact occurs outside the forecast window.