MN HOUSE RESEARCH

Bill Summary

H.F. 2581

As introduced

Subject	**Federal conformity; SECURE 2.0 Act**
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Summary

Under current law, Minnesota's income tax is tied to the Internal Revenue Code, as amended through December 15, 2023. Since that date, Congress enacted the SECURE 2.0 Act, which contained changes to federal tax treatment of retirement issues. That act was included in the Consolidated Appropriations Act, 2023, which was signed into law on December 29, 2022.

H.F. 2581 adopts the federal Internal Revenue Code, as amended through March 1, 2023, which incorporates the changes in the SECURE 2.0 Act for state purposes.

SECURE 2.0 includes a number of broad changes to the way the Internal Revenue Code taxes retirement savings and income. Many of these changes do not affect state liability at all. Others affect liability by changing taxpayer behavior rather than the definition of taxable income—those changes were incorporated into the February forecast as a forecast adjustment. The changes the Department of Revenue has identified as having an effect on state liabilities are as follows:

SECURE 2.0 Section	Provision summary
114	**Deferral of tax for sales of employer stock to employee stock ownership plan sponsored by an S corporation** Under current law, an individual who owns stock of a non-publicly traded C corporation and sells the stock to an employee stock ownership plan (ESOP) may defer the recognition of the gain on the sale under certain conditions. SECURE 2.0 expands this treatment to certain S corporation ESOPs.
115	**Withdrawals for certain emergency expenses** Allows individuals to take penalty-free distributions from tax-preferred retirement accounts to pay for "unforeseeable or immediate financial needs relating to personal or family emergency expenses." Only one distribution per year of up to $1,000 is allowed, and individuals may repay the distribution within three years. If a taxpayer makes such a repayment, the distribution is treated as a rollover distribution and not subject to tax.
116	**Allow additional nonelective contributions to simple retirement accounts**

	Under current law, employer contributions to SIMPLE retirement accounts are limited to two percent of compensation or three percent of employee elective deferral contributions. SECURE 2.0 allows employers to make additional contributions, up to the lesser of ten percent of compensation or $5,000.
126	**Special rules for certain distributions from long-term qualified tuition programs (529 plans) to Roth IRAs** Allows beneficiaries of a section 529 qualified tuition plan to make tax- and penalty-free rollovers from the 529 plan to a Roth IRA.
307	**Onetime election for qualified charitable distribution to split-interest entity; increase in qualified charitable distribution limitation** Allows a onetime $50,000 charitable distribution from an IRA to a "split-interest" entity, which the bill defines as certain charitable remainder annuity trusts, certain charitable remainder unitrusts, or certain charitable gift annuities. The bill also indexes for inflation the $100,000 limitation on qualified charitable distributions.
309	**Exclusion of disability-related first responder retirement payments** Beginning in TY 2027, excludes from gross income certain service-connected disability pension payments. The exclusion applies to service as a law enforcement officer, firefighter, paramedic, or emergency medical technician.
331	**Special rules for use of retirement funds in connection with qualified federally declared disasters** Permanently allows taxpayers affected by a federally declared disaster to take a penalty-free distribution of up to $22,000 from an employer retirement plan or IRA. The distribution is included ratably in gross income over three years. The provision additionally allows individuals who previously took a retirement account distribution to purchase their home recontribute the amount withdrawn. The provision applies to individuals residing in a federally declared disaster area who sustained an economic loss as a result of the disaster.
605	**Charitable contribution easements** Disallows the charitable contribution deduction for a partnership making a qualified conservation contribution, if the value of the deduction exceeds 2.5 times the sum of each partner's basis in the partnership. SECURE 2.0 provides exceptions to this limit for certain property held longer than three years, family partnerships, and contributions to preserve historic structures.

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