



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

The Honorable Pete Stauber
U.S. House of Representatives
Washington, DC 20515

Dear Representative Stauber:

Thank you for your letter dated December 8, 2023, expressing your concern regarding the Internal Revenue Service (IRS) determination that the 2023 Minnesota state tax rebates constitute income to the recipients for federal income tax purposes. We received a similar letter from Representative Angie Craig and are sending a similar response to her. I appreciate you raising this critical issue and I share your desire to prevent confusion for Minnesota taxpayers and the importance of clear guidance taxpayers can rely on. I take very seriously the issue you raised with me and the potential implications for taxpayers who receive these state tax rebates.

Generally, under Section 61 of the Internal Revenue Code, gross income includes all income from whatever source derived unless an exception applies. The two primary exceptions that might be relevant here are the general welfare exclusion and disaster relief exclusion. For payments to be excluded under the general welfare exclusion, the payments must be made from a government fund, be for the promotion of general welfare (based on individual or family need), and not be compensation for services. The general welfare exclusion is generally limited to payments made to low-income recipients. To be excluded as disaster relief payments made by a State or local government, the payments generally must be made in connection with a federally declared disaster in order to promote the general welfare.

The IRS has been diligently working through the issues raised by certain types of state payments over the past year. Below I outline our recent work on this issue. We deeply appreciate the opportunity to engage with you and others to help us better understand the specifics of the Minnesota state tax rebates.

Last February, we provided broad administrative relief for state payments made in 2022 because it was the middle of filing season and numerous states had adopted a variety of payment programs requiring a fact-intensive analysis to determine whether they qualified for an exclusion. (IR-2023-23, Feb. 10, 2023.) We provided this administrative relief on an expedited basis in order to provide taxpayers the certainty they needed to be able to file their returns without undue delay. This did not reflect a legal determination as to the proper treatment for each of the payments. The announcement made clear that this administrative relief applied only for payments made in 2022.

In August, we issued published guidance explaining how the IRS treats various types of state payments. (Notice 2023-56.) This guidance included a discussion of the general welfare exclusion and the exclusion for disaster relief payments. We have continued to analyze the facts and specifics of the 2023 Minnesota state tax rebates. Our analysis has determined that the 2023 Minnesota payments do not qualify for the general welfare exclusion because the income thresholds for eligibility (\$75,000 single, \$150,000 married filing jointly) are above the limit of what we generally consider to be covered by the general welfare exclusion. In addition, the 2023 Minnesota payments do not qualify for the exclusion for disaster relief payments, as the legislative record does not provide the kind of clarity we need to conclude that the legislative purpose of the one-time payments was to provide relief from the COVID-19 pandemic.

I appreciate your concern on behalf of the Minnesota taxpayers. I wish to assure you that it is the IRS's priority to ensure that the rules concerning income inclusion and exclusion are applied fairly and consistently to every state payment we consider, and are clear for taxpayers. The IRS is eager and willing to work with state officials to clarify these complex questions as state actions and legislation are being considered.

If you have questions, please contact me, or a member of your staff may contact Amy Klonsky, National Director, Legislative Affairs, at 202-317-6985.

Sincerely,

Daniel I. Werfel
Commissioner