



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

OFFICE OF
CHIEF COUNSEL

May 13, 2008

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CC:ITA:2
CONEX-119191-08

UIL: 165.00-00, 165.07-00

Dear _____ :

This letter responds to your letter dated February 17, 2008. We recognize the hardship you and many others have suffered from the devastation caused by hurricane Katrina. Since August of 2005, the Service has been providing extensive guidance to the victims of hurricanes Katrina, Rita, and Wilma on tax issues relating to these disasters, including guidance to homeowners on the tax treatment of Road Home grants from the Louisiana Recovery Authority (Road Home grants).

The Road Home grant program was established to compensate homeowners for damage to their residences from hurricanes Katrina and Rita. The tax law generally does not require taxpayers to include Road Home grants in income. Therefore, if you did not claim a casualty loss on your tax return for damage to your residence caused by hurricane Katrina, then you are not required to report the Road Home grant as income. An exception to this general rule applies if you properly claimed a casualty loss deduction in a prior tax year for damage to your residence and in a later tax year you receive a grant to compensate you for all or part of the previously deducted loss. Under these circumstances, the tax benefit rule requires you to report the grant as income on your return in the tax year in which you receive it to the extent the casualty loss deduction you claimed in a prior tax year for damage to your residence reduced your tax in the prior year.

The Service has issued frequently asked questions addressing the tax treatment of Road Home grants and similar forms of compensation. We have enclosed copies of the frequently asked questions relating to the tax treatment of grant proceeds. These questions are posted on the IRS website and may be found using the following link: www.irs.gov/businesses/small/article/0,,id=171341,00.html.

This letter has called your attention to certain general principles of the law. It is intended for informational purposes only and does not constitute a ruling. See Rev. Proc. 2008-1, § 2.04, 2008-1 I.R.B. 7.

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If you have any additional questions, please contact

of our office at

Sincerely,

THOMAS D. MOFFITT
Chief, Branch 2
(Income Tax & Accounting)

Enclosure