



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

OFFICE OF  
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MEMORANDUM FOR JOAN OLMSTEAD  
ASSOCIATE TECHNICAL COORDINATOR  
PACIFIC-NORTHWEST DISTRICT

FROM: Heather C. Maloy  
Acting Assistant Chief Counsel (Income Tax & Accounting)

SUBJECT: Tax Treatment of Certain Disaster Payments

LEGEND:

State =

Fund =

Dates =

Commodity =

Industry =

\$x =

\$y =

\$z =

This technical assistance responds to your memorandum dated January 14, 1999. You requested our views on the tax treatment of payments made by the Fund to qualified individuals in State pursuant to a disaster emergency declared by the governor of State in 1998. Specifically, you have asked (1) whether payments to qualified individuals from the Fund are taxable income to the recipients, and (2) whether State must issue a Form 1099 to the recipients. Technical assistance does not relate to a specific case and is not binding on Examination or Appeals. This document is not to be cited as precedent.

Fund was established to enable the governor of State to alleviate the effects of a disaster. On Dates 1, 2, and 3, the governor of State declared a disaster emergency in certain communities in State because of the low return of Commodity. This resulted in historic low prices for Commodity, causing economic devastation to workers in the Industry. The governor and State legislature authorized payment of \$x from the Fund to aid Industry workers in meeting necessary expenses. Approximately 8,000 individuals received assistance in 1998.

Qualified applicants receive \$y, or a family maximum of \$z, which must be used solely for food, fuel, electricity, water, or sanitation. Applicants must certify that they are unable to pay bills for these items, and authorize State to disburse the payments directly to the vendors and service providers to whom the debts are owed. You indicate that 92 percent of individuals receiving assistance from Fund have incomes below the Federal poverty level, and the remaining 8 percent have incomes only slightly above the Federal poverty level.

Section 61(a) of the Internal Revenue Code provides the general rule that, except as otherwise provided by law, gross income includes all income from whatever source derived.

However, the Internal Revenue Service has held that payments under legislatively provided social benefit programs for the promotion of general welfare are not includible in an individual's gross income. For example, Rev. Rul. 98-19, 1998-15 I.R.B. 5, holds that a relocation payment, authorized by the Housing and Community Development Act and funded under the 1997 Emergency Supplemental Appropriations Act for Recovery From Natural Disasters, made by a local jurisdiction to an individual moving from a flood-damaged residence to another residence, is not includible in the individual's gross income. Likewise, Rev. Rul. 76-144, 1976-1 C.B. 17, holds that a grant received by individuals under the Disaster Relief Act of 1974 is in the interest of general welfare and not includible in gross income.

The payments at issue here, made to alleviate the effects of disaster conditions, enable recipients to meet necessary expenses. Accordingly, the payments are in the nature of general welfare and are not includible in gross income by the recipients. The State should not issue Forms 1099 for the payments because they are not includible in a recipient's income.

We hope this memorandum is responsive to your request. If you have any further questions, please contact \_\_\_\_\_ at \_\_\_\_\_