

VITA/TCE Tax Alert

VTA 2023-05, State Payment Tax Guidance

Purpose

The purpose of this alert is to provide information regarding special payments issued during 2022 by multiple states. In general, payments that are for the promotion of the general welfare or disaster relief will not be included in income on federal tax returns. Payments that were a refund of state taxes paid are not included in income if the taxpayer did not itemize deductions or they itemized but did not receive a tax benefit. The information that follows was not included in Publication 4491-X, VITA/TCE Training Supplement.

General welfare and disaster relief payments:

If a payment is made for the promotion of the general welfare or as a disaster relief payment, for example related to the outgoing pandemic, it may be excludable from income for federal tax purposes under the General Welfare Doctrine or as a Qualified Disaster Relief Payment.

Refund of state taxes paid

If the payment is a refund of state taxes paid and either the recipient claimed the standard deduction or itemized their deductions but did not receive a tax benefit (for example, because the \$10,000 tax deduction limit applied) the payment is not included in income for federal tax purposes. For details, see **Publication 4491, VITA/TCE Training Guide**, page 8-14.

For a list of the specific payments to which this applies, please see **this chart**.

For additional details see IRS news release **IR-2023-23**.

Thank you for volunteering and for your dedication to top QUALITY service!