



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

February 1, 2000

OFFICE OF
CHIEF COUNSEL

Number: **200013031**
Release Date: 3/31/2000
UILC: 61.08-00
61.11-03

CC:DOM:IT&A:2:
FREV-119631-99

MEMORANDUM FOR HARRY MARTIN, FED-STATE COORDINATOR
NORTH-SOUTH CAROLINA DISTRICT

FROM: Lewis J. Fernandez
Deputy Assistant Chief Counsel
(Income Tax & Accounting)

SUBJECT: NORTH CAROLINA FLOOD RELIEF --
RELOCATION ASSISTANCE PAYMENTS TO RENTERS

This technical assistance request is in response to your request for assistance dated December 15, 1999, regarding the tax treatment of state payments made to individuals and businesses in North Carolina that suffered losses due to the flood damage caused by Hurricane Floyd. 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.

ISSUE:

Are payments from the State Acquisition and Relocation Fund that assist individual renters in relocating from flood-damaged homes to other residences includible in the recipients' gross incomes?

CONCLUSION:

The rental assistance payments, made by the State to alleviate the effects of disaster conditions on individuals, are in the nature of general welfare and are not includible in the recipients' gross incomes. The State should not issue Forms 1099 for the payments because they are not includible in a recipient's income.

FACTS:

The General Assembly of North Carolina declared Hurricane Floyd the worst natural disaster in the State's history. In the latter part of 1999, Hurricane Floyd caused extensive and prolonged flooding that devastated the civil, social, economic, and environmental well-being of eastern North Carolina. The entire economic base of that area was undermined, making it extremely difficult for individuals to earn income to

FREV-119631-99

support themselves and their families. In response to the widespread damage caused by Hurricane Floyd, Governor Jim Hunt, Jr. of North Carolina proposed a state emergency package consisting of numerous relief programs to assist individuals and small businesses in recovering from this disaster.

The following disaster assistance program is addressed in this Technical Assistance. The number appeared in the margin of materials in your request for assistance. We are deferring to subsequent memoranda our assistance regarding other programs under the Plan.

Relocation Assistance Payments to Renters (4)

This grant program provides payments to individual renters for relocating from flood-damaged homes to other residences. To be eligible for such payments, the home must be the renter's primary residence and the family must either reside in the home or in a temporary living arrangement.

LAW AND ANALYSIS:

Section 61(a) of the Internal Revenue Code and the Income Tax Regulations thereunder provide the general rule that, except as otherwise provided by law, gross income means all income from whatever source derived.

However, the Internal Revenue Service has held that payments to individuals by governmental units under legislatively provided social benefit programs for the promotion of general welfare are not includible in the recipient's gross income (the general welfare exception). For example, Rev. Rul. 98-19, 1998-1 C.B. 840, holds that a relocation payment, authorized by the Housing and Community Development Act of 1974 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 income.

Accordingly, we suggest that you advise the State of North Carolina that the rental assistance payments are not includible in the recipients' gross incomes, and that information reporting is not required on such payments. Further, we suggest that you

FREV-119631-99

advise the State of North Carolina to describe the tax consequences of these grants to the recipients in language similar to the following:

The Internal Revenue Service has advised us that you need not include in income state or federal relocation assistance payments that you, as a renter, receive as the result of flood damage to your primary residence.

Taxpayers uncertain whether these principles or interpretations of tax law should apply to their situations should consider seeking a private letter ruling or, if appropriate, technical advice. Procedures for issuing letter rulings and technical advice are in Rev. Proc. 2000-1, 2000-1 I.R.B. 4, and Rev. Proc. 2000-2, 2000-1 I.R.B. 73, respectively.

* * *

If you have any further questions about this memorandum, please call George Baker at (202) 622-4920.