



# Committee On Finance

Max Baucus, Ranking Member

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## **Baucus Protects Disaster Payments from Income Tax**

*Legislation Passed in Senate Provides Tax Relief on FEMA Disaster Mitigation Payments*

(WASHINGTON, D.C.) As the filing deadline for federal income taxes nears, U.S. Senator Max Baucus passed legislation ensuring disaster mitigation grants are protected against taxation. The grants, issued by the Federal Emergency Management Agency (FEMA) for the last 15 years, have assisted citizens to prepare or mitigate for future natural disasters.

“These grants have played an important role in helping many parts of the country prepare for natural disasters,” Baucus, Ranking Member of the Senate Finance Committee, said.

“Taxing these grants discourages citizens from taking pro-active steps to protect their businesses, homes, and communities from the devastating effects of Mother Nature.”

The tax code did not specifically describe the tax treatment of FEMA mitigation grants. It was assumed these grants would be treated the same as other disaster relief payments and be excluded from income. However, in June 2004, the Internal Revenue Service decided these mitigation grants were, in fact, taxable as income. This created a significant tax liability on individuals receiving payments. In March, the House of Representatives took up legislation to help provide tax relief after date of enactment, but taxpayers who received mitigation grants before 2004 were not addressed.

An amendment sponsored by Senator Baucus modified the House version of the bill, H.R. 1134, ensuring those receiving mitigation payments before June 28, 2004 would not be subjected to federal income tax.

“The decision by the I.R.S. to tax these payments is unfair,” Baucus said. “Those taking advantage of these mitigation opportunities are penalized for trying to prepare for upcoming natural disasters. I am pleased the Senate took the right steps to correct this problem in the tax code.”

Baucus praised the efforts of Senator Grassley and others for guiding the amendment through the Senate.

“I want to thank Senators Landrieu, Nelson, and Feinstein for their tireless work on behalf of this issue. Many people receiving these payments in Louisiana, Florida, and California will benefit from this tax relief.”

The amended legislation is now in the House of Representatives where it awaits final passage before the April 15<sup>th</sup> income tax filing deadline.

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