Disaster Relief Payments - Company Provided Payments

Several clients have asked us about making disaster relief payments to their employees, questions such as:

1. Can the company make direct payments to the employees?
2. What about setting up Disaster Relief Funds?
3. How are the payments to employees taxed?
4. Will I need to collect receipts?

According to our research a company may make disaster relief payments directly to assist their employees impacted by Hurricane Katrina. In addition, the company may establish a Disaster Relief fund to help raise funding for their employees.

IRC Code Section 139 states: payments received by individuals that are designed to reimburse or to pay reasonable and necessary personal, living, or funeral expenses that occurred as a result of a qualified disaster are exempt from gross income of the taxpayer.

Rev-Rule 79-283 states: disaster relief payments (as defined above) from a company to employees will qualify as a business deduction under IRC Code Section 162, as these payments are deemed to be "ordinary and necessary" expenses of the company since they are designed to prevent injury to the taxpayer's business or to preserve and protect the goodwill of the business.

Conclusion, a company may make disaster relief payments to employees, in which the company is entitled to a deduction for the expense, and the payment is excluded from income for the employee.

If you have any questions, please see either Bruce Prendergast or Anthony Ranatza.

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Bruce Prendergast, CPA, CFP (bprendergast@laporte.com)
Director

Anthony Ranatza, CPA, MBA (aranatza@laporte.com)
Supervisor