




Frequently asked questions for states and local governments on taxability and reporting of payments from Coronavirus State and Local Fiscal Recovery Funds

FS-2021-16, November 2021

This Fact Sheet frequently asked questions (FAQs) related to the Coronavirus State and Local Fiscal Recovery Funds established under the American Rescue Plan Act (SLFR Funds). These funds give eligible state and local governments a substantial infusion of resources to meet pandemic response needs.

These FAQs are being issued to provide general information to taxpayers and tax professionals as expeditiously as possible. Accordingly, these FAQs may not address any particular taxpayer's specific facts and circumstances, and they may be updated or modified upon further review. Because these FAQs have not been published in the Internal Revenue Bulletin, they will not be relied on or used by the IRS to resolve a case. Similarly, if an FAQ turns out to be an inaccurate statement of the law as applied to a particular taxpayer's case, the law will control the taxpayer's tax liability. Nonetheless, a taxpayer who reasonably and in good faith relies on these FAQs will not be subject to a penalty that provides a reasonable cause standard for relief, including a negligence penalty or other accuracy-related penalty, to the extent that reliance results in an underpayment of tax. Any later updates or modifications to these FAQs will be dated to enable taxpayers to confirm the date on which any changes to the FAQs were made. Additionally, prior versions of these FAQs will be maintained on IRS.gov to ensure that taxpayers, who may have relied on a prior version, can locate that version if they later need to do so.

More information about [reliance is available](#). These FAQs were announced in [IR-2021-231](#).

The Coronavirus State and Local Fiscal Recovery Funds (SLFR Funds) provide eligible state and local governments with a substantial infusion of funds to meet pandemic response needs and rebuild a stronger and more equitable economy as the country recovers. The SLFR Funds provide substantial flexibility for each government to meet local needs—including support for households and individuals hardest hit by the crisis. More information about the uses of SLFR Funds may be found in the [Interim Final Rule](#)  [PDF](#).

Some uses of SLFR Funds may trigger tax consequences. In general, individuals must include in gross income any payment or accession to wealth from any source unless an exclusion applies. One exclusion is for qualified disaster relief payments under section 139 of the Internal Revenue Code (Code). Under section 139 of the Code,

certain payments made by a state or local government to individuals in connection with the COVID-19 pandemic may be qualified disaster relief payments that are excluded from the recipient's gross income. A payment by a state or local government generally will be treated as a qualified disaster relief payment under section 139 if the payment is made to or "for the benefit of" an individual to (1) reimburse or pay reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a qualified disaster, or (2) promote the general welfare in connection with a qualified disaster. See section 139(b)(1) and (4). As a federally declared disaster, the COVID-19 pandemic is considered a qualified disaster for purposes of section 139. See section 139(c). However, payments are not treated as qualified disaster relief payments if the payments are in the nature of compensation for services performed by the individual. Additionally, payments made to or for the benefit of an individual are not treated as qualified disaster relief payments to the extent the expense of the individual compensated by such payment is otherwise compensated for by insurance or otherwise. See section 139(b).

➔ Q1: My state/local government is offering premium pay for the work I perform as an eligible worker during the COVID-19 pandemic. Premium pay is an amount up to \$13 per hour in addition to the wages or remuneration a worker otherwise receives and in an aggregate amount not to exceed \$25,000 per eligible worker. If I receive such a payment, must I include the amount in my gross income? (added November 17, 2021)

A1: Yes, you must include the payment in gross income as compensation for services. Section 139 of the Code excludes qualified disaster relief payments from an individual's gross income, but payments in the nature of compensation for services are not treated as qualified disaster relief payments. Premium pay is in the nature of compensation for services and therefore is not excludable as a qualified disaster relief payment. If you are performing services as an employee, whether as an employee of the state/local government or another entity, the premium pay is also generally considered wages and is subject to withholding of applicable taxes.

➔ Q2: My employer received a grant from my state/local government to be used to provide premium pay to eligible workers during the COVID-19 pandemic. If I receive such a payment from my employer, must I include the amount in my gross income? (added November 17, 2021)

A2: Yes, you must include the payment in gross income as compensation for services. Regardless of whether an amount is paid to you by your state/local government, or by your employer, a payment that is in the nature of compensation for services is not excludable as a qualified disaster relief payment under section 139 of the Code. If you are performing services as an employee, the premium pay is also generally considered wages and is subject to withholding of applicable taxes.

➔ Q3: I am an employer who received a grant from my state/local government to be used to provide premium pay to eligible workers during the COVID-19

pandemic. If I make such a payment to my employees, must I withhold income and employment taxes on that payment? (added November 17, 2021)

A3: Yes. Premium pay amounts paid to employees are considered wages. Employers generally must withhold federal income tax as well as social security tax and Medicare tax from employees' wages. (Employers also may have to pay federal unemployment tax on the wages.) More information on withholding federal income tax, social security tax, and Medicare tax can be found in Publication 15, Employer's Tax Guide. Premium pay that is paid at a regular hourly rate for the current payroll period is considered a regular wage for purposes of federal income tax withholding. This means that, in determining the amount of federal income tax to withhold from wages, the employer should apply the entries on the employee's Form W-4 according to the procedures detailed in Publication 15-T, Federal Income Tax Withholding Methods, to determine the amount of federal income tax to withhold from premium pay.

— Q4: My state/local government is offering a one-time payment to individuals receiving unemployment compensation who accept an offer of employment within the particular state or local jurisdiction, in any industry, and discontinue claiming unemployment benefits. The payment is meant to encourage individuals to return to work after state/local COVID-19 restrictions lapse. The payment is available to an eligible individual after he or she completes four weeks of paid employment. If I receive such a payment, must I include the amount in my gross income? (added November 17, 2021)

A4: Yes, you must include the payment in gross income as compensation for services. A payment that is in the nature of compensation for services, even a one-time payment, is not excludable as a qualified disaster relief payment under section 139 of the Code. Further, even though the payment is made in connection with discontinuing your unemployment benefits, the payment is not unemployment compensation. Rather, the payment is taxable as compensation income.

— Q5: My employer received a grant from my state/local government to be used to pay new employees a cash bonus. If my employer pays me such a cash bonus, must I include the amount in my gross income? (added November 17, 2021)

A5: Yes, you must include the payment in gross income. Regardless of whether it is paid to you by your state/local government, or by your employer, payment of a cash bonus to new employees is in the nature of compensation for services and thus is not a qualified disaster relief payment under section 139 of the Code. Rather, the payment is compensation for services and is also generally considered wages, subject to withholding of applicable taxes.

⊖ Q6: I am an employer who received a grant from my state/local government to be used to pay new employees a cash bonus. If I pay such a cash bonus to my employees, must I withhold income and employment taxes on that payment? (added November 17, 2021)

A6: Yes. Cash bonuses paid to new employees are wages. Employers generally must withhold federal income tax as well as social security tax and Medicare tax from employees' wages. (Employers may also have to pay federal unemployment tax on the wages.) More information on withholding federal income tax, social security tax, and Medicare tax can be found in Publication 15. Cash bonuses typically are supplemental wages for purposes of federal income tax withholding. In determining the amount of federal income tax to withhold from employees' wages, the employer should review the procedures in section 7 of Publication 15 to determine the amount of federal income tax to withhold from cash bonuses.

⊖ Q7: My state/local government is using SLFR Funds to provide a direct cash transfer to families. The payment is intended to assist with childcare costs resulting from the COVID-19 pandemic. To qualify for the payment, a family must only show that it has a child under 18. Each qualifying family receives a flat amount under the program. If I receive a payment under this program, must I include it in my gross income? (added November 17, 2021)

A7: No, this payment is not included in gross income. These payments are made by a state/local government and are intended to pay for family expenses resulting from the COVID-19 pandemic, a qualified disaster. As such, they are considered qualified disaster relief payments under section 139 of the Code and are excluded from gross income. However, no deduction or credit is allowed for the childcare expenses, to the extent of such payment. Additionally, payments made to or for the benefit of an individual are not treated as qualified disaster relief payments to the extent the expense of the individual compensated by such payment is otherwise compensated for by insurance or otherwise. See section 139(b).

⊖ Q8: We are a state/local government that uses SLFR Funds to provide a direct cash transfer to families. The payment is intended to assist with childcare costs resulting from the COVID-19 pandemic. To qualify for the payment, a family must only show that it has a child under 18. Each qualifying family receives a flat amount under the program. Do we have an obligation to file a Form 1099 or other information return with respect to the payment? (added November 17, 2021)

A8: No. A Form 1099-MISC reporting the payment would be required if the payment constituted income to the recipient. In this case, because the payment is not income, no Form 1099-MISC or other information return is required to be filed with the IRS or furnished to the recipient.

– Q9: My state/local government is using SLFR Funds to provide a direct cash transfer to individuals for use in paying their utility bills. If I receive such a payment under this program, must I include it in my gross income? (added November 17, 2021)

A9: No, this payment is not included in gross income. These payments are made by a state/local government to individuals and are intended to pay for personal expenses incurred during the COVID-19 pandemic, a qualified disaster. As such, they are considered qualified disaster relief payments under section 139 of the Code and are excluded from gross income. However, payments made to or for the benefit of an individual are not treated as qualified disaster relief payments to the extent the expense of the individual compensated by such payment is otherwise compensated for by insurance or otherwise. See section 139(b).

– Q10: We are a state/local government that uses SLFR Funds to provide a direct cash transfer to individuals for use in paying their utility bills. Do we have an obligation to file a Form 1099 or other information return with respect to the payment? (added November 17, 2021)

A10: No. A Form 1099-MISC reporting the payment would be required if the payment constituted income to the recipient. In this case, because the payment is not income, no Form 1099-MISC or other information return is required to be filed with the IRS or furnished to the recipient.

– Q11: I am an individual and my state/local government is using SLFR Funds to pay utility bills on behalf of individuals in the state or local jurisdiction. If the state/local government makes a payment directly to a utility company on my behalf, must I include the amount of the payment in my gross income? (added November 17, 2021)

A11: No, this payment is not included in gross income. These payments are made by a state/local government on behalf of individuals to pay for personal expenses incurred during the COVID-19 pandemic, a qualified disaster. As such, they are considered qualified disaster relief payments under section 139 of the Code and are excluded from gross income. However, payments made to or for the benefit of an individual are not treated as qualified disaster relief payments to the extent the expense of the individual compensated by such payment is otherwise compensated for by insurance or otherwise. See section 139(b).

➔ Q12: We are a state/local government that uses SLFR Funds to pay utility bills on behalf of individuals. Do we have an obligation to file a Form 1099 or other information return with respect to the payment? (added November 17, 2021)

A12: No. A Form 1099-MISC reporting the payment would be required if the payment constituted income to the beneficiary. In this case, because the payment is not income, no Form 1099-MISC or other information return is required to be filed with the IRS or furnished to the beneficiary.

➔ Q13: I am an individual and SLFR Funds are being used to pay my overdue utility balance with my utility company. Must I include the amount of the payment in my gross income? (added November 17, 2021)

A13: No, this payment is not included in gross income. These payments are made by a state/local government on behalf of individuals to pay for personal expenses incurred during the COVID-19 pandemic, a qualified disaster. As such, they are considered qualified disaster relief payments under section 139 of the Code and are excluded from gross income. However, payments made to or for the benefit of an individual are not treated as qualified disaster relief payments to the extent the expense of the individual compensated by such payment is otherwise compensated for by insurance or otherwise. See section 139(b).

➔ Q14: We are a utility company that uses SLFR Funds to pay overdue utility balances on behalf of individuals. Do we have an obligation to file a Form 1099 or other information return with respect to the payment? (added November 17, 2021)

A14: No. A Form 1099-MISC reporting the payment would be required if the payment constituted income to the beneficiary. In this case, because the payment is not income, no Form 1099-MISC or other information return is required to be filed with the IRS or furnished to the beneficiary.