



# GMS Flash Alert



2023-036 | February 16, 2023

## United States - IRS Guidance on Special State Tax Refunds and Relief Payments

On February 10, 2023, the U.S. Internal Revenue Service (the "IRS") issued IR-2023-23, which stated that taxpayers in many states will not need to report special payments made by those states in 2022.<sup>1</sup>

### WHY THIS MATTERS

This IRS announcement resolves significant uncertainty over the status of these payments. Taxpayers in the following states do not need to report payments related to general welfare and disaster relief on their 2022 tax returns: California, Colorado, Connecticut, Delaware, Florida, Hawaii, Idaho, Illinois, Indiana, Maine, New Jersey, New Mexico, New York, Oregon, Pennsylvania, and Rhode Island. Taxpayers in Alaska do not need to report state payments related to supplemental energy relief payment received in addition to the annual permanent fund dividend.

### 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 his or her 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.<sup>2</sup> Payments from Georgia, Massachusetts, South Carolina, and Virginia in 2022 fall in this category and will be excluded from income for federal tax purposes unless the recipient received a tax benefit in the year the taxes were deducted.<sup>3</sup>

### 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.<sup>4</sup> Determining whether payments qualify for these exceptions is a complex fact-intensive inquiry that depends on a number of considerations.

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The IRS has reviewed the types of payments made by various states in 2022 that may fall in these categories. Given the complicated fact-specific nature of determining the treatment of these payments for federal tax purposes balanced against the need to provide certainty and clarity for individuals who are now attempting to file their 2022 federal income tax returns, the IRS has determined that in the best interest of sound tax administration and given the fact that the COVID-19 pandemic emergency declaration is ending in May, 2023, if taxpayers do not include the amount of one of these payments in their 2022 income for federal income tax purposes, the IRS will not challenge the treatment of the 2022 payment as excludable for income on an original or amended return.<sup>5</sup>

Payments from the following states fall in this category and the IRS will not challenge the treatment of these payments as excludable for federal income tax purposes in 2022.

Alaska (only for the supplemental energy relief payment)	Hawaii	New Mexico
California	Idaho	New York*
Colorado	Illinois*	Oregon
Connecticut	Indiana	Pennsylvania
Delaware	Maine	Rhode Island
Florida	New Jersey	

For a list of the specific payments to which this applies, please see this [chart](#).

\* Illinois and New York issued multiple payments and in each case one of the payments was a refund of taxes, which should be treated as noted above, and one of the payments is in the category of disaster relief payment.

## Other Payments

Generally, other state payments are includable in income for federal income tax purposes. This includes the annual payment of Alaska’s permanent fund dividend and any payments from states provided as compensation to workers.

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## KPMG INSIGHTS

On February 2, 2023, the IRS told millions of taxpayers to delay filing their federal tax returns as they were working to determine whether these state payments are taxable income. This new guidance provides clarity to affected individuals. The taxability of the one-time state relief payments posed a high level of uncertainty and taxpayers who had filed their returns prior to this guidance may need to file a superseding return to exclude state payments included as taxable income.

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## FOOTNOTES:

- 1 See [IR-2023-23](#).
- 2 See [IR-2023-23](#).
- 3 See [IR-2023-23](#).
- 4 See [IR-2023-23](#).
- 5 See [IR-2023-23](#).

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### **Available Now! *2023 Personal Tax Planning Guide***

Prepared by professionals from the KPMG Washington National Tax office, the KPMG [2023 Personal Tax Planning Guide](#) provides information and planning tips to help people make sense of the complex and ever-evolving array of U.S. federal tax rules affecting individuals and their closely held businesses. Each chapter in this guide includes a brief overview of tax rules and planning tips that might be relevant to individual taxpayers.

**The above information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230 as the content of this document is issued for general informational purposes only.**

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