



GMS Flash Alert



2023-169 | September 5, 2023

United States - Guidance on State Payments to Individuals

The U.S. Internal Revenue Service (IRS) recently issued guidance on the federal income tax consequences of refunds of state or local taxes and certain other payments made by state or local governments to individuals.¹

WHY THIS MATTERS

The IRS announcement resolves significant uncertainty over the status of these payments for 2023 and future years. Assignees who receive certain state payments may not need to include these payments in their federal gross income, depending on the nature of the payment and the taxpayer's individual facts.

Background

In 2022, a number of states implemented programs to provide payments to certain individuals residing in their states. Many of these programs were related, directly or indirectly, to the various consequences of the coronavirus (COVID-19) pandemic, and the programs varied in terms of the types of payments, payment amounts, and eligibility criteria. The IRS previously provided guidance on 2022 payments only.² This new guidance (Notice 2023-56) updates this previous guidance to address payments made in 2023 and future years.

Notice 2023-56

Refund of States 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.³

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Spillover Payments under 2022 Programs Covered by Prior IRS Guidance

Some of the 2022 programs covered in the prior guidance provided for certain state payments under the program to be made in early 2023. These ‘spillover’ payments are excludible to the same extent they would have been if received in 2022.⁴

State Payments Excluded Under the General Welfare Exclusion

State payments made under a state general welfare program are not includible in an individual’s federal gross income. To qualify for this general welfare exclusion, the payment must be made from a state government fund. The payment cannot represent compensation for services and must be for the promotion of the general welfare.⁵

FOOTNOTES:

- 1 See [IR-2023-158](#) (August 30, 2023) and [Notice 2023-56](#) [PDF 224 KB].
- 2 See [IR-2023-23](#) (February 10, 2023). For prior coverage, see [GMS Flash Alert 2023-036](#) (February 16, 2023).
- 3 Notice 2023-56, Sections 4.01 and 4.02.
- 4 Notice 2023-56, Section 4.03.
- 5 Notice 2023-56, Section 4.04.

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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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