

Hurricane Sandy Tax Relief

In the wake of Hurricane Sandy, the largest recorded hurricane to form in the Atlantic basin, many of our clients are facing significant business disruptions. As you and your employees recover from the hurricane, we want to remind you of tax relief that may be applicable to your situation.

Tax-Free Disaster Relief Payments to Employees

Some employers may be considering disaster-related employee financial assistance. Payments that qualify as “qualified disaster relief payments” may be excluded from the employee’s gross income but are generally deductible for the employer. Employers do not have to require employees to account for actual expenses, as long as payments are reasonably expected to be commensurate with expenses incurred. The information reporting requirements normally applicable to wage payments do not apply to qualified disaster relief payments.

A “qualified disaster relief payment” eligible for tax-free treatment includes any amount paid to or for the benefit of an individual—

- to reimburse or pay reasonable and necessary personal, family, living, or funeral expenses (not compensated for by insurance or otherwise) incurred as a result of a qualified disaster, or
- to reimburse or pay reasonable and necessary expenses (not compensated for by insurance or otherwise) incurred for the repair or rehabilitation of a personal residence or repair or replacement of its contents, to the extent that the need for repair, rehabilitation, or replacement is attributable to a qualified disaster.

Hurricane Sandy is considered a “qualified disaster” for employees if they live in an area listed on the disaster declaration page of the [FEMA website](#). As of November 1, 2012, the list includes affected areas in Connecticut, Delaware, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Virginia, West Virginia, and the District of Columbia.

Extended Deadline for Payroll and Excise Taxes

The IRS has also announced relief for businesses in affected areas for payroll and excise taxes that would otherwise have been due on October 31. The deadline for filings and payments has been extended to November 7. Taxpayers that receive penalty notices for late payments can request penalty abatements.

Additional Relief

The IRS has stated that it expects to grant additional relief. Updates will be posted on the IRS’s [Tax Relief in Disaster Situations](#) web page.

For further information, please contact [Bill Jewett](#) or any member of Ropes & Gray’s [Benefits Practice Group](#).