

Financial Assistance to Employees Affected by the Coronavirus Pandemic Could Be Tax-Free



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On March 13, 2020, President Donald Trump declared a national emergency under the Robert T. Stafford Disaster Relief and Emergency Assistance Act because of the impact of the coronavirus on the United States. This declaration may enable employers to provide tax-free assistance under Section 139 of the Internal Revenue Code to employees who are directly or indirectly affected by the coronavirus pandemic.

What does the law permit to be paid or reimbursed to an employee?

The law allows an employer to reimburse or pay reasonable and necessary personal and family expenses incurred as a result of a federally declared disaster, such as the coronavirus. By statute, these amounts are not gross income to the employee and are not subject to employee income or payroll taxes on wages or self-employment taxes. Employers are not subject to payroll taxes on these amounts, but the amounts paid are fully deductible.

What are reasonable and necessary expenses related to the coronavirus?

Generally, these expenses are reasonable costs that are incurred by the employee that would not have been necessary absent the coronavirus outbreak. The statute does not have any limitation on the dollar amount paid to any one employee, and all employees are not required to be covered. Although no guidance has been issued by the government, expenses that may qualify include:

- Costs and expenses incurred to work at home because of the coronavirus pandemic, such as office equipment (computer equipment, printers, etc.), internet costs, office supplies, telephone costs, and courier and delivery service;
- Increased costs of working at home, such as food, childcare costs, and transportation costs;
- Additional costs to maintain health and well-being during the emergency, such as gloves, masks, protective clothing, nutrition products, cleaning supplies and equipment;
- Additional living costs for family members incurred due to the coronavirus, such as separate housing, transportation, food, and health-related costs;
- In the event of a corona-related illness, additional medical and health related expenses not reimbursed by the government or insurance; and
- Additional living expenses incurred if the employee is required to quarantine at home and cannot work, such as such as food, childcare costs, transportation costs, delivery, and health-related costs not otherwise reimbursed.

What administrative procedures should employees and employers follow?

The tax law does not require the employer to have a plan document, nor is the employee required to substantiate the expenses to the employer, as long as the costs are reasonable and necessary. However, from an internal accounting and control perspective, the employee should complete an application for the requested amount to be paid by the employer and provide a signed statement that the reimbursements are for reasonable and necessary expenses actually incurred due to the coronavirus and not otherwise paid or reimbursed by another party, such as the government or insurance. Employees may be able to request an advance prior to incurring the covered expenses. We can assist your company in establishing guidelines, employee communications, and creating application forms and procedures.

Questions?

Contact your Dean Dorton Advisor today

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