



FEMA

April 15, 2005

MEMORANDUM FOR: Regional Directors
Deputy Regional Directors
Regional Mitigation Division Directors

David I. Maurstad

FROM: David I. Maurstad
Acting Director
Mitigation Division

SUBJECT: HR1134 - Exclude Hazard Mitigation Assistance from Income Tax

I am very pleased to inform you that today the President signed into law HR 1134, to amend the Internal Revenue Code of 1986 to exclude from gross income certain FEMA hazard mitigation payments. The Act provides that FEMA mitigation payments that benefit property owners through the mitigation of their structures are not subject to federal income taxation.

The Act provides for the following;

- FEMA mitigation payments that benefit property owners through the mitigation of their structures are not subject to federal income taxation; and
- FEMA mitigation payments to acquire a property will be treated as an involuntary conversion for tax purposes.

In addition, homeowners continue to have available to them the capital gains tax breaks on the sale of their properties. Taxpayers cannot increase the basis of their property by the amount of the grants and cannot take deductions or credits for expenditures made with the grants.

These tax relief measures apply to FEMA mitigation payments, including HMGP, PDM and FMA, and are effective for such payments made in all prior years, as well as from this date forward. We are continuing to work with the IRS regarding how this may affect payments under the three Mitigation Grant supplementals.

A copy of the bill that was sent to the President last night is attached for your reference. If you have any questions, please contact Deb Ingram of my staff at (202) 646-2856.