

Wildfire Payments, Settlements, & Judgments

① Refers to accompanying slide number in presentation

Non-Taxable	Taxable
General Provisions	
④ Qualified disaster relief payments (IRC 139)	
⑤ Personal physical injury or physical sickness related (IRC 104(a)(2))	⑤ Proceeds for emotional distress & mental anguish (unrelated to personal injury / sickness)
⑥ Certain property damage compensation payments: <ul style="list-style-type: none"> • Payment ≤ taxpayer’s adjusted basis, or • Payment > taxpayer’s adjusted basis & replaced (involuntary conversion) 	⑥ Certain property damage compensation payments: <ul style="list-style-type: none"> • Payment > taxpayer’s adjusted basis & <u>not</u> replaced (involuntary conversion)
	⑩ Compensatory damages for taxable sources of income (e.g., lost wages / lost profits, not result of physical injury or sickness)
	⑩ Punitive damages
Legal Fees	
⑫ Associated with exempt income (e.g., personal physical injury/sickness), some class actions	⑫ Associated with non-exempt income
Federal Legislation (HR 7024)	
⑮ Exclude “Qualified Wildfire Relief Payment”	
Examples	
Home destroyed, subsequently rebuilt/replaced	
Home destroyed, not rebuilt/replaced (below capital gain exemption)	Home destroyed, no rebuild/replacement (amount above capital gain exemption)
Settlement / judgment: economic damages (maybe)	Settlement / judgment: economic (maybe), non-economic damages, punitive damages

Issues Discussed 2/8 public hearing

- Add “judgment”?
- Statute of limitations for amending tax return
- Deducting attorney fees
- Payments originating from other states.