

March 25, 2021

CARES Act Relief Payments, Philadelphia Tax Treatment

Guidance on the treatment of COVID-19 related relief funds provided by federal, state and local governments for the purposes for filing Philadelphia taxes.

COVID Provider Relief Fund Payments

The CARES Act appropriated \$175 billion for the Provider Relief Fund. This funding will be used to reimburse eligible health care providers for health care-related expenses or lost revenues that are attributable to the pandemic. For federal income tax purposes, payments from the Provider Relief Fund are includible in gross income.

Philadelphia will conform to the federal tax treatment of Provider Relief Fund Payments. Such payments are taxable income for BIRT (both Method I and II filers) and NPT purposes. Provider Relief Fund Payments are also considered “Receipts” for the BIRT Gross Receipts Tax.

Grants from State and Local Governments

Grants to assist businesses that are not from the EIDL program, including payments from state and local governments, are generally taxable under federal law. If a grant is included in federal taxable income, it will also be included in Philadelphia taxable income, absent a specific exclusion.

Philadelphia will conform to the federal tax treatment of grants from state and local governments. Such payments are taxable income for BIRT (both Method I and II filers) and NPT purposes.

For purposes of the BIRT Gross Receipts Tax, grants to businesses are generally included in “Receipts” if the recipient is expected to provide services. If there is no service component associated with a grant from a state and local government, such payment will be excluded from a taxpayer’s Receipts for the Gross Receipts Tax.

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COVID-related Distributions on Retirement Accounts

For federal tax purposes, COVID-related distributions on retirement accounts are included in income ratably over a three-year period, starting with the year in which you receive your distribution. If the amount of a COVID-related distribution is repaid within three years after the date that the distribution was received, taxpayers may request a refund of federal taxes paid on the withdrawal.

For Philadelphia Wage Tax purposes, old age, retirement, or pension payments, made to persons retired from service after reaching a specific age or after a stated period of employment, are not subject to tax. Philadelphia taxes employee contributions to such retirement accounts at the time they are made.

Repayment of Student Loan Debt

The CARES Act modifies Section 127 of the Internal Revenue Code so that employers can pay up to \$5,250 to repay employee student loans during the pandemic emergency period beginning March 27, 2020 and ending December 31, 2025. The amount paid is not taxable to employees and deductible for employers.

For Philadelphia Wage Tax purposes, the amount of the student loan repayment is taxable compensation. However, if repayment of a student loan is a fringe benefit which is uniformly given to each employee, the amount paid is not subject to Wage Tax. Also, if the education is a requirement of employment, the amount paid is not subject to Wage Tax.

COVID Disaster Relief Payments

Section 139(c)(2) of the IRC provides that for purposes of Section 139 of the Code, the term “qualified disaster” includes a federally declared disaster. The COVID-19 pandemic is a “federally declared disaster.”

A “qualified disaster relief payment” is defined by section 139(b) of the Code to include any amount paid to or for the benefit of an individual to reimburse or pay reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a qualified disaster. Qualified disaster relief payments do not include income replacements such as sick leave or other paid time off paid by an employer.

For Philadelphia Wage Tax purposes, a qualified disaster relief payment is taxable if it is paid to reimburse an employee for compensation that the individual would otherwise earn during the COVID-19 outbreak.