



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

MAR 24 2003

ASSISTANT SECRETARY

The Honorable John Larson
United States House of Representatives
1005 Longworth House Office Building
Washington, DC 20515

Dear Mr. Larson:

Thank you for your recent letter to President Bush regarding recent guidance prepared by the Internal Revenue Service regarding the taxability of property tax relief given to volunteer first responders. You had asked that the President order that the IRS not enforce the legal conclusions outlined in that memorandum. Your letter was referred to this office for response because it concerns a matter of tax policy.

The IRS guidance that you refer to is an IRS information letter responding to questions as to the tax consequences of a program established by a town that abates the property taxes that are owed to the town by residents who are volunteer firefighters or emergency medical technicians. In this letter, the IRS concluded that the abatement of taxes owed to the town by these volunteers who were providing services to the town would be considered income to these individuals.

We understand your concern that the information contained in the IRS' letter will result in communities deciding not to offer property tax abatements as a method of giving an incentive to people to volunteer to help the community. In the letter, the IRS followed the general principle of tax law that when a taxpayer provides services to someone and that service recipient pays a debt of the taxpayer in return for those services, then the taxpayer recognizes income in the amount of the debt that is paid by the service recipient. In this case, the debt is the property tax bill and that property tax bill is only abated if the individual performs services as a firefighter or emergency responder.

You have stated your intent to introduce a bill which will specifically exclude property tax rebates and other benefits provided to volunteer firefighters and emergency medical responders from income and employment taxes. Deciding what forms of compensation are exempt from tax is something that is properly provided for by legislation. I would be happy to have my staff review your legislation after it is introduced.

I hope that this has been helpful.

Sincerely,

Pamela F. Olson
Assistant Secretary
Tax Policy