

United States Senate

October 20, 2021

The Honorable Charles P. Rettig
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Commissioner Rettig:

We write to express concerns about the potential tax implications of the provision of utility assistance to Californians through the American Rescue Plan Act's Coronavirus State and Local Fiscal Recovery Funds. We request that you provide guidance to clarify that such payments would not be subject to federal income taxation for Californians who are recovering from the economic impact of the COVID-19 pandemic.

Many states and local governments have expressed interest in issuing utility assistance to households or populations facing negative economic impacts due to COVID-19, in accordance with the Department's interim final rule. California is using a portion of its \$27 billion allocation to provide \$993.5 million in assistance for electric and natural gas customers under the California Arrearage Payment Program and \$985 million in assistance for water and wastewater customers under the California Water and Wastewater Arrearage Payment Program. Both programs will assist residential and commercial customers.

However, the State, as well as the agencies and utilities tasked with implementation, have expressed concern that they would be required to report such assistance as income to the Internal Revenue Service (IRS). State utilities have told us that they would not have the logistical capability or required information to process the necessary tax forms and would offer significantly less assistance as a result.

We believe that taxing utility assistance provided through fiscal recovery funds would be inconsistent with the exemption of tax liability under other COVID-19 relief programs like economic impact payments and emergency rental assistance, as well as other long-standing utility assistance programs.

Households already facing the adverse economic impacts of the pandemic should not have to worry whether receiving utility assistance would result in additional tax liability or a decrease in other tax benefits. Additionally, without prompt action, the provision of such assistance to those most in need could be delayed unnecessarily as agencies manage these tax implications.

We appreciate the IRS's attention to this matter and ask that you work swiftly to provide clarity to those carrying out and receiving assistance through these programs. Thank you for your continued partnership in supporting a strong, equitable economic recovery.

Sincerely,



Alex Padilla
United States Senator



Dianne Feinstein
United States Senator

CC: The Honorable Nellie Liang, Under Secretary for Domestic Finance