Qualified Disaster Relief: What Happens When You Donate to a Cause?

Wildfires destroy $500 million in structures and claim 14 lives in the Smoky Mountains. Heavy rains cause massive flooding in West Virginia leaving dozens dead. Tornadoes tear through mid-Western states leaving a path of destruction. Hurricanes batter coastlines along Florida, North Carolina, South Carolina, and Georgia. These, among other disasters, topped the news in 2016. In many such instances, the president declares those regions disaster areas, allocating funds to aid in relief efforts. And, many Americans, moved to help, generously open their wallets to charitable organizations whose mission it is to serve the needs of those affected.

Once the financial aid rolls in, residents in those areas can try to pick up the pieces and muster the strength to move forward. But what of all that money—how is it allocated to those in need? Are there tax implications for accepting this aid? What you do need to know—whether you are a charitable organization or a recipient of aid—is that the IRS does have rules associated with disaster relief. This article will clarify a few key requirements found in the IRS’ publication, “Disaster Relief: Providing Assistance through Charitable Organizations.”

What Happens When We Give Our Cash to a Known Charity?

An organization, if classified as exempt from taxation by the IRS, may collect donations that are tax deductible to the donor. Generally, the donor may not specify exactly what purpose or which individual recipient will receive the benefit of the cash donation. However, there is an exception for a declared disaster. The donor may specify that the donation be used for the relief of a specific disaster, but may not earmark funds for an individual or family.

What Types of Disaster Relief May a Charity Provide?

A tax-exempt charity must follow IRS rules when providing disaster relief to individuals or businesses. In the aftermath of a disaster, the charity may offer basic life necessities to victims of the disaster, such as rescue services, emergency aid, blankets, hot meals, or water. This short-term aid can be provided by the charity to any victim, regardless of his or her financial need, and there is little record-keeping necessary to prove that the relief was part of the entity’s larger charitable purpose. The organization need not record the victims’ names or verify financial need.

The organization also may offer extended aid to disaster victims, but the rules and requirements for long-term relief are slightly more complex. To maintain compliance with the charity’s larger tax-exempt
status, it must only provide long-term aid under the following terms:

1. Aid can be made only to individuals or businesses that are victims of a qualified disaster.
2. Aid for an individual must be for a stated need, such as:
   - Temporary shelter
   - Replacement of permanent shelter
   - Transportation
   - Medical assistance (including psychological counseling)
   - Childcare
   - Educational expenses
   - Food

1. Aid to a business must meet one of the following requirements:
   - Aid to an individual business owner that proves financial need
   - Aid to combat community deterioration in the disaster zone
   - Aid that lessens the burden of government

1. The recipient must demonstrate that he or she has a financial need. The charity may not provide cash to an individual or business based solely on disaster victim status without further verification of financial need.
2. The aid cannot be provided for a need for which insurance or other recovery methods exist and are supplied to the victim.

The charitable organization must maintain records to demonstrate that the above requirements for disaster relief have been met. Additionally, if the disaster relief is of significant financial size to the charity, then the activity should be reported as a “program service accomplishment” on the organization’s Form 990, “Return of Organization Exempt from Income Tax.”

**How Does Cash Disaster Aid Affect the Individual Recipients?**

Often, there is a question regarding tax implications for the recipients of qualified disaster aid. Will they be taxed on the relief they receive, further adding insult to injury for these already-distressed taxpayers? The good news is that, under Internal Revenue Code section 139, qualified disaster relief payments are not taxable to the recipient, to the extent that the aid follows the guidelines outlined above. The recipient is not obligated to pay federal income tax or employment taxes on the aid from either a qualified charity or directly from the government.

There is one exception, however: if any portion of aid is to restore lost wages, then it is taxed as if it were the original wages. In other words, cash paid to an individual for foregone wages is subject to both federal income tax and employment tax, the same as if received without regard to the disaster.

**Helping Those Who Need It Most**

In times of extreme need, scores of Americans come to the aid of those affected by tragedies. Though disasters represent great destruction and heartache, Americans are resilient, looking to rebuild and hanging onto hope of brighter days ahead. The IRS’ charitable rules are designed with the intention that neither donors, charities, nor recipients of qualified aid are burdened with further tax implications.
If you have any questions about charitable contributions, or would like to request a speaker on this topic for your organization or event, contact one of our executives below at (800) 270-9629.