



Providing Tax-Free Qualified Disaster Payments to Employees Immediately

We know our clients are trying to understand when and how they can provide assistance to their employees. Questco is continuing to monitor the situation and untangling the web of information and directions.

With the President's declaration that COVID-19 is a National Emergency, the Internal Revenue Service (IRS) Code Section 139 can be used to allow employers to make tax-free payments or reimbursements to their employees as "qualified disaster payments."

[Here is a Q&A on several important aspects of this action:](#)

1. What defines a "qualified disaster payment?"

These are payments that are not otherwise reimbursed by insurance from an employer to an employee. *This does not include wage replacement.* As of today, March 23, 2020, paid sick leave or other leave are still taxable wages. If this changes, we will inform you immediately.

2. What expenses are eligible for reimbursement with respect to COVID-19?

Employers may be able to pay or reimburse employees for benefits and services resulting from COVID-19 that are not covered by insurance. For instance, tax-free payment for over-the-counter medications, hand sanitizers, home disinfectant supplies, childcare, etc. Also, employers may be able to pay for supplies to set up a workplace in their home (i.e., printers, increased utility and internet costs, cell phones, etc.)

3. How will this work?

Qualified disaster payments are federal tax-free and fully deductible to the employer. There is no federal reporting or disclosure (Form W-2 or 1099) required.

4. What about state taxes?

Generally, the states follow the federal guidelines, however, employers should carefully examine regulations in any state where they conduct business. Please contact your independent tax accountant for assistance interpreting individual state responses to COVID-19 as it relates to Section 139.

5. Are there limits to how much an employer can provide to employees under Section 139?

No, there are no limits to the amount or frequency of qualified disaster payments to employees.

6. Do you need a written plan to make these payments?

No written plan is required; however, employers are recommended to create a written plan to aid in informing employees about this benefit, specifically to clarify details and avoid confusion.

7. Are employees required to document their expenses?

No, employees are not required to submit receipts or other proof of expenses, however, employers may choose to ask for such documentation for their internal records and business management.

Questco will continue to monitor this and other legislation. We are committed to keeping you informed and providing you assistance during this challenging time.

Stay safe and be well.

Jason Randall, CEO

A handwritten signature in cursive script that reads "Jason Randall".