

# Congress of the United States

Washington, DC 20515

December 20, 2024

The Honorable Janet Yellen  
Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, DC 20220

The Honorable Daniel Werfel  
Commissioner  
Internal Revenue Service  
1111 Constitution Avenue NW  
Washington, DC 20224

Dear Secretary Yellen and Commissioner Werfel:

As members of the California delegation representing wildfire survivors that have received settlement payments for losses suffered during the three major California fires in 2015, 2017, and 2018, we write to urge the Internal Revenue Service (IRS) to take immediate action on implementing Section 3 of the *Federal Disaster Tax Relief Act*. President Biden recently signed our legislation to exempt such compensation from gross income for income tax purposes.

As you know, our tax code fails to clarify that disaster settlement funds, which are already insufficient in covering the full cost of losses, are neither income nor asset. Unlike those impacted by the fires that ravaged southern Oregon and Maui, many Californians that received compensation have already been taxed on these payments in previous calendar years. This has significantly and unfairly hindered their ability to rebuild after devastating loss. Now that President Biden has signed this bill into law, the IRS must take every action available to provide clarity and guide taxpayers through the changes to the tax treatment of such payments. Specifically, we ask that you:

- **Prioritize the drafting and approval of FAQs:** Our understanding is that the provisions in this bill are self-enacting and do not require Department of the Treasury or IRS rulemaking. In order for impacted taxpayers to begin the refund process as soon as possible and receive the funding necessary to finance continued recovery, we ask that the IRS expedite the development of relevant FAQs.
- **Make necessary technical changes to IRS' systems:** Sec. 3(e) extends the period of limitation for credit or refund claims allocable to the exclusion of settlement payments to one year after the date of enactment. The IRS should make the necessary technical changes to current systems to allow for the processing of applications and issuance of approved refunds online. This will be critical for allowing a seamless and quick return process to put money back in the hands of wildfire survivors.
- **Maximize community outreach and education:** Successful implementation of this bill will require targeted outreach to impacted taxpayers so that all eligible individuals are made aware of these changes to the tax code. The IRS must utilize every available resource to train and work in collaboration with community partners to ensure that all eligible taxpayers are able to submit refund applications.

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- **Ensure all federal benefits are restored:** Those who would have otherwise qualified for certain federal benefits administered by the IRS were denied because their gross income was artificially inflated as a result of the settlement payments. The IRS should ensure that, in filing for credit or refund, taxpayers also receive retroactive federal benefits (e.g., Affordable Care Act premium assistance, Child Tax Credit and Earned Income Tax Credit payments, etc.) from these taxable years. We also ask that IRS work with other federal agencies to ensure taxpayers can apply for any non-IRS administered benefits.

Californians who have suffered inconceivable losses as a result of utility-caused wildfires have waited too long for tax relief. We appreciate your attention to this matter, and we look forward to working with you to ensure that wildfire survivors have access to their full settlements and federal benefits.

Sincerely,



Alex Padilla  
United States Senator



Mike Thompson  
Member of Congress



Doug LaMalfa  
Member of Congress