

IRS: Foundation assistance not taxable

Homeowners who used CFSIC funds to make repairs won't be taxed, according to new guidelines

BY KATHLEEN MCWILLIAMS

Connecticut homeowners who have received money from the Connecticut Foundation Solutions Indemnity Co. to repair their foundations will not have to pay tax on those funds, according to new guidance by the IRS.

The guidance, issued Wednesday night, clarifies questions from homeowners about whether the financial assistance they received through CFSIC would be treated as taxable income. According to the IRS, it is not treated as taxable income, unless the homeowner has already deducted those expenses from their tax returns.

“If a Connecticut homeowner has not deducted a loss, or to the extent the deduction did not result in a tax benefit, CFSIC payments or reimbursements will not be treated as includible in gross income,” IRS commissioner Charles P. Rettig stated in a letter. “Reimbursed repair costs cannot be deducted or included in the basis of a home.”

The guidance came after U.S. Rep. Joe Courtney pressed the IRS in late 2019 for more clarification on how homeowners receiving CFSIC funds should declare the money on their taxes. The IRS has delayed the deadline to file 2019 taxes until July 15 in light of the COVID-19 crisis.

“I’ve been working to secure clarification on this issue for months now,” Courtney said in a statement. “The new IRS order that states that payments to homeowners from CFSIC aren’t ‘includable’ as income for tax purposes will provide great clarity and comfort to residents of Connecticut who applied for assistance from the captive insurance company.”

Courtney said that compensation for injury or loss traditionally isn’t considered taxable by the federal government.

“Commissioner Rettig’s latest correspondence to my office with this new decree reaffirms that longstanding principal,” he said. “The decision is especially timely since people are still in the process of preparing their 2019 taxes, given the tax filing deadline extension that was instituted in response to COVID-19.”

CFSIC estimates between 5,000 and 8,000 homes in Connecticut might have a failing foundation. Repairs can cost anywhere from \$150,000 to over \$300,000. Insurance companies have largely denied homeowners’ claims to cover the cost of the repairs, leaving homeowners to foot the bill.

The state created CFSIC in 2017 and, since then, the captive insurance company has paid out \$31.2 million in claims to homeowners. CFSIC caps the funding for each single-family home repair at \$175,000.

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