

Foundation repair funds likely will not require federal taxes

By Kathleen McWilliams

Homeowners will most likely not have to pay taxes on the money they received from the state fund to repair their crumbling foundations, officials announced Monday.

The IRS does not require the Connecticut Foundation Solutions Indemnity Company to issue federal tax forms to homeowners who have received financial assistance, according to a joint statement from Reps. Joe Courtney and John Larson, and Sens. Richard Blumenthal and Chris Murphy.

Because of this, homeowners will likely not have to pay federal taxes on the reimbursements, Blumenthal said.

“It’s a clear signal there won’t be any tax, but we will be pressing for a stronger and clearer message from the IRS that there is no danger of tax to the homeowners,” he said.

Officials said the CFSIC reimbursements should be exempt from federal taxes because reimbursement funds for a casualty loss are generally not defined as income if the funds are less than the taxpayer’s basis in property. Basis in property is a calculation that determines the cost of the asset for the homeowner, including settlement fees, closing costs, cash paid for the property and the mortgage cost.

“We are grateful for the response from the IRS providing clarity that CFSIC is not required under federal law and regulations to issue 1099 tax forms to those receiving this critical assistance to repair their homes,” the delegation said in a joint statement. “We urge all homeowners, however to consult closely with their financial and tax professionals to fully understand how this assistance could impact their taxes.”

There are two specific situations in which homeowners could end up paying taxes on the CFSIC money, officials said. If a homeowner previously claimed the federal casualty loss tax deduction and later received reimbursement for those losses or if a homeowner received more funding that necessary to cover their foundation replacement, they may be required to report the funds on their federal tax return.

Blumenthal said that there was widespread concern among homeowners about whether they would have to pay taxes on the CFSIC funds.

“They have given us a very welcome answer,” he said. “It ought to reassure homeowners...They suffered losses and the payments should be non-taxable.”

The state created the CFSIC in 2017 to help homeowners pay to replace their foundations. The \$133 million fund was set up by the state through bonding money and a \$12 surcharge on homeowners’ insurance policies. The CFSIC pays for a portion of the costs to replace a foundation and reimburses homeowners for the work they have already done.

The cost to replace a failing foundation averages about \$185,000, but can cost up to \$350,000. Insurance companies have refused to pay the claims, saying that the failure does not meet their definition of a structural collapse.

Thousands of homes could be at risk and hundreds of homes have reported failing foundations, wrecking havoc on grand lists in towns like Vernon, Willington, Tolland and South Windsor. According to the latest CFSIC update, 75 families have returned to their repaired homes.

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