

Tax Benefits for Volunteer Firefighters and EMS Personnel

By: Terry Adams, Principal Analyst
September 21, 2022 | 2022-R-0205

Issue

Describe tax benefits enacted by Congress for volunteer firefighters and emergency medical services (EMS) personnel and whether (1) any Connecticut programs qualify for these benefits, (2) the legislature has considered enacting additional benefits, and (3) municipalities must issue W-2 forms to recipients of these tax benefits.

This report updates OLR Report [2021-R-0019](#).

The Office of Legislative Research is not authorized to issue legal opinions, and this report should not be considered one.

Summary

As part of the Taxpayer Certainty and Disaster Tax Relief Act of 2020 ([P.L.116-260](#), Div. EE), Congress made permanent certain exclusions from federal taxable income for volunteer firefighters and EMS personnel that were set to expire after the 2020 tax year. The exclusions generally apply to certain state and local tax benefits (e.g., property tax reductions), as well as certain payments or reimbursements they receive for their service. These exclusions similarly apply to covered taxpayers' Connecticut taxable income beginning with the 2020 tax year. They previously applied to the 2008-2010 tax years.

Connecticut law allows municipalities to provide, by ordinance, property tax relief to volunteer firefighters and specified EMS personnel in the form of an abatement or an exemption. The tax relief appears to qualify for the federal exclusion, but a volunteer's ability to claim the exclusion depends on whether he or she is a member of a "qualified volunteer emergency response

organization,” as defined in federal law. In both the 2021 and 2022 sessions, the legislature considered, but did not enact, additional state income tax benefits for these personnel.

IRS advisory letters suggest that municipalities are not required to report tax benefits provided to volunteer firefighters that are excluded from federal taxable income. However, municipalities must report any amounts that are not excludable under federal law (e.g., payments to firefighters that exceed the threshold specified in federal law). Those amounts would be reported on a Form W-2 or Form 1099-MISC, depending on the firefighter’s status as an employee or independent contractor.

Federal Law

In previously issued guidance, the IRS held that property tax reductions received by volunteers count as taxable income for federal tax purposes (see BACKGROUND). In 2007, Congress enacted legislation allowing volunteer firefighters and EMS personnel to exclude certain state and local tax benefits, as well as certain payments or reimbursements they receive, from their federal gross income ([P.L. 110-142](#)). The exclusions applied to the 2008-2010 tax years.

In 2019, Congress reinstated these tax benefits for the 2020 tax year and increased the amount of payments and reimbursements that could be excluded (see below) ([P.L. 116-94](#), Div. O, title III, § 301(a) & (b)).

In 2020, Congress made the benefits permanent ([P.L. 116-260](#), Div. EE, title I, § 103).

Covered Benefits and Personnel

Beginning with the 2020 income year, covered taxpayers may exclude from their federal gross income any income tax or property tax rebate or reduction provided to volunteer firefighters and EMS personnel by a state or political subdivision (i.e., a “qualified state and local tax benefit”). They may also exclude any payment provided by a state or political subdivision on account of services performed as volunteer firefighters or EMS personnel (i.e., a “qualified payment”), up to a maximum of \$600 per year ([26 U.S.C. § 139B\(a\) & \(c\)](#)). The qualified payment limit was \$360 per year for the 2008-2010 tax years.

The benefit applies to any member of a “qualified volunteer emergency response organization,” which federal law defines as a volunteer organization that is (1) organized and operated to provide firefighting or emergency medical services for a state or political subdivision and (2) required (by written agreement) by the state or political subdivision to furnish firefighting or emergency medical services ([26 U.S.C. § 139B\(c\)\(3\)](#)).

State Income Tax

State law does not specifically exclude the above benefits from taxable income for state tax purposes. However, because the starting point for Connecticut's income tax is federal adjusted gross income, any federal exemption from gross income automatically applies to Connecticut's income tax unless the legislature enacts a specific provision that provides otherwise ([CGS § 12-701\(a\)\(19\) & \(20\)](#)).

Thus, beginning with the 2020 tax year, the benefits described above may be similarly excluded from covered taxpayers' Connecticut taxable income.

Proposed Legislation

In both the 2021 and 2022 sessions, the legislature considered several bills that would have provided additional state income tax benefits to the covered personnel described above. In both years, the Public Safety and Security Committee reported favorably legislation that would have established a state income tax deduction of up to \$900 for the benefits and personnel described above. This deduction would have applied in addition to the one permitted by federal law. However, this legislation died on the House calendar in 2021 ([sHB 5722](#)) and in the Finance, Revenue and Bonding Committee in 2022 ([HB 5173](#)).

Connecticut Property Tax Relief

State law allows municipalities to provide, by ordinance, property tax relief to volunteer firefighters and specified EMS personnel. The tax relief may be in the form of either an (1) abatement of property taxes of up to \$2,000 due for any fiscal year or (2) exemption applicable to the assessed value of real or personal property up to an amount equal to \$2 million divided by the municipality's mill rate at the time of assessment (effectively reducing the amount a taxpayer owes by up to \$2,000).

The ordinance may also authorize interlocal agreements for providing tax relief to certain active and retired volunteers who live in one municipality but volunteer or volunteered their services in another municipality.

The relief applies to the following types of volunteers:

1. local emergency management directors;
2. firefighters and fire police officers;
3. emergency medical technicians and paramedics;
4. civil preparedness staff;

5. active members of a volunteer canine search and rescue team or volunteer underwater search and rescue team;
6. ambulance drivers in the municipality; and
7. retired volunteer firefighters, fire police officers, or emergency medical technicians who served in those roles for at least 25 years ([CGS § 12-81w](#), as amended by [PA 21-83](#)).

As described above, a volunteer must be a member of a “qualified volunteer emergency response organization,” as defined in federal law, in order to qualify for the federal and state tax benefits.

Tax Reporting Requirements for Volunteer Firefighter Tax Abatements

The IRS addressed tax reporting requirements for volunteer firefighters in a [2010 Information Letter](#). The letter provides that:

...amounts excluded under section 139B are not subject to employment tax withholding and employers are generally not required to report them on a Form W-2 or Form 1099-MISC. However, amounts that are in excess of the excludable amount, and which are not excludable under any other provision, are taxable as wages and may be subject to employment tax withholding, and are required to be reported on Form W-2 or Form 1099-MISC, depending on the status of the individual as an employee or an independent contractor (non-employee).

A [2021 IRS Information Letter](#) about qualified payments to volunteer firefighters reiterates that:

[q]ualified payments are excluded from income and are not reportable to the IRS. If the firefighters are employees, employers should report payments that are not qualified payments, including the amount of stipends in excess of \$50 per month, on Form W-2, Wage and Tax Statement. If the firefighters are independent contractors, payors should report payments that are not qualified payments, including the amount of stipends in excess of \$50 per month, on Form 1099-NEC, Nonemployee Compensation.

As the letters explain, the tax reporting requirements for payments made or benefits provided to a volunteer firefighter depend on the firefighter’s status as an employee or independent contractor. Please note that IRS information letters are general statements provided in response to requests for general information by taxpayers or members of Congress. They are advisory only and have no binding effect on the IRS.

Background

2002 IRS Letter

In a [December 2002 letter](#), the IRS's Office of Chief Counsel concluded that property tax abatements and exemptions for volunteer firefighters and EMS personnel in Connecticut were includible as gross income for federal tax purposes. The letter noted that the property tax reductions are an "in-kind payment for the volunteer's services" and that, at that time, there was no provision under which they could be excluded from the volunteers' incomes.

TA:kl