



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

February 24, 2023

The Honorable Chris Van Hollen
United States Senate
Washington, D.C. 20510

Dear Senator Van Hollen:

Thank you for your October 22, 2022 letter concerning Baltimore City's Water-for-All Discount Program, which was established by the City's Water Accountability and Equity Act. You explained that the program was designed to create more equitable access to water assistance for low-income households in Baltimore City. The program provides an annual discount to low-income Baltimore City water and wastewater utility customers. These customers are individuals with household incomes of less than 200% of the Federal Poverty Level (FPL). Individuals who own and occupy their residence and pay their water bill directly to the utility have their discount applied as a credit on their water bill. Tenants who are billed by the owner of their residence for their share of the water bill receive their discount by check. We understand that the program is funded by Baltimore City's water revenues.

You asked us to address the following questions:

- Is the amount of the discount that low-income tenants receive under the Water-for-All Discount Program considered taxable income?
- If the discount is reimbursed to tenants in the form of a pre-loaded cash card does this change their tax liability?
- Would the taxable status of the discount provided by the program change if it is funded through the American Rescue Plan Act¹ rather than through water revenues?

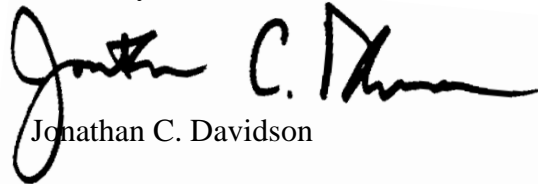
Under section 61 of the Internal Revenue Code (Code), gross income includes all income received from whatever source derived, unless an exclusion applies. The Internal Revenue Service (IRS) has consistently concluded that payments under legislatively provided social benefit programs for the promotion of general welfare are not includible in an individual's gross income (the general welfare exclusion). To qualify under the general welfare exclusion, a payment must: (1) be made from a governmental fund, (2) be for the promotion of the general welfare (that is, based on individual or family need), and (3) not represent compensation for services.

¹ The American Rescue Plan Act (ARPA) established the Coronavirus State and Local Fiscal Recovery Funds to give eligible state and local governments an infusion of resources to meet COVID-19 pandemic response needs.

The discounts that tenants receive under the Water-for-All Discount Program are made from Baltimore City funds, are based on individual or family need, and are not compensation for services. Thus, the amount of the discount is excludable from the recipient's gross income under the general welfare exclusion. The general welfare exclusion applies regardless of whether the discount is in the form of check or a pre-loaded cash card, and regardless of whether the discount is funded through ARPA (federal government funds) or Baltimore City (local government funds).

I hope this information is helpful.

Sincerely,

A handwritten signature in black ink, appearing to read "Jonathan C. Davidson". The signature is stylized, with a large, looped initial "J" and a clear "C. Davidson" following it.

Jonathan C. Davidson