



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

The Honorable Joe Courtney  
U.S. House of Representatives  
Washington, DC 20515

Dear Representative Courtney:

Thank you for your letter dated February 18, 2020, asking for clarification of the federal income tax treatment of assistance from the Connecticut Foundation Solutions Indemnity Company, Inc. (CFSIC). In a letter dated November 20, 2019, we addressed whether CFSIC was required to report its assistance to Connecticut homeowners on Form 1099.

You quote the following language from our November 20, 2019, letter: “[H]omeowners who are reimbursed by CFSIC for previously deducted repair costs must include the reimbursed amount in income in the year of receipt.” This language correctly states the general rule. Please note, however, that our letter also states that this general rule is “subject to the provisions of Section 111, related to recovery of amounts previously deducted.” Under certain circumstances, Section 111 permits the exclusion of amounts recovered in a tax year to the extent that a previous deduction did not result in tax benefit.

You also quote the following sentence from our letter: “[H]omeowners who receive reimbursement that exceeds their basis in the property must include the excess amount in income.” This language, applicable to situations in which a homeowner has not taken a casualty loss deduction, can be misleading in the context of CFSIC’s program.

I’m enclosing a copy of Announcement 2020-5 for your reference. It states that 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. Reimbursed repair costs cannot be deducted or included in the basis of a home.

Whether to request an extension of time to file a tax return is a decision each taxpayer must make based on their individual circumstances. However, we hope this letter clarifies the tax treatment of CFSIC payments so that uncertainty about their treatment is not the cause for an extension.

Please note that due to the COVID-19 emergency, we have postponed the due date to file and pay any tax due with a return from April 15, 2020, to July 15, 2020. Taxpayers don’t need to file any additional forms or call the IRS to qualify for this automatic federal

tax filing and payment relief. If they expect a refund, we encourage them to file as soon as possible to receive it.

I hope this information is helpful. If you have additional questions, please feel free to contact me, or a member of your staff may contact Amy Klonsky, Acting Director, Legislative Affairs, at 202-317-6985.

Sincerely,

Charles P. Rettig

Enclosure

## Tax Treatment of Payments Made on Behalf of, and Reimbursements Received by, Connecticut Homeowners Affected by Deteriorating Concrete Foundations Containing the Mineral Pyrrhotite

### Announcement 2020-5

This announcement addresses the Federal income tax treatment of financial assistance provided to Connecticut homeowners for the repair of deteriorating concrete foundations due to pyrrhotite. Pyrrhotite is a mineral that oxidizes in the presence of water and oxygen, leading to the formation of expansive mineral products. Pyrrhotite is naturally found in certain stone aggregates used to produce concrete and can cause concrete to deteriorate prematurely in certain cases.

In August 2015, agencies of the State of Connecticut began investigating numerous complaints by homeowners concerning the premature deterioration of the concrete foundations of their homes. These agencies concluded that the premature deterioration of the concrete foundations was due to the presence of pyrrhotite in the concrete mixture used to pour the foundations (deteriorating concrete foundations).

In response to the agencies' investigation, the State of Connecticut enacted legislation to allow a Connecticut resident owning a home with a concrete foundation the option to request a reassessment of the assessed value of the home based on a

written evaluation from a licensed engineer indicating the home had a deteriorating concrete foundation.

In 2017, the State of Connecticut mandated the establishment and funding of an entity, the Connecticut Foundation Solutions Indemnity Company, Inc. (CFSIC), to assist homeowners with the expeditious repair of the most severe cases of deteriorating concrete foundations. In addition to establishing the CFSIC, the State of Connecticut authorized the CFSIC to raise funds and augment the monies bonded by the state to remedy the issue of deteriorating concrete foundations.

In January 2019, the CFSIC began accepting applications from homeowners seeking financial assistance to repair their deteriorating concrete foundations. All claims require a contract between the homeowner and a contractor for repair or replacement of the foundation. The contract must set forth the total cost of repair. The CFSIC pays the lesser of: (1) the expenses pertaining to the repair of the crumbling foundation to a structurally safe level, or (2) \$175,000, per residential building. There are two types of claims that homeowners can make. The first type of claim requests that the CFSIC pay the contractor directly, on behalf of the homeowner, for eligible expenses before and during the performance of the repair work. The second type of claim requests that the CFSIC reimburse the homeowner directly for eligible expenses previously paid to the contractor. Payments under both types of claims commenced in 2019.

Guidance published in 2017 and 2018 by the Department of the Treasury and the Internal Revenue Service (IRS) provided a safe harbor that allows a homeowner, under

certain conditions, to treat amounts paid to repair damage to a personal residence with a deteriorating concrete foundation as a casualty loss under section 165 of the Internal Revenue Code (Code) so long as the taxpayer was not fully reimbursed by insurance or otherwise before filing a Federal income tax return for the year the loss was sustained. See Revenue Procedure 2017-60, 2017-50 I.R.B. 559; Revenue Procedure 2018-14, 2018-9 I.R.B. 378.

If a Connecticut homeowner who paid amounts to repair damage to a personal residence with a deteriorating concrete foundation has claimed a deduction under the safe harbor or otherwise on an original or amended Federal income tax return for an earlier taxable year, then payments received by the homeowner from the CFSIC in a subsequent taxable year must be included in the homeowner's gross income in the Federal income tax return for the subsequent taxable year to the extent the deduction claimed for the earlier taxable year resulted in a Federal income tax benefit. See section 111 of the Code. For example, if a homeowner claimed a deduction of \$125,000 for such amounts in an earlier taxable year and the entire deduction resulted in a reduction in Federal income tax from the tax that would apply without the deduction, a \$125,000 recovery must be included as gross income in the homeowner's Federal income tax return for the subsequent taxable year.

Existing guidance does not specifically address the Federal income tax treatment of a payment made by the CFSIC to a Connecticut homeowner who has not claimed a Federal income tax deduction for amounts paid to repair damage to a personal residence with a deteriorating concrete foundation.

If a Connecticut homeowner has not claimed a Federal income tax deduction for amounts paid to repair damage to a principal residence under the safe harbor or otherwise, or to the extent such a deduction did not result in a Federal income tax benefit, payments from the CFSIC to contractors (on behalf of the homeowner) or reimbursements paid to the homeowner will not be treated as includible in gross income of the homeowner in the year the payment or reimbursement is paid. Reimbursed repair costs cannot be deducted or included in the basis of a home.

For further information regarding this announcement, contact Martin Osborne of the Office of Associate Chief Counsel (Income Tax & Accounting) at (202) 317-7006 (not a toll-free call).