

United States Senate

February 7, 2023

Mr. Douglas O'Donnell
Acting Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, D.C. 20224

Dear Acting Commissioner O'Donnell:

A number of our constituents have recently asked us whether they will be liable to pay federal income taxes on “middle-class tax refunds” that the State of California has been issuing to residents since last October. We appreciate that you have indicated that you will be providing clarity on this issue soon, and ask that you indicate that such payments will not be subject to federal income tax.

As you know, the California State Legislature voted last year to provide most taxpayers with economic relief payments of between \$200 and \$1,050, and exempted these payments from state income tax. We believe that the state's refunds clearly fulfill the three requirements of the general welfare exclusion from federal income tax liability, including that they are 1) a legislatively provided program; 2) for social benefit; and 3) not in compensation for services. The legislation that authorized the payments specifically referred to them as “economic relief” and Sec. 10 of the law notes that the payments it authorized “serve the public purpose of providing financial relief for Californians who may have been adversely impacted by these economic disruptions.”

For these reasons, we hope that you will act swiftly to clarify that our state's middle-class tax refunds are not subject to federal income tax. Thank you for your consideration, and please do not hesitate to reach out to us with any questions.

Sincerely,



Dianne Feinstein
United States Senator



Alex Padilla
United States Senator

cc: The Honorable Janet Yellen, U.S. Secretary of the Treasury