



Helping Hurricane Katrina Victims

Frequently Asked Questions

Overview: The IRS is offering employees and employers a special opportunity to help victims of Hurricane Katrina. Employees can donate their unused leave in exchange for their employer making cash contributions to a qualified tax-exempt organization providing help to Hurricane Katrina victims. Recognizing that this extraordinary disaster will have long-term consequences, the IRS will continue the favorable tax treatment for payments made through December 31, 2006.

The following questions and answers provide guidance to employers and employees on this leave-donation program.

EMPLOYEE

Q-1. *How can I donate my unused leave to help Hurricane Katrina victims?*

A-1. First, ask your employer if it has established or is considering establishing a leave-donation program for the victims of Hurricane Katrina. If no program has been established, you may want to direct your employer to www.irs.gov, which outlines the benefits of establishing such a program. Employers are encouraged to have a program, but it is completely voluntary.

You then follow the leave-donation guidelines established by your employer.

Q-2. *What are the benefits of donating leave?*

A-2. These programs provide employees with a way to help Hurricane Katrina victims as an alternative or in addition to making a cash contribution. Many employees have extra vacation, sick or personal leave balances but do not have the financial resources to give, or just simply want to provide more to the Hurricane Katrina relief effort. Participation in a leave-donation program is another avenue to help victims go about the difficult task of rebuilding their lives.

Q-3. *Am I going to pay taxes on the value of the leave I donate?*

A-3. No, you will not pay taxes on the leave you forgo under a leave-donation program. It never comes into your income or on your Form W-2; it simply is subtracted by your employer from your leave balance.

Q-4. *Can I take a deduction for the leave I donate?*

A-4. No. Unlike making a cash donation directly to a charity, the leave-donation program does not use any of your taxable earned income. Since you will not be taxed on the value of the leave, you can not take a charitable contribution deduction. Note: because the amount is not included in your income, and does not change anything on your annual Form 1040 federal income tax return, you generally get the same financial result whether you would take a standard deduction or itemize your charitable contributions.

Q-5. *How will my employer determine the value of my leave donation?*

A-5. The amount of your employer's cash payment should be based on your normal rate of compensation. For example, if you earn \$10 per hour and you donate eight hours of leave, your employer should give \$80 in cash to the qualified tax-exempt organization for your forgone leave.

Q-6. *What kind of leave can I donate?*

A-6. You may donate any kind of leave (vacation, sick, personal) permitted by your employer's leave-donation program.

Q-7. *Can I donate leave that I haven't yet accrued?*

A-7. Under a leave-donation program, you can only forgo leave that you have already earned in exchange for your employer's cash payment to a qualified tax-exempt organization for the relief of Hurricane Katrina victims.

Q-8. *What if I've already used my leave for the year?*

A-8. Given the magnitude of the disaster and the length of time that it will take for many to recover, leave can be donated and the payment made to the organization through December 31, 2006. So even if you don't have leave today, you can wait and donate leave later this year or in 2006 when you have earned more leave.

Q-9. *Can I choose the charity to which my employer will contribute?*

A-9. This will depend on the design of your employer's leave-donation program. Some employers may choose to identify and donate to only a few qualified charities; others may allow employees to designate any of a large number of organizations. You would have to follow your employer's established guidelines.

Q-10. *Can I designate that my leave donation be given to a specific person or fellow employee?*

A-10. The leave-donation program only allows employers to make their contributions to qualified tax-exempt organizations, not to specific individuals.



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Q-11. *What kind of receipt for my donation should I expect from my employer?*

A-11. As there are no tax consequences to you for making the leave donation, the IRS does not require your employer to provide you with a receipt or acknowledgement. Note: If your employer does send you a receipt or note of appreciation, remember that you cannot use it for a tax deduction.

EMPLOYER

Q-12. *What does an employer have to do to adopt a leave-donation program?*

A-12. There are no formal requirements in order to adopt a program nor is IRS approval necessary. Employers can tailor their program to fit with their existing payroll and accounting systems, as long as they meet the basic requirements described in Notice 2005-68.

Q-13. *What are the basic requirements for a leave-donation program?*

A-13. Under a leave-donation program, the employer's cash payment must be paid (1) by December 31, 2006, (2) to a qualified tax-exempt organization and (3) for the relief of victims of Hurricane Katrina.

Q-14. *Are there any special recordkeeping requirements?*

A-14. The IRS has not established any special requirements beyond existing rules for payroll and accounting books and records. For example, employers should document the leave forgone by its employees, the amount of the cash payments made to qualified tax-exempt organizations for the relief of victims of Hurricane Katrina, the names of the donee organizations, and the date of the cash payments.

Q-15. *How should employers value the donated leave when determining the amount of the cash payment to the tax-exempt organization(s)?*

A-15. Employers should value the forgone leave based on the employee's normal rate of compensation. For example, if an employee earns \$10 per hour and donates eight hours of leave, the employer should give \$80 in cash to the qualified tax-exempt organization for the forgone leave.

Q-16. *May employers deduct the cash payments as charitable contributions, and what is the effect of the percentage limitation for charitable contributions?*

A-16. Under a leave-donation program, employers may deduct cash payments to a qualified tax-exempt organization as charitable contribution deductions. If they do so, any existing

percentage limitations will apply.

Alternatively, they may deduct the cash payments as business expense deductions.

Q-17. *Should the amounts donated be treated as wages for any purpose?*

A-17. No, the amounts should not appear on the employee's Form W-2 or otherwise be treated as income or wages for employment tax purposes.

Q-18. *Are there any limitations on the type of organization to which an employer can make the cash payments?*

A-18. Employers may make cash payments to any organization described in Section 170(c) of the Internal Revenue Code that is involved in providing relief to victims of Hurricane Katrina. Section 170(c) organizations include religious, charitable and educational organizations, as well as local, state and federal governments.

Q-19. *How can an employer make sure that an organization is eligible to receive payment under a leave-donation program?*

A-19. IRS Publication 78, which is available on the internet at www.irs.gov/charities, contains a list of most qualified charitable organizations. Note: churches and federal, state and local governments, which are section 170(c) organizations, are not listed in Publication 78. Employers may contact the organization to see if it is involved in Hurricane Katrina relief efforts.

Q-20. *How can an employer make sure the cash payment is used for Hurricane Katrina relief?*

A-20. Employers should make a good faith effort to communicate to the qualified tax-exempt organization that the cash payment is being made for the aid of victims of Hurricane Katrina, for example, by indicating the purpose of the contribution in a cover letter or on the check.

Q-21. *Can an employer make contributions directly to victims of Hurricane Katrina?*

A-21. The special tax rules for the leave-donation program apply only to cash payments to qualified tax-exempt organizations for the relief of victims of Hurricane Katrina and not to the victims directly.

Q-22. *Can the employer match the value of the leave donated as an incentive for employees to use the program?*

A-22. Yes, the employer can add as much as it wishes to the amounts attributable to the employees' donation of leave; all of the cash is treated as the employer's for tax purposes and can be deducted as either a charitable contribution or as a business expense.



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