

LARSON WILL TESTIFY BEFORE WAYS AND MEANS COMMITTEE ON BILL TO PROTECT TAX RELIEF FOR VOLUNTEER FIRS

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LARSON WILL TESTIFY BEFORE WAYS AND MEANS COMMITTEE ON BILL TO PROTECT TAX RELIEF FOR VOLUNTEER FIRST RESPONDERS

Larson's Measure Would Prevent IRS From Taxing Local Incentives

WASHINGTON, D.C.- U.S. Congressman John B. Larson (CT-1) is expected to testify before the House Ways and Means Committee's Subcommittee on Select Revenue Measures on September 23 in support of his legislation, H.R. 1859, to prevent the Internal Revenue Service (IRS) from taxing the local tax incentives awarded to local volunteer firefighters and emergency medical responders for service to their communities. Larson originally introduced the legislation in 2002 and reintroduced the measure last year. Senators Dodd and Lieberman have sponsored companion legislation in the Senate. The subcommittee is devoting time to hearing from members that do not serve on the committee regarding their individual tax proposals.

Many Connecticut towns offer a property tax abatement made possible through a 1999 state law to volunteer firefighters and emergency medical personnel to assist department with recruitment and retention - which the IRS has begun to count as taxable income. Taxing such incentives may cause them to be discontinued and may contribute to a decline in recruitment and retention of volunteer emergency responders in municipalities with volunteer services.

The following is a draft text of Larson's testimony:

"Mr. Chairman, I would like to thank the subcommittee for the opportunity to speak today on H.R. 1859, a bill I introduced to exempt local property tax abatements or other local incentives for volunteer emergency responders from federal taxation.

"The bill was first introduced in 2002 after South Windsor Volunteer Fire Department Chief Phil Crombie, Jr., the Town of South Windsor and other volunteer emergency responders in my district alerted me to the fact that the tax abatements provided by local governments to volunteer firefighters as recruitment and retention incentives was being taxed by the IRS. In response, I immediately held a forum in my district to meet with community leaders and volunteer emergency responders to solicit ideas and input about how to best address this problem. The bill, H.R. 1859, reflects the valuable input I received at these sessions and subsequent discussions and responds directly to the needs and concerns of the emergency responders in my district, the State of Connecticut, and across the country.

"There is no doubt that volunteer emergency responders play one of the most critical roles in ensuring the safety and security of our communities. In many areas across the country, they are the only responders for fire, medical, natural disasters, terrorist attacks and other community emergencies. In nearly all these situations, volunteers represent our nations first response, and in many cases, our first defense. In this time of heightened concern over the security of our homeland and the threat that terrorists pose to our communities, we cannot afford to lose these valuable and critical volunteers. Alarmingly, however, that is exactly what happened in volunteer fire departments nationwide in the past two decades.

"A recent report by the International Association of Fire Chiefs (IAFC) found that the number of volunteer firefighters dropped ten percent since 1984, from a high that year of 880,000 to 790,000 in 2001. While an October 2003 survey by the National Volunteer Fire Council found that the number of volunteers had increased by about four percent between 2001 and 2002, it is clear that more must be done to help volunteer departments reverse the damage done by 20 years of decline in their ranks.

"According to the IAFC, this decline 'stems from both difficulties in retaining current volunteers as well as problems with recruiting new volunteers.' To address these issues, and to provide cities and towns with greater retention and recruitment tools, the State of Connecticut passed a law in 1999 (Public Act 99-272) which allowed local governments to

abate the property taxes of any resident who volunteers his or her services as a firefighter, emergency medical technician, or ambulance driver in their town. Many other states passed similar measures.

“However, as cities and towns tried to enact local ordinances to take advantage of this law, the Internal Revenue Service (IRS) - in a separate property tax abatement case - ruled that under current federal law the amount of property tax abated for volunteers was considered ‘income’ subject to federal taxation. Even worse, since the workers do not actually receive ‘cash’ for these ‘wages,’ the ‘employer’ (i.e. localities) would be required to pay both portions of the FICA tax on the amount of property tax abated, and would be subject to an additional FICA tax if the localities do not seek reimbursement from the volunteers for their portion of the FICA tax.

“This decision clearly undermines the purpose of providing incentives for individuals to volunteer their time to keep their communities safe and imposes IRS control and influence into local government tax policy. In light of this ruling, many towns were forced to repeal their abatement incentives, or prevented from even considering such programs.

“For example, the town of South Windsor was one of the first in Connecticut to enact a property tax abatement incentive for their volunteer emergency responders. Their \$1,000 abatement clearly had an effect: after the law passed, 12 individuals joined the town's volunteer fire department, where only five had joined the year before. Despite this success, the town was forced to repeal their property tax abatement ordinance after the IRS ruling because it was simply impossible to reconcile their programs with existing federal tax law.

“After 9/11, President Bush rightly called on Americans to volunteer their time in service to their neighbors, community and their nation. However, in today's economy where men and women must work longer hours or multiple jobs just to break even, finding the time to volunteer is in danger of becoming a thing of the past. These types of creative incentives help encourage new volunteers to strengthen the ranks of volunteer first responders, and provide important retention incentives.

“Last February, I sent a letter signed by the Connecticut delegation to President Bush urging him to order an administrative stay on the IRS's ruling. In response, the Treasury Department advised that exempting property tax abatements from income and wage withholdings would best be accomplished through legislative, rather than administrative, means. To this end, I introduced legislation in the 107th and 108th Congresses to would clarify the status of local tax abatements and other incentives for recruitment and retention offered by local governments to volunteer emergency responders under IRS rules. The current bill, H.R. 1859, has received the support of 25 Members of Congress, and a companion bill has been introduced in the Senate. In addition, the Connecticut Attorney General and the Town of South Windsor both strongly support this initiative.

“Although this bill specifically exempts property tax abatements, it also allows local governments the flexibility and creativity to design their own incentive programs. For example, in addition to tax abatements, local governments across the country have experimented with providing modest stipends that are sometimes paid per call or in lump-sums per year or quarter, health benefits, retirement awards, state income tax credits or death benefits.

“Rather than creating a specific list of benefits and eligible volunteer emergency responders, H.R. 1859 provides maximum local flexibility to design and implement the type of recruiting and retention incentive programs that reflect the needs of their communities and volunteers by exempting those benefits ‘provided by a State or political subdivision on account of services performed as a member of a qualified volunteer emergency response organization.’

“This approach ensures that the federal government does not mandate the types of incentive programs that can be established while also ensuring that States and local governments must first approve and adopt appropriate incentive programs and structure through their own legislatures. H.R. 1859 protects the prerogative of state and local governments to use their own local tax revenue as they see fit by prohibiting the IRS from claiming local tax dollars as new federal revenue streams.

“I also wrote to the Joint Tax Committee last June and requested a revenue estimate to determine the ‘cost’ to the federal government. However, to this date we have not gotten a response from the committee. Regardless of whatever ‘rules’ they use to evaluate this proposal, it is my opinion that this bill simply prohibits the IRS from claiming new revenue sources, rather than taking away existing revenue sources and keeps the IRS from reaching into local tax coffers.

“The urgency of this matter is clear. At a time when our communities increasingly rely on volunteers to respond to fire, medical and other emergencies, local governments must be allowed to provide creative incentives to those willing to serve their communities without interference from the IRS.

“Thank you, and I look forward to working with the Ways and Means Committee and my colleagues in Congress in addressing this critical issue for our nation's volunteer emergency responders.”

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