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BP Oil Spill Compensation Taxable

According to a release posted on the IRS website recently, the victims of the BP oil spill who have received compensation for loss of income from the oil company would have to pay income taxes on the payments they receive although generally, payments to compensate damage to property and personal injury are not taxable.

As of June 21, the total amount paid by BP came up to \$111.2 million and 34,400 checks were issued to residents along the Gulf Coast whose livelihood had been affected by the spill. Lawmakers have been raising their questions and objections to the move to tax compensation payments. Senator Mary L. Landrieu (D-La.) wrote a letter addressed to Timothy F. Geithner, the Treasury Secretary to get him to apply some pressure on the IRS to declare to oil spill victims on how the IRS would treat BP payments. In her letter, Landrieu wrote that the IRS should state whether income checks, property damage payments or personal injury claims from BP would be taxed.

Republican Senate candidate Marco Rubio expressed his opposition to the tax on loss of wage compensations. "This is not an opportunity for the IRS to collect more taxes. It's unacceptable that our government is more eager to tax the people of the Gulf Coast than it is to marshal our country's great resources to help them. Just because the federal government is starved for tax dollars to pay for the national debt that has exploded on this administration's watch, doesn't mean the IRS should be pinching pennies from oil-spill victims who wish they didn't have to accept this money in the first place," he commented.

Rep Charlie Melancon introduced a bill in the House exempting recipients of BP compensation money from being taxed. He commented that during these uncertain economic times, people should not be burdened by having to set aside a portion of the compensation they receive to pay taxes.

Similar sentiments were echoed by Doug Shulman, the IRS Commissioner who said, "This is a very difficult time for many people affected by the oil spill in the Gulf of Mexico. As residents of the region cope with the evolving situation, I want to assure them that the IRS will be doing everything it can to provide tax help to those who need it."

New information on this matter was posted in the IRS website in a question and answer format. The IRS declined to comment, citing documents already posted on its website.