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### TAX TREATMENT OF FIREFIGHTERS' CANCER POLICY

#### Federal tax treatment

- The critical illness (lump sum) payout will be taxable in the year received. (See possible exception for lodging and transportation benefits below)
- Disability payments are fully taxable in the year received.
- Medical expenses paid, may be deductible as itemized deductions.

#### Georgia tax treatment

- All benefits received are not taxable in Georgia

#### Analysis

Under Internal Revenue Code (IRC) 105, amounts paid to an employee through accident or health insurance for personal injuries or sickness are included in federal gross income, if the policy premiums are paid by the employer and not included in the employee's wages. The benefits provided by the firefighters' cancer policy are included in federal gross income for income tax purposes under this Code section, unless an exemption applies.

IRC 105(b) provides an exemption for amounts paid specifically for expenses incurred for medical care. However, it only applies if the benefit is strictly paid to cover medical expenses only. Because the benefits for the Critical Illness payout provided under the cancer policy can be used by the firefighters for any purpose, the benefits do not qualify under this exemption and would be taxable.

There is an additional benefit for lodging and transportation expenses which are deductible medical expenses per IRS Publication 502. Because this benefit is paid only for expenses incurred for medical care, there could be an argument to treat this portion of the benefit, as excludable income under IRC 105(b). The taxpayer should consider whether the particular circumstances of this portion of benefits, can be excluded from income.

Any medical expenses paid by the firefighter, may be able to offset in part, the additional income. Eligible medical expenses are claimed as itemized deductions on Schedule A of Form 1040, when a taxpayer's total itemized deductions exceed their standard deduction. Medical expenses are further limited to the excess of 7.5% of the taxpayer's A.G.I. (Adjusted Gross Income).

Georgia Code Section 48-7-27(a)(12.2) as amended by House Bill 146 provides an exemption from Georgia taxable income for the benefits received under the firefighters' cancer policy.

- Benefits that have been included in federal adjusted gross income are deducted in Schedule 1, Line 12 of the Georgia income tax return (Form 500). On Line 12 include the description "payment pursuant to O.C.G.A. 25-3-23(b)(2)".

Please consult your tax advisor.