



Jun 22, 3:06 AM EDT

Gulf Coast residents unsure if claims are taxed

By ALAN SAYRE
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NEW ORLEANS (AP) -- Out-of-work Gulf Coast shrimper Todd Pellegal spent his first \$2,500 check from BP quickly, paying off bills and buying groceries for his family.

He never even considered putting some of it away for taxes.

Now he's among the people up and down the Gulf Coast reeling from the oil spill disaster who are surprised - and frustrated - to find out the Internal Revenue Service may take a chunk of the payments BP PLC is providing to help them stay afloat.

Many were already angry about how long the oil giant took to cut the checks. So when they got the money - generally about a few thousand dollars each so far - they spent it fast.

"If they're going to pay you a lump sum, like for a year, then bam, take the taxes out of the check," said Pellegal, of Boothville, La. "But a little bit at a time, they shouldn't."

Accountants have been trying to nail down the implications for thousands of taxpayers after President Barack Obama said BP would create a \$20 billion disaster fund and provide another \$100 million for oil workers who lose their jobs because of the six-month moratorium on deepwater drilling in the Gulf of Mexico.

Oil has been gushing into the sea since the rig Deepwater Horizon exploded April 20, killing 11 workers and triggering the worst oil spill in U.S. history.

Tax experts said generally all income is taxable under federal law unless specific exemptions are approved by Congress or the Treasury Department - and neither has acted yet on oil spill damage claims.

The IRS would not comment on whether exemptions would be made, citing a policy of not answering questions on specific tax issues. Adding to the confusion, Kenneth Feinberg, who was chosen by President Barack Obama and BP to oversee the Independent Claims Facility, said Friday it hasn't been determined if the payouts will be considered taxable income.

Some tax experts said they expected federal action soon to clarify the situation for Gulf Coast residents and business owners.

"With the experience we've had with tornadoes and hurricanes, they know they need to address this," said John Ams, executive vice president of the Alexandria, Va.-based National Society of Accountants.

It's not the first time the region has dealt with whether disaster money should be taxed.

In the aftermath of Hurricane Katrina, Louisiana and Mississippi residents received federal money to rebuild their homes after many claimed a casualty loss for the damage on the 2005 tax returns.

The IRS initially required people who received the money and took the deduction to add the value of the deduction to their 2007 returns as taxable income. That decision angered many residents, including some who were pushed into a higher tax bracket as a result.

After residents and local leaders protested, Congress in 2008 voted to negate the IRS decision.

Without any such decision yet from federal authorities, tax experts are advising people getting BP payments to do a bit of advance planning and set aside some money.

"They should do a projection of their taxable income and determine if there is going to be a tax liability and have enough to cover that," said Crystal Faulkner, a partner in the Cincinnati-based accounting firm of Cooney Faulkner & Stevens LLC.

That doesn't sit well with Cherie Edwards, who is now only working one day a week at her job booking charter fishing trips at Zeke's Landing in Orange Beach, Ala. The lost hours due to the oil spill are costing her about \$270 week.

She said she got her claim number from BP on Thursday and plans to file an application in the coming day. So far, she said, no one has mentioned to her about a potential tax liability.

"I haven't even thought about taxes. Wow. That makes me mad," said Edwards, who has one child in college and another in high school. "I'm already losing money, and now I've got to figure out how to hold back money to pay taxes?"

Associated Press writers Jay Reeves in Alabama and Shelia Byrd in Mississippi contributed to this report.