DEPARTMENT OF THE TREASURY
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OFFICE OF
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The Honorable Mary Landrieu
United States Senate
Washington, DC 20510

Dear Senator Landrieu:

This letter responds to your letter to Commissioner Shulman dated October 17, 2008, regarding the tax treatment of Greater New Orleans Health Services Corps incentive payments. You state that these payments are treated as taxable income and ask whether the Internal Revenue Service (IRS) can administratively exclude these payments from income or mitigate the tax effects of inclusion in income.

Under section 6201(a)(4) of the Deficit Reduction Act of 2005 (P.L. 109-171), the Secretary of Health and Human Services provided $50 million to the State of Louisiana to restore access to health care in communities impacted by Hurricane Katrina. The Louisiana Department of Health and Hospitals created Greater New Orleans Health Services Corps, which offers incentive payments to attract and retain health care professionals in the affected communities. These incentive payments include sign-on bonuses, educational loan repayments, malpractice premium payments, relocation reimbursement payments, income guarantee payments, or heath information technology training for healthcare professionals who commit to provide services in the affected communities for a certain period of time.

Section 61 of the Internal Revenue Code defines gross income as all income from whatever source derived, unless otherwise provided in the Code. Section 108(f)(4) of the Code provides an exclusion for any amount received for loan repayment under section 338B(g) of the Public Health Service Act or under a State program described in section 338I of that Act. Unfortunately, there is no other statutory exclusion that may apply to the incentive payments, and the IRS cannot administratively exclude the payments from income. However, the Code may provide some relief by allowing taxpayers to extend the time for payment of the tax liability. Section 6159 allows a taxpayer to enter into a written agreement to pay the tax in installments if the Secretary of the Treasury determines that the agreement will facilitate full or partial collection of the tax. Form 9465, *Installment Agreement Request*, allows a taxpayer who cannot pay the tax in full to request an installment agreement. Generally, the taxpayer may have up to 60 months to pay the tax liability.

I hope this information is helpful. If you have any questions concerning this matter, please contact at ( ) .

Sincerely,

George J. Blaine
Associate Chief Counsel
(Income Tax & Accounting)