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Mobility Matters

Supporting Employees Affected by Disasters: Key FAQs for Employers

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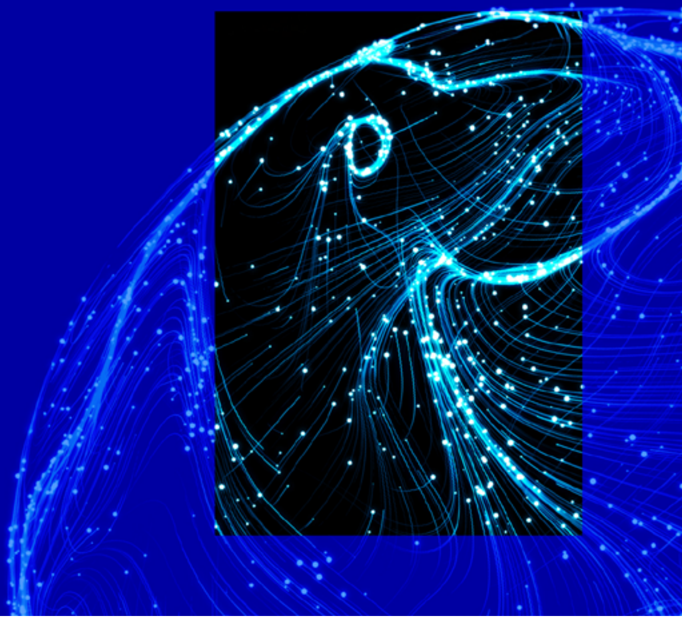


Geopolitical instability and the increasing frequency and severity of natural disasters have heightened the need for employers to respond quickly and thoughtfully to employee hardship. Over the past several years, employers have been confronted with a wide range of events, both in the United States and abroad, that directly impact their workforces and raise complex questions regarding available and tax-efficient forms of employer assistance.

These FAQs are intended to help employers understand the framework governing employer-provided disaster assistance, with a focus on disaster relief payments and related assistance mechanisms under the Internal Revenue Code (Code).[1] They summarize the most commonly used available options, explain when employer payments may be excluded from an employee's income, and identify key considerations when determining how to respond to employee hardships arising from disaster events.

Background

From a geopolitical standpoint, recent conflict-related events have had direct implications for globally mobile employees and their families, particularly those with ties to Israel or the broader Middle East. The US Department of the Treasury and the Internal Revenue Service (IRS) determined that terroristic actions in the State of Israel throughout 2024 and 2025 constitute "terroristic action" for US federal tax purposes, triggering special tax relief provisions under section 7508A of the Code, including extension of tax filing deadlines.[2] This same definition of "terroristic action" applies as one of the types of "qualified disaster" under section 139 of the Code enabling employers to provide certain disaster relief payments to employees on a tax-free basis. While the broader conflict in the Middle East has continued to affect employees and employers globally, the Secretary of the Treasury and the IRS have not, as of this writing, issued a comparable determination that events related to that conflict constitute a terroristic or military action for US federal tax purposes.[3] Nevertheless, unlike the tax relief rules under section 7508A, there is no requirement under section 139 that an IRS declaration be made and the current conflicts in the Middle East would otherwise appear to meet the definition of a military action—and therefore, a qualified disaster—for this purpose.

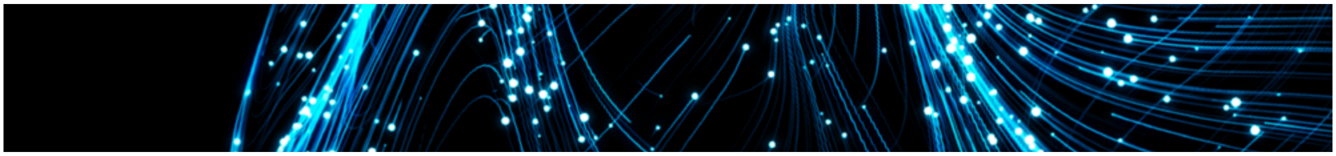
[1] I.R.C. § 139. Unless otherwise indicated, all references to "section" or "sections" herein are to the Internal Revenue Code of 1986, as amended, or to regulations promulgated thereunder.

[2] See Notice 2025-53, 2025-43 I.R.B. 624 (September 30, 2025).

[3] For more information on employer relief for employee expenses resulting from a US military action, read KPMG Mobility Matters: War in the Middle East: Selected U.S. Tax Implications of Crisis-Driven Relocations.

At the same time, employees and employers continue to navigate the impact of domestic natural disasters across the United States. In 2025 and 2026 alone, the president has issued numerous federal disaster declarations in response to hurricanes, severe storms, flooding, wildfires, and winter weather events affecting multiple states and territories.[4] A federal disaster declaration often serves as the legal trigger for a range of federal relief measures, including Federal Emergency Management Agency (FEMA) assistance and IRS disaster related tax relief, and it can expand the tools available to employers seeking to assist employees with disaster-related expenses.

Together, these events have prompted many multinational employers to evaluate whether and how they can provide financial and logistical support to affected employees in a manner that is consistent with US federal income tax rules.



Overview of direct assistance options for employers

Direct assistance generally involves payments or benefits provided by the employer to employees to address disaster-related needs. Depending on the structure and circumstances, these arrangements may allow employers to reimburse eligible expenses or provide other support in a manner that is deductible to the employer and, in certain cases, excludable from the employee's income.

Section 139 disaster relief payments

Under a special provision in the Code, employers may be able to offer tax-free disaster relief payments to employees for expenses not covered by insurance. To qualify, payments must be made in response to a "qualified disaster" and must be to reimburse or pay reasonable and necessary personal, family, living, or funeral expenses, or expenses to repair or restore a personal residence or its contents, incurred due to the disaster. These qualified payments are not taxable to the employee and are deductible by the employer.[5]

Working condition fringe benefits

A working condition fringe benefit includes any property or services provided by an employer that would be deductible as a business expense if paid by the employee.[6] During a disaster, this might include providing equipment or services to enable telecommuting. Employers with an established working condition fringe benefit program may look to provide relief through their existing program in lieu of offering disaster relief payments.

Retirement plans

Employers can provide for loans, special distributions, or hardship withdrawals from retirement plans like 401(k)s under special conditions to help employees cope with disaster-related expenses.[7]

Employers may also consider offering pension-linked emergency savings accounts (PLESAs) as part of their retirement plan design. These accounts allow eligible employees to accumulate after-tax savings for short-term financial needs and provide a readily accessible source of funds that may be used to address unexpected expenses, including those arising in connection with a disaster. These arrangements differ from other disaster relief mechanisms (such as disaster-related payments or disaster related plan distributions) in that they are not dependent on a federally declared disaster and must be implemented prospectively through plan design and administration.[8]

[4] See FEMA, Disasters and Other Declarations, available at https://www.fema.gov/disaster/declarations (listing presidential emergency and major disaster declarations for 2025–2026).

[5] See I.R.C. § 139 (excluding from gross income amounts received by an individual as a qualified disaster relief payment); General Explanation of Tax Legislation Enacted in the 107th Congress, Joint Committee on Taxation, JCS-1-03 NO 17 (January 24, 2003) (discussing qualified disaster relief payments and stating that "it is intended that payments excludable from income under the provision are deductible to the same extent they would be if they were includable in income").

[6] I.R.C. § 132(a)(3) and (d).

[7] See I.R.C. § 72(p) (setting forth rules applicable to loans from qualified retirement plans, including special relief provisions that may apply in disaster situations). See I.R.C. § 401(k)(2)(B) (setting forth rules applicable to hardship distributions from cash or deferred arrangements).

[8] See I.R.C. § 402A(e) (providing for pension-linked emergency savings accounts under applicable employer plans).

Qualified disaster relief payments

What are qualified disaster relief payments?

Qualified disaster relief payments are a type of financial assistance employers can provide to employees who have been affected by a disaster. The payment is intended to help cover necessary expenses not covered by insurance or other forms of assistance. To qualify, the payments must be made due to a qualified disaster and must cover reasonable and necessary personal, family, living, or funeral expenses, or expenses for the repair or rehabilitation of a personal residence or its contents.

What constitutes a "qualified disaster"?

A qualified disaster includes:

- A disaster resulting from terrorist or military action that includes any terroristic activity directed against the United States or any of its allies, and any military action involving the armed forces of the United States that results from actual or threatened violence or aggression against the United States or any of its allies.
- A federally declared disaster as determined by the president of the United States under the Stafford Act. Events that are the subject of either a major disaster declaration or an emergency declaration will be qualified disasters.
- A disaster resulting from an accident involving a common carrier or any other event determined by the Secretary of the Treasury to be catastrophic.
- A disaster that is determined by an applicable federal, state, or local authority to warrant certain assistance payments from federal, state, or local governments or their agencies.

Note: Public Law 119-21 (formally named the One Big Beautiful Bill Act) expanded the definition of a disaster for which an individual can claim a personal casualty loss to include certain state-declared disasters, applicable to tax years beginning after December 31, 2025. However, Public Law 119-21 did not expand the definition of a "qualified disaster" for purposes of section 139, which is explicitly limited to a federally declared disaster. As a result, employers may not exclude employer-provided disaster relief payments made solely in connection with a state-declared disaster, unless the event otherwise qualifies as a federally declared disaster or another qualifying disaster.[10]

What types of expenses can be covered by qualified disaster relief payments?

Qualified disaster relief payments must be reasonable and necessary, result from the disaster, not be covered by insurance or otherwise, and can cover:

- Personal, family, living, or funeral expenses
- Expenses for the repair or rehabilitation of a personal residence or the repair or replacement of its contents
- Unreimbursed medical expenses, temporary housing, and transportation.[9]

Are there any expenses that do not qualify for disaster relief payments?

Yes, qualified disaster relief payments do not include income replacements such as lost wages. Additionally, as noted above, expenses that are compensated by insurance or other forms of assistance do not qualify.

Are employees required to substantiate their costs?

No, employees are not required under the Code to substantiate their costs with receipts to be eligible for a tax-free qualified disaster relief payment. However, employers may need to be able to demonstrate that the payment was intended to reimburse qualifying expenses, and so may want to exercise discretion to require an attestation from employees in some cases to document that the payments satisfy the requirements in the Code.

What are the wage reporting requirements for qualified disaster relief payments?

Qualified disaster relief payments are not included in an employee's gross income and are not subject to federal income tax withholding, Social Security and Medicare taxes (FICA taxes), or unemployment tax. Employers are generally not required to report these qualified disaster relief payments on the employee's Form W-2 and are not required to report these payments to the IRS.

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[9] See Rev. Rul. 2003-12, 2003-1 CB 283

[10] See I.R.C. §§ 165(h)(5) and (i)(5); I.R.C. § 139(c)(2).

Are there any state or local tax considerations for disaster relief payments?

Yes, while most states follow the federal tax treatment for disaster relief payments, employers should consider the applicable tax laws of their relevant jurisdictions.

What should employers consider when implementing a disaster relief program?

Employers may want to consider developing a formal disaster relief program to ensure payments meet the criteria for qualified disaster relief payments. They should also consider policies and procedures that outline eligible payments, required information from employees, and the process for making payments. Employers may also require self-attestation from employees to confirm that expenses are not reimbursable by insurance or otherwise.

Working condition fringe benefits and accountable plans

What are working condition fringe benefits?

Working condition fringe benefits refer to property or services provided to an employee by an employer that would be deductible as a business expense if the employee had paid for them. These benefits are tax-free for employees, provided they would have been deductible by the employee if they had incurred the expense themselves as an employee business expense.

What types of expenses can be covered as working condition fringe benefits during a disaster?

The following types of expenses can often be covered as working condition fringe benefits in light of changed circumstances resulting from a disaster:

- Temporary work facilities: Costs for temporary workspaces or facilities if the employee's regular place of work is unavailable due to the disaster.
- Equipment and supplies: Provision of necessary equipment and supplies to enable employees to work from alternative locations.
- Transportation: Costs of transportation for employees to alternate work sites or temporary relocation expenses if their regular work location is closed.
- Communication equipment: Costs for mobile phones, internet access, and other communication tools needed to maintain work productivity.
- Training: Expenses for additional training or certifications required to adapt to new work conditions caused by the disaster.

Are there any specific rules for substantiating these benefits?

Yes, to qualify as working condition fringe benefits, the expenses must have a legitimate business purpose and be necessary for the employee to perform their job duties. The employer should have in place an accountable plan that requires employees to substantiate expenses within a reasonable period and return any excess reimbursements. The employees must provide documentation such as receipts, invoices, or other records to substantiate the expenses.

Are there any limitations or exclusions to these benefits?

Yes, benefits must be used primarily for business purposes and not personal use. Personal use of the benefits may be considered taxable income. Expenses that are compensated by insurance or other means do not qualify as working condition fringe benefits.

Assistance through employer-sponsored retirement plan

Can employers provide assistance via employer-sponsored retirement plans?

Yes, depending on plan terms and applicable law, eligible plans such as 401(k), 403(b), and individual retirement accounts may permit qualified individuals affected by a federally declared disaster to access retirement funds under special rules. For example, plans may allow qualified disaster recovery distributions of up to $22,000 per disaster with favorable tax treatment (including exemption from the 10 percent early withdrawal penalty), as well as emergency personal expense distributions of up to $1,000 per calendar year that are similarly exempt from the penalty.[11] Employers may also allow increased plan loan limits (generally up to $100,000 or 100 percent of the participant's vested balance) and delayed loan repayments for qualified individuals in disaster areas.[12] In addition, many retirement plans permit in-service or hardship distributions for immediate financial needs, subject to plan terms. Employers should confirm with plan sponsors whether these options are available under the plan and understand any required amendments and administrative considerations.

What are PLESAs and how do they work?

PLESAs are optional features that employers may elect to add (subject to plan design, legal, and administrative considerations) to defined contribution retirement plans (such as 401(k) plans) to help employees build short-term savings for unexpected financial needs. These accounts are generally available only to nonhighly compensated employees[13] and permit after-tax (Roth-type) contributions up to an aggregate balance limit of $2,500 (as indexed for inflation or a lower plan-specified cap). Once the cap is reached, additional contributions are typically suspended until withdrawals reduce the balance below the limit.[14]

Amounts held in a PLESA are intended to be readily accessible, and distributions may be made for unforeseeable or immediate personal or family expenses at the employee's discretion, which may include disaster-related needs. If made in accordance with the statutory requirements, distributions are treated as qualified distributions and are not includible in income, including any earnings.[15] Employers may provide matching contributions with respect to PLESA contributions; however, such matches must be contributed to the employee's primary retirement account (and not to the PLESA itself) and do not count toward the PLESA contribution limit.[16]

[11] See I.R.C. § 72(t)(2)(I) and (M), and 72(t)(11) (covering penalty exceptions tied to SECURE 2.0 provisions including qualified disaster recovery distributions and emergency withdrawals).

[12] See I.R.C. § 72(p)(6).

[13] See I.R.C. § 414(q) (defining the term "highly compensated employee").

[14] See I.R.C. § 402A(e)(2), (3), (5).

[15] See I.R.C. § 402A(e), (d).

[16] See I.R.C. § 402A(e)(6).

Overview of indirect assistance options for employers

Indirect assistance typically involves employer-facilitated programs that support employees without providing direct payments from the employer to the affected individual. These approaches may include employee-to-employee support mechanisms, leave-sharing arrangements, or assistance delivered through charitable organizations, each with its own tax and administrative considerations.

Employee-to-employee gifts

Employers can facilitate mechanisms for employees to provide direct financial support to affected colleagues, for example, by pooling amounts contributed by employees in a separate bank account for disbursement to an affected individual as directed by the contributing employees. Generally, an employee-to-employee gift is characterized as a tax-free gift and not as compensation paid by the employer provided the program is managed carefully to comply with tax and regulatory requirements.[17]

Leave programs

Employers may implement existing or new leave-sharing programs where employees can donate their accrued leave to assist affected colleagues. Generally, the affected employee receiving the additional paid time off is taxed on that paid time off while the donor employee is not. In this respect, IRS Notice 2006-59 provides detailed requirements for special tax treatment for major disaster leave-sharing arrangements.[18]

In certain circumstances, the IRS has permitted employers to establish leave-based charitable donation programs under which employees may elect to forgo accrued leave in exchange for the employer making corresponding cash contributions to qualified charitable organizations to support disaster relief efforts. If applicable guidance is issued and program requirements are satisfied, then employees are not taxed on the value of the foregone leave (but also may not claim a charitable deduction), while employers generally may claim a deduction for the cash contributions.[19] This treatment relies on event-specific IRS guidance, which has not been provided for every disaster.[20]

Charitable organizations

Employers may also provide assistance to employees by establishing or funding charitable organizations described in section 501(c) of the Code to offer disaster aid. These organizations must adhere to IRS guidelines, which vary depending on the type of charity and the type of aid provided, and may limit the assistance that can be provided for certain "disqualified persons."[21]

[17] See I.R.C. § 102.

[18] See Notice 2006 59, 2006 28 I.R.B. 60 (providing guidance on the federal tax consequences of certain leave-sharing plans to assist employees affected by a major disaster).

[19] See I.R.C. § 170.

[20] See, e.g., Notice 2016 69, 2016 47 I.R.B. 832 (permitting leave based donation programs for employer cash contributions to charitable organizations providing relief to victims of Hurricane Matthew); Notice 2020 46, 2020 28 I.R.B. 7 (permitting similar leave based donation programs for employer cash contributions to charities providing relief for COVID-19).

[21] See Charitable organizations providing disaster relief – Questions and answers | Internal Revenue Service.

Employee-to-employee cash gifts

Can employees assist their colleagues through direct cash gifts?

Yes, employees can assist their colleagues through direct gifts. Employers can facilitate this by collecting and disbursing pooled funds from employees. However, these contributions should be kept separate from employer funds and clearly labeled as employee-to-employee gifts. The gifts are generally not deductible for the employees who make them and they are generally not taxable to the employees who receive them.[22]

Charitable organizations

Can employers provide assistance through charitable organizations?

Yes, employers may provide assistance to employees indirectly by funding a charitable organization that provides assistance to employees. The charity may be related (for example, a company foundation) or unrelated (for example, a community foundation in the affected region). Different rules apply depending on the type of charitable organization and the type of assistance provided.

Leave programs

What are leave-sharing programs?

Leave-sharing programs allow employees to donate their accrued paid time off to other employees affected by a major disaster or medical emergency. The affected employee receives additional paid time off, which is treated as wages and subject to federal income tax withholding, unemployment tax, and FICA. The donated leave is not treated as taxable income or wages to the donor, nor is the value deductible by the donor.

What are leave donation programs?

Leave donation programs allow employees to forgo their vacation, sick, or personal leave in exchange for cash donations made by the employer to a charitable organization for disaster relief. The donating employee is not taxed on the value of the leave but also cannot take a charitable deduction. The employer may be entitled to a charitable contribution deduction for the donated cash payments, subject to the limits and substantiation requirements. This tax treatment is generally available only if the IRS issues specific guidance authorizing leave donation programs for a particular disaster event.

To learn how we can help you apply these insights to your organization, explore the KPMG Global Mobility Services practice.

[22] See I.R.C. § 102(a).