



Columbia Gas Settlement

If you live in Andover, North Andover, or Lawrence, then you may have received one or more payments in 2020 as part of the Columbia Gas Settlement as a consequence of the gas explosion in 2018.

Question: What do these payments mean for taxes?

Answer: The standard, ambiguous, unsatisfying answer for most open-ended tax questions also applies in this case: "It depends." Like many tax scenarios, the specific answer for a taxpayer is based on a "facts and circumstances" analysis of each individual situation.

Here is our understanding and interpretation:

- Some payments were issued directly by Columbia Gas separate from the \$143M Settlement Fund that was created from the class action settlement (Civil Action Number I877CV01343G).
- The Settlement Administrator ([Heffler Claims Group](#)) concluded that IRS 1099 reporting was not required for most payments issued from the Settlement Fund. In other words, those payments are not reported to the IRS by the Settlement Administrator. That is an administrative decision. That alone does not determine taxable or nontaxable treatment of the payments.



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- The Columbia Gas Residential Claim form has two sections:
 1. Lump Sum Residential Claim - this section is general
 2. Itemized Claim - this section is specific to actual damages
- Gross income for tax reporting includes income from all sources unless specifically excluded.
- The Columbia Gas explosion event was not a federally declared "qualified disaster" so relief payments do not qualify to be excluded from income under IRC §139 - Disaster relief payments (See below).
- The key idea here is that reimbursements and payments for actual damages and related costs are excluded from gross income and not taxable (See IRC § 123 below). Any payment in excess of those amounts for documented damages and related costs is therefore taxable, because it is not excluded by any other provision.

Conclusion:

For each household: determine the amount of your settlement payment that was a reimbursement for damages and related costs and the amount of your settlement payment that was in excess and unrelated to any documented damages. The excess amount is reportable as taxable income. The result is specific to each household impacted by the Columbia Gas explosion.

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References

- [Columbia Gas Settlement Agreement](#) - See Section VI: Settlement Fund
- [Columbia Gas Residential Claim Form](#)

Internal Revenue Code & IRS Publications

[26 CFR § 1.468B - Designated settlement funds](#)

This section simply creates the Qualified Settlement Fund commonly used in class action settlements.

[26 CFR § 1.468B-4 - Taxability of distributions to claimants](#)

This section basically just says that the tax treatment of settlement distributions is based on the nature of the claim and other code sections therefore determine the exact tax treatment for the settlement distributions.

[26 U.S. Code § 61 - Gross income defined](#)

This section defines gross income: "all income from whatever source derived...". The starting point is to include all income and then look for a provision that allows an exclusion. In other words, income is considered taxable until proven otherwise.

[26 U.S. Code PART III—ITEMS SPECIFICALLY EXCLUDED FROM GROSS INCOME](#)

This part contains all sections that define nontaxable income, including **§104** below. The Columbia Gas explosion was not a federally declared disaster so **§139 – Disaster relief payments** does not apply in this case.

[26 U.S. Code § 104 - Compensation for injuries or sickness](#)

This section excludes from gross income amounts paid for personal physical injury or personal physical sickness. Settlements for personal injury are tax-free. In general, this is not applicable for the Columbia Gas Settlement.

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[26 U.S. Code § 123 - Amounts received under insurance contracts for certain living expenses](#)

This section excludes from gross income amounts paid for payments received due to loss of occupancy resulting from damage to a principal residence. This applies to the Columbia Gas Settlement. The key idea here is that payments for repairs and related costs such as temporary housing are not taxable. Any payments in excess of actual costs incurred are then taxable.

[IRS Lawsuits, Awards, and Settlements Audit Techniques Guide \(5/2011\)](#)

This is an internal IRS guide for audits of settlements. It simply gives an idea of how the IRS approaches audits for this area. It is not a primary source to interpret the tax code.

[IRS Publication 525 - Taxable and Nontaxable Income](#)

This publication provides a broad overview of taxable and nontaxable income.

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