



Statement for the Record by Rep. Devin Nunes

H.R. 3043 – Tribal General Welfare Exclusion Act

Mr. Speaker, considering a committee report will not accompany H.R. 3043, which is being considered by the House today, I take this opportunity as the author of the legislation to provide some context and congressional intent.

Under current law, taxpayers must generally include all items of income in computing gross income. Internal Revenue Service (IRS) guidance has established a general welfare exclusion under which payments made to individuals by governmental entities pursuant to legislatively provided social benefit programs for the promotion of the general welfare are not included in the recipient's gross income. To qualify under the general welfare exclusion, payment (1) must be made under a government program; (2) must be made for the promotion of general welfare; and (3) must not be made as compensation for services.

In evaluating Indian tribal government programs under the general welfare exclusion, including the second prong of this test ("for the promotion of general welfare"), the IRS has frequently insisted that tribal benefits be based on individualized determinations of financial need. This stipulation prevents the general welfare exclusion from covering programs designed to provide substantially equal benefits to all qualifying members of a tribe or to provide benefits based on determinations of needs that are not financial in nature. These needs would include health coverage programs, education and cultural programs, elder programs, and housing programs.

Under IRS guidance released in June 2014, however, the IRS will conclusively presume that payments from Indian tribes to tribal members and their spouses and dependents will qualify under the general welfare exclusion without a determination of need if certain requirements are met. Under Revenue Procedure 2014-35, the payments (1) must be made pursuant to a specific Indian tribal government program with written guidelines; (2) must not discriminate in favor of the tribe's governing body and be made available to all qualifying members of the tribe; (3) must not be compensation for services; and (4) must not be lavish or extravagant. In addition, only certain types of programs that meet the procedural requirements will qualify for the conclusive presumption. The Revenue Procedure lists 23 such non-exclusive qualifying programs covering housing, education, elder care, health care, culture, and other welfare projects. Taxpayers may apply the rules retroactively to file for refunds for any open tax years.

The provisions in H.R. 3043 would codify this IRS guidance, specifically applying the general welfare exclusion to Indian tribes and payments received by tribal members, their spouses and children. The bill mandates that tribal government benefits would qualify for exclusion under the general welfare doctrine so long as the benefits (1) are provided pursuant to a specific Indian tribal government program; (2) are available to all tribal members (including spouses and dependents) who meet the government program's guidelines; (3) are not lavish or extravagant; and (4) are not compensation for services.

The provisions in H.R. 3043 also require that the tribal program be "for the promotion of general welfare," but would not limit its application through conclusive presumption to specific types or examples of tribal programs. I expect that the IRS will apply this requirement in a manner that is no



less favorable than the safe harbor approach in Revenue Procedure 2014-35, and that the IRS will not interpret the statute as requiring individualized determinations of financial need where a



tribal government has established a program consistent with the statute. In construing the individual statutory requirements, including a determination of whether a program is “for the promotion of general welfare”, it is expected that the IRS will develop regulations that are no less favorable to tribes than Revenue Procedure 2014-35, including no limitation of a tribe’s ability to address community needs and to make benefits available to all eligible tribal members. This is based on the legislative purpose of the bill as well as the specific statutory construction provision in Section 2(c) of the bill, which states that “deference shall be given to Indian tribal governments for the programs administered and authorized by the tribe to benefit the general welfare of the tribal community.”

Provisions in H.R. 3043 also would require the Treasury Department to (1) establish a Tribal Advisory Committee to advise the IRS and Treasury on matters relating to taxation of Indians; (2) establish and provide training and education for IRS agents and tribal financial officers about the new provisions; and (3) suspend audits and examinations of Indian tribal governments and tribal members related to the general welfare exclusion until this education has been provided.

Concerns linger that the IRS may not fully understand the role that general welfare programs play in maintaining tribal culture and tradition, and that these issues should be addressed through government-to-government consultation rather than through tribal or member audits that may deter tribes from preserving culture and tradition or pursuing self-determination. It is intended that the Tribal Advisory Committee address these concerns and work with tribes on a government-to-government basis. This would be accomplished by appointing qualified tribal leaders and in the alternative, qualified tribal financial officers to the Tribal Advisory Committee. Such qualified individuals would have intimate knowledge of federal Indian law and policy, as well as the financial and community needs of Indian tribes. These qualifications would enhance the Department’s administration of federal tax policies affecting tribal governments while ensuring that treaty rights and principles of tribal self-governance are properly balanced with federal tax policy.

The provisions in H.R. 3043 codifying the IRS guidance concerning the general welfare exclusion would be effective for tax years for which the period of limitations is open as of the date of enactment. Taxpayers would have one additional year from the date of enactment to file for a refund with respect to any such open tax year. And, the bill would provide the IRS with discretion to waive any interest and penalties under the Code for any tribe or tribal member in connection with the general welfare exclusion.

Mr. Speaker, I appreciate the opportunity to provide clarity, context, and congressional intent for this legislation.