



## IRS announces that identity protection services are not taxable

The IRS stated in [Announcement 2015-22](#) that identity protection services are excluded from gross taxable income when provided to customers, employees or other individuals whose personal information may have been compromised in a data breach.

Prior to the issuance of this announcement, IRS guidance did not specifically address the tax treatment of this benefit.

### What are identity protection services?

Identity theft involves the fraudulent use of an individual's personal information, such as a Social Security Number, banking or credit account number.

In response to several recent high-profile data breaches exposing a significant population to the risk of identity theft, organizations have assisted their customers and/or employees in preventing or mitigating loss by providing them with free identity protection services.

These services include:

- credit reporting and monitoring services
- identity theft insurance
- identity restoration services
- other similar services

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## Ernst & Young LLP insights

The IRS cautions that the exclusion from gross taxable income doesn't apply to cash in lieu of identity protection services or when identity protection services are provided for reasons other than a data breach (e.g., given in connection with an employee's compensation benefit package).

### **Customers' taxation and reporting**

The value of identity protection services is excluded from gross taxable income when provided by the organization that experienced a data breach to a customer whose personal information may have been compromised. Likewise, the value of services provided under these conditions are not reported on Form 1099-MISC.

### **Employees' taxation and reporting**

The value of identity protection services is excluded from gross taxable wages when provided to an employee whose personal information may have been compromised in a data breach of the recordkeeping system of the employer or the employer's agent/ service provider. Likewise, the value of services provided under these circumstances are not reported on Form W-2.

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