

**From the desk of
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New Law Hurts Lawsuit Settlements

The new tax law, The Tax Cuts and Jobs Act (TCJA) has made some very major changes to the reporting, and taxation of litigation settlements, not in favor of non-business taxpayers.

Should your recovery be taxable in nature, in other words not related to a physical injury, all or in part, you could be in tax trouble.

As of January 1, 2018 and thereafter, there is no deduction for these legal fees for non-business taxpayers.

This means as example should you collect 60% of an award after legal fees you are still taxed on 100%.

Not all legal costs are subject to this terrible tax treatment.

Should the lawsuit concern the plaintiffs' trade or business, the legal fees are a business expense, and therefore deductible.

Should your case involve claims against your employer, or certain whistleblower claims, there is an above-the line deduction for legal fees.

This means that the legal fees relating to those kinds of lawsuits can be deducted on the first page of Form 1040.

All of other types of legal fees which were in the past deductible on Schedule A, Itemized Deductions are no longer deductible.

In those matters where the award is partially taxable and partially tax-free such as personal injury matters, that portion of the award which is related to a personal injury is not taxable, but that part which is related to punitive damages, plus interest will be taxable, but again, the legal fees are not deductible.

Punitive damages and interest are always taxable, even if the injuries are 100% physical.

We here at Muffoletto & Company believe that the more informed you are in regards to the rules and regulations that affect you the more we can be of service.

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