

111TH CONGRESS  
2D SESSION

# H. R. 5994

To amend the Internal Revenue Code of 1986 to disallow deductions for the payment of punitive damages, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

JULY 30, 2010

Mr. WELCH (for himself, Mr. CONNOLLY of Virginia, and Ms. LEE of California) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to disallow deductions for the payment of punitive damages, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Stop Deducting Dam-  
5 ages Act of 2010”.

6 **SEC. 2. TREATMENT OF PAYMENTS FOR PUNITIVE DAM-**  
7 **AGES.**

8 (a) DISALLOWANCE OF DEDUCTION FOR PUNITIVE  
9 DAMAGES.—

1           (1) IN GENERAL.—Section 162(g) of the Inter-  
 2           nal Revenue Code of 1986 (relating to treble damage  
 3           payments under the antitrust laws) is amended—

4                   (A) by redesignating paragraphs (1) and  
 5                   (2) as subparagraphs (A) and (B), respectively,  
 6                   (B) by striking “If” and inserting:

7                   “(1) TREBLE DAMAGES.—If”, and

8                   (C) by adding at the end the following new  
 9           paragraph:

10                   “(2) PUNITIVE DAMAGES.—No deduction shall  
 11           be allowed under this chapter for any amount paid  
 12           or incurred for punitive damages in connection with  
 13           any judgment in, or settlement of, any action. This  
 14           paragraph shall not apply to punitive damages de-  
 15           scribed in section 104(c).”.

16           (2) CONFORMING AMENDMENT.—The heading  
 17           for section 162(g) of such Code is amended by in-  
 18           serting “OR PUNITIVE DAMAGES” after “LAWS”.

19           (b) INCLUSION IN INCOME OF PUNITIVE DAMAGES  
 20           PAID BY INSURER OR OTHERWISE.—

21           (1) IN GENERAL.—Part II of subchapter B of  
 22           chapter 1 of such Code (relating to items specifically  
 23           included in gross income) is amended by adding at  
 24           the end the following new section:

1 **“SEC. 91. PUNITIVE DAMAGES COMPENSATED BY INSUR-**  
 2 **ANCE OR OTHERWISE.**

3 “Gross income shall include any amount paid to or  
 4 on behalf of a taxpayer as insurance or otherwise by rea-  
 5 son of the taxpayer’s liability (or agreement) to pay puni-  
 6 tive damages.”.

7 (2) REPORTING REQUIREMENTS.—Section 6041  
 8 of such Code (relating to information at source) is  
 9 amended by adding at the end the following new  
 10 subsection:

11 “(h) SECTION TO APPLY TO PUNITIVE DAMAGES  
 12 COMPENSATION.—This section shall apply to payments by  
 13 a person to or on behalf of another person as insurance  
 14 or otherwise by reason of the other person’s liability (or  
 15 agreement) to pay punitive damages.”.

16 (3) CONFORMING AMENDMENT.—The table of  
 17 sections for part II of subchapter B of chapter 1 of  
 18 such Code is amended by adding at the end the fol-  
 19 lowing new item:

“Sec. 91. Punitive damages compensated by insurance or otherwise.”.

20 (c) EFFECTIVE DATE.—The amendments made by  
 21 this section shall apply to damages paid or incurred after  
 22 December 31, 2011.

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