

113TH CONGRESS
1ST SESSION

H. R. 3445

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

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 30, 2013

Mr. WELCH (for himself and Mr. GUTIÉRREZ) introduced the following bill;
which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to disallow deductions for the payment of compensatory and punitive damages to a government, 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 2013”.

1 **SEC. 2. TREATMENT OF PAYMENTS OF COMPENSATORY**
2 **AND PUNITIVE DAMAGES PAID TO A GOVERN-**
3 **MENT.**

4 (a) **IN GENERAL.**—Section 162(f) of the Internal
5 Revenue Code of 1986 is amended to read as follows:

6 “(f) **DAMAGES PAID TO A GOVERNMENT.**—

7 “(1) **FINES AND PENALTIES.**—No deduction
8 shall be allowed under subsection (a) for any fine or
9 similar penalty paid to a government for the viola-
10 tion of any law.

11 “(2) **COMPENSATORY DAMAGES.**—No deduction
12 shall be allowed under this chapter for any amount
13 paid or incurred for compensatory damages in con-
14 nection with any judgment in, or settlement of, any
15 action against a government.

16 “(3) **PUNITIVE DAMAGES.**—No deduction shall
17 be allowed under this chapter for any amount paid
18 or incurred for punitive damages in connection with
19 any judgment in, or settlement of, any action
20 against a government. This paragraph shall not
21 apply to punitive damages described in section
22 104(c).”.

23 (b) **EFFECTIVE DATE.**—The amendments made by
24 this section shall apply to damages paid or incurred after
25 October 30, 2013.

1 **SEC. 3. INCLUSION IN INCOME OF PUNITIVE DAMAGES**
2 **PAID BY INSURER OR OTHERWISE.**

3 (a) **IN GENERAL.**—Part II of subchapter B of chap-
4 ter 1 of the Internal Revenue Code of 1986 is amended
5 by adding at the end the following new section:

6 **“SEC. 91. PUNITIVE DAMAGES COMPENSATED BY INSUR-**
7 **ANCE OR OTHERWISE.**

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

12 (b) **REPORTING REQUIREMENTS.**—Section 6041 of
13 such Code is amended by adding at the end the following
14 new subsection:

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

20 (c) **CONFORMING AMENDMENT.**—The table of sec-
21 tions for part II of subchapter B of chapter 1 of such
22 Code is amended by adding at the end the following new
23 item:

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

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to damages paid or incurred after
3 October 30, 2013.

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