

112TH CONGRESS
2D SESSION

H. R. 6700

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

IN THE HOUSE OF REPRESENTATIVES

DECEMBER 20, 2012

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

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 2012”.

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 is amended—

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

6 “(1) TREBLE DAMAGES.—If”, and

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

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

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

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

20 (1) IN GENERAL.—Part II of subchapter B of
21 chapter 1 of such Code is amended by adding at the
22 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 is amended by redesignating subsection
 9 (j) as subsection (k) and by inserting after sub-
 10 section (i) the following new subsection:

11 “(j) 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, 2012.

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