

114TH CONGRESS  
1ST SESSION

# H. R. 2486

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.

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## IN THE HOUSE OF REPRESENTATIVES

MAY 20, 2015

Mr. WELCH (for himself and Mr. GUTIÉRREZ) 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 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 2015”.

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 December 31, 2014.

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 December 31, 2014.

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