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TAXES 09/10/2018

### Serena Williams Fines: At Least They Are Tax-Deductible

Controversially, Serena Williams was fined \$17,000 at her U.S. Open Tennis Finals. The fines break down to \$10,000 for verbal abuse of chair umpire Carlos Ramos, \$4,000 for being warned for coaching, and \$3,000 for breaking her racquet. Williams and others have suggested that male and female athletes are treated differently when it comes to run-ins with officials. But one place they seem to be treated the same is when it comes to taxes. Everyone must pay them, and athletes typically pay a lot. But at least fines of this type are generally tax deductible. Athletes are operating a business, and a pretty big one at that. They usually have their own companies. But even if they do not, they can report taxes as the proprietor of a business on Schedule C to their tax return.

Anything that is ordinary and necessary can generally be deducted, and occasional fines and penalties certainly qualify. After all, these are not fines for breaking the law, and they are not paid to the government. Even big fines paid to the NFL or other organizations can be deducted. These professional athlete organizations are not the government. Big companies manage to deduct fines and penalties, often despite what seem to be prohibitions in the tax code. Tax deductible settlements are one reason for the proposed Truth in Settlements Act ([S.1109](#)). It would require federal agencies to disclose the tax deductibility of settlements. It would also require corporations to disclose deductible settlements. Most legal settlements in business are tax deductible, of the [things you should know about taxes on legal settlements](#).



However, [Section 162\(f\)](#) of the tax code prohibits deducting “any fine or similar penalty paid to a government for the violation of any law.” That includes criminal and civil penalties, as well as sums paid to settle potential liability for a fine. But many companies can negotiate for smaller nondeductible fines and bigger deductible payments. For example, BP probably could write off a majority of its [\\$20.8 billion out-of-court settlement](#) related to the Gulf Oil spill. The deal designated only about one quarter, \$5.5 billion, as a non-tax-deductible Clean Water Act penalty.

One big critic of such deals is U.S. Public Interest Research Group, which often rails against tax deductions claimed by corporate wrongdoers. The organization has a research report [here](#) on settlement deductions. But the present tax code allows businesses to deduct damages, even punitive damages. Restitution and other remedial payments are also fully deductible. Only certain fines or penalties are nondeductible. Even then, the rules are murky, and companies routinely deduct payments unless it is completely clear that they cannot.

Explicit provisions about taxes in settlement agreements are becoming more common. For example, the Department of Justice [expressly blocked](#) Credit Suisse from deducting its \$2.6 billion settlement for helping Americans evade taxes. Ditto for the BNPP terror [settlement](#), which states that BNPP will not claim a tax deduction. Sometimes the government and a defendant split the baby.

Of the \$13 billion JP Morgan settlement struck in late 2013, only \$2 billion was said to be nondeductible. The DOJ doesn't always disclose the terms of settlements either.

But that could change. A [poll](#) released by the U.S. PIRG Education Fund says most people disapprove of deductible settlements. BP might fuel such sentiments. As for Serena, there's no controversy about deducting those kinds of fines, which are for tax purposes regarded as a cost of doing business. Notably, though, under the big tax law passed in December 2017, employee business expenses no longer qualify for tax deductions. So you really have to be in business to deduct your expenses.

*This is not legal advice. For tax alerts or tax advice, email me at [Wood@WoodLLP.com](mailto:Wood@WoodLLP.com).*