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WWE Wrestlers Sue, IRS Stands By

Two former professional wrestlers claim that the WWE ignored concussions that left them with serious brain injuries. The WWE plaintiffs are 50-year-old Vito LoGrasso and 22-year-old Evan Singleton. LoGrasso and Singleton have filed what they hope will be a class-action lawsuit in federal court in Philadelphia. It echoes many suits pending against the NFL that could yield a \$1 billion settlement if a judge approves the proposed deal.

Singleton performed under the name Adam Mercer from 2012 to 2013. The suit alleges that he is disabled because of brain trauma. It also claims that LoGrasso, aka Skull Von Krush and Big Vito, suffers from migraines, memory loss, depression and deafness after nearly a decade with the WWE. WWE says [the case has no merit](#), that it never concealed any medical information, and was well ahead of other sports organizations in implementing concussion management procedures and policies.

Yet the suit describes tricks by WWE wrestlers, including the flying head butt and the chair shot. The lawsuit accuses the WWE of downplaying the seriousness of head injuries suffered in the ring and discouraging Singleton from seeing a neurologist. The plaintiffs also allege that 13 current or former performers committed suicide over 10 years.

It's too early to count the money the players—or the lawyers—will collect. But taxes often whittle down the results of litigation. Generally, everything is income, including money for settling a lawsuit. But one of the few exceptions from this broad “all income” rule is lawsuit recoveries for physical injuries. Damages for physical injuries (say, broken bones from an accident) are tax-free under [Section 104](#) of the tax code.

Yet only physical injuries and physical sickness qualify. Damages for emotional distress are taxed. Well, unless the emotional distress emanated from physical injuries or physical sickness, in which case it's tax-free. Confused? It's no wonder. Disputes with the IRS are common.

If you sue for discrimination or harassment at work, your wage loss will be taxed. But if you suffer physical injuries or physical sickness from workplace harassment, maybe not. Money for physical symptoms caused by emotional distress—say, headaches, is taxed. But how one should interpret this confusing law is often debated, and real dollars can turn on the debate.

In [Parkinson v. Commissioner](#), the [U.S. Tax Court](#) overruled an IRS decision to tax a \$350,000 settlement a man received after suing his ex-employer for intentional infliction of emotional distress. A suit for emotional distress sounds fundamentally taxable, so why the result? The distress led to a heart attack, the court said. See [Tax-Free Physical Sickness Recoveries in 2010 and Beyond](#).

In another case, the Tax Court ruled that an employee suit was partially tax-free where she had physical sickness from working conditions. Stressful conditions exacerbated her pre-existing multiple sclerosis. These case suggest that NFL players or WWE wrestlers who recover for serious medical conditions should receive their money tax-free.

What about post-traumatic stress disorder? PTSD often manifests itself in physical ways, but there has been debate whether [PTSD a physical injury for tax purposes](#). Although the [tax treatment of PTSD](#) isn't clear, Taxpayer Advocate Nina Olson urged [treating PTSD as physical sickness](#). How a settlement is reported to plaintiffs on IRS [Forms 1099](#) influences the tax treatment too. So does the exact wording of a settlement agreement.

Taxes make a big difference. If you receive a \$3M settlement that isn't taxed, you have \$3M. If taxes apply, you could end up with half. How legal fees are treated under the tax law can make your tax bill even higher. Some plaintiffs are treated as receiving money paid to their contingent fee lawyer. That means some plaintiffs end up paying taxes on money they never saw. It can seem as rigged as, say, professional wrestling.

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