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As Bullying Claims Proliferate, Will IRS Take A Share?

Lawsuits for bullying are becoming increasingly common. See [More Bullying Cases Have Parents Turning To Courts](#). Most recoveries aren't stratospheric but more are occurring and their size is growing. Check out these [examples](#). One thing impacting their size is taxes.

If a plaintiff receives tax-free money, a smaller settlement may yield a bigger take-home than a larger one subject to tax. See [Disability Pay: Some Taxable, Some Tax-Free](#). Some claims are extremely serious, involving physical injuries or even death claiming a link to suicide. Such recoveries should be tax-free.



A Bully Free Zone Sign - School in Berea, Ohio (Photo credit: Wikipedia)

Physical injury awards are tax-free. But in less severe cases where there's no observable physical injury it's not clear. See [Wrongful Life And Wrongful Birth Lawsuits Raise Tax Issues](#). Damages for personal physical injuries are tax-free—only punitive damages and interest are taxed. See [Will BP Oil Spill Victims Pay Tax On \\$7.8B Settlement?](#) But

damages for emotional injuries standing alone are taxable, and some bullying claims don't involve physical trauma.

Still, lines blur. Physical symptoms caused by emotional distress (such as headache) are generally taxed. Although the IRS usually expects observable physical harm for a tax break, the courts are getting more flexible.

For example, bad treatment leading to serious physical sickness like a heart attack should lead to tax free damages. See [Parkinson v. Commissioner](#). The same should be true if bullying exacerbates an existing physical sickness. See [Domeny v. Commissioner](#). See [Tax-Free Physical Sickness Recoveries In 2010 And Beyond](#). The good news is that the law seems to be slowly moving toward a broader exclusion from income. See [Is Post-Traumatic Stress Disorder Physical Injury for Tax Purposes?](#)

The bad news is that you can't count on it. Factual details, settlement agreement language and the presence or absence of IRS Forms 1099 on the settlement can play a part. See [Watch Your Mail For 1099s](#).

Attorney Fees Taxed Too. A settlement that's taxable can be doubly painful. If you hire a contingent fee lawyer, the tax law treats you as receiving 100% even if the defendant pays your lawyer his cut directly. See [Six Tax-Wise Ways To Reduce Your Legal Bills](#). You can deduct the fees but generally only as a miscellaneous itemized deduction. You may end up paying tax on money you never saw. See [Three Worst IRS Tax Traps](#).

How you settle can matter. Talk to a tax expert *before* you settle. See [Can Execs Deduct Legal Fees Above-The-Line?](#) The IRS isn't bound by settlement agreement wording but it can help *enormously*. So can explicitly addressing reporting on IRS Forms 1099. See [10 Things to Know About Taxes on Damages](#).

For more, see:

[Don't Fail To Consider Taxes When Settling Litigation](#)

[Damages Are Taxable, Even for "Political Discrimination" Says IRS](#)

[What If A Taxpayer Doesn't Have Receipts?](#)

[Duke Lacrosse Tax Lien Highlights How Lawsuits Are Taxed](#)

[Six Tax-Wise Ways To Reduce Your Legal Bills](#)

[Tax-Free Physical Sickness Recoveries in 2010 and Beyond](#)

[Is Physical Sickness the New Emotional Distress?](#)

[The Price of Freedom: What Happens to the Wrongfully Convicted](#)

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