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TAXES 9/29/2015

# Lance Armstrong Legal Settlement Makes Tax Problem On Steroids

Lance Armstrong has [settled a decade-long dispute](#) with a promotions company over more than \$10 million in bonuses it paid the former cyclist during his career. Dallas-based SCA Promotions paid Armstrong bonuses for winning the Tour de France in 2002, 2003 and 2004. But when his doping unraveled, the company wanted its money back. The series of disputes has been vitriolic, and it ultimately also helped bring Armstrong down. The testimony in the lawsuit and related arbitration lead to eventual doping charges. In the end, Armstrong was banned from the sport and stripped of his seven Tour de France victories.

Although the terms of the settlement were not made public, the give-back is probably large. And this is not Armstrong's only payback. The SCA dispute was just one of several. He previously settled bonus payment disputes and paybacks related to claims he made against others. For example, he famously sued and collected from Britain's Sunday Times after the paper said he used performance enhancing drugs. When Armstrong's lies became clear, the Sunday Times wanted its money back too.



*US cyclist Lance Armstrong gets ready in Rodez, southwest France, prior to ride a stage of The Tour De France for a leukemia charity on July 17, 2015. (Photo credit: STEPHANE DE SAKUTIN/AFP/Getty Images)*

And the best is yet to come. Armstrong faces a whistleblower lawsuit in which the federal government wants more than \$30 million the U.S. Postal Service paid to sponsor his teams from 1998-2004. Penalties could reach \$100 million.

Any payback raises tax issues. Think of all those Wall Street Dodd-Frank clawbacks of compensation? Indeed, a payback of pay like Armstrong's can create big tax problems. Why are Armstrong's taxes in question? If you received income in past years, you paid taxes on it. And given our annual tax filings, not everything can simply be undone. You might think that Armstrong could just claim tax deductions for giving money back. It isn't that simple.

Tax deductions only work if you have a high enough income. They don't help if everything is negative as it surely must be for Armstrong at this point. And even if you have enough income, there are different types of deductions and many limitations. Many taxpayers can only claim a miscellaneous itemized deduction. That means the deduction is subject to a 2% threshold and to the dreaded alternative minimum tax (AMT).

Amending prior tax returns is often no solution either. For one thing, time is unforgiving. Armstrong collected from the Sunday Times back in 2006. So when he had to give money back in 2013, he could hardly amend his 2006

taxes. Usually, you can amend only within three years of the original filing, or within two years after the tax was paid, whichever is later.

Besides, amending prior tax returns is really meant to address *mistakes*, not events that occur later. Armstrong reported income paid to him when he had a right to it. It was only later that it turned out he didn't have a right to the money after all. For his current settlement, his best hope might be to rely on [Section 1341](#). It is a quirky and complex provision in the tax code.

It is meant to ameliorate the tax result when you reported income in the past that it turned out really not to be yours after all. Often, though, even this provision doesn't let you entirely go back. If Armstrong doesn't already know, he's likely to learn that in taxes as in life, you can never entirely go back.

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