Forbes

Robert W. Wood
THE TAX LAWYER

July 7, 2025

Paramount Settles Trump Suit For $16 Million With President’s No-Tax Playbook

The news that Paramount settled with President Donald Trump for $16 million over "60 Minutes" edits that Trump alleged favored then Vice President Kamala Harris prompted criticism from some in the media. When Harris was asked about the Biden administration's relationship with Israel's prime minister, CBS producers used different portions of her answer on two programs. One response was on CBS' "Face the Nation," with a shorter one on "60 Minutes." Many in the media criticized Paramount, but like other lawsuits that Trump has settled, there was an interesting tax angle.

The money goes to pay Trump's legal fees, and to his presidential library. Trump used the same technique in his $15 million settlement with ABC News over alleged defamation by George Stephanopoulos. Meta also settled with Trump, paying $25 million over suspending his social media accounts, and the funds once again were for legal fees and his presidential library. The widespread assumption is that this avoids taxes.

In general, though, the IRS view is that settling a lawsuit by having the money paid to charity may not always be a 100% tax solution. In some cases, a plaintiff's request to have settlement funds paid to charity are viewed by the IRS as a payment first to the plaintiff, and *then* a contribution by him to charity. That may be subject to percentage income limits, which in some cases means that the whole charitable contribution deduction may not be available in the year of the settlement.

Paying Trump's Legal Fees

If the settlement pays legal bills that Trump would otherwise owe, the IRS could call that taxable income. When someone discharges your liability, the IRS often views that as income, even you never handle the cash.

Similarly, if Trump receives a reimbursement out of the Paramount settlement for legal fees that he has already paid, is that income? It depends on whether Trump has deducted the legal fees on his taxes that are later reimbursed. If he has deducted the fees, the IRS usually requires reimbursed amounts to be treated as income.

Most Settlements Are Taxable

Directing settlement money to charity can work in some cases, but even that is not foolproof, as noted above. And having the settlement agreement direct the money to someone else — say a friend or relative — usually does not avoid taxes to the plaintiff either. The IRS taxes the person who had a legal right to payment. Many plaintiffs win or settle a lawsuit only to be surprised that they have to pay taxes. Some don't realize it until tax time the following year when IRS Forms 1099 arrive in the mail.

Taxes on legal settlements are based on the origin of your claim. If you get laid off at work and sue for wages, you'll be taxed as wages, usually with a portion on a Form 1099 for emotional distress. But the rules are full of exceptions and nuances, so be careful, how settlement awards are taxed.

One limited exclusion from taxes applies to physical injury damages. Before 1996, all "personal" damages were tax-free, so emotional distress and defamation produced tax-free recoveries. But since 1996, your injury must be "physical." Trump alleged that the the "60 Minutes" edits caused him mental anguish, but that clearly would not qualify for a tax exclusion. The IRS treats mental anguish, as well as physical symptoms of emotional distress (like headaches and stomachaches) as taxable.

There are many chicken or egg tax cases, and many plaintiffs take aggressive positions on their tax returns, trying to explain their IRS Form 1099. Haggling over tax details before you sign and settle is best. Such agreements aren't binding on the IRS or the courts in later tax disputes, but they are usually not ignored by the IRS. Most legal disputes involve multiple issues. You might claim that the defendant kept your laptop, frittered away your trust fund, underpaid you, failed to reimburse you for a business trip, or other items. Even if your dispute relates to one course of conduct, there's a good chance the total settlement involves several types of consideration.

How Legal Fees Are Taxed

How legal fees are taxed is tricky too. If you are the plaintiff and use a contingent fee lawyer, you'll be treated (for tax purposes) as receiving 100% of the money recovered by you and your attorney, even if the defendant pays your lawyer directly. If your case is fully nontaxable (say an auto accident in which you are injured), that shouldn't cause any tax problems. But if your recovery is taxable, watch out. Say you settle a suit for intentional infliction of emotional distress against your neighbor for $100,000, and your lawyer keeps $40,000. You might think you'd have $60,000 of income. Instead, you'll have $100,000 of income.

In 2005, the U.S. Supreme Court held in *Commissioner v. Banks*, that plaintiffs generally have income equal to 100% of their recoveries. even if their lawyers take a share. How about deducting the legal fees? In 2004, Congress enacted an above the line deduction for legal fees in employment claims and certain whistleblower claims. But outside these two areas, in some cases it is very difficult to find a deduction for legal fees. Tax advice early before the case settles and the settlement agreement is signed is best. Fortunately, there are often ways to deduct legal fees even under the new law.

Punitive Damages And Interest

Punitive damages and interest are always taxable. If you are injured in a car crash and collect $50,000 in compensatory damages and $5 million in punitive damages, the former is tax-free. But the $5 million is fully taxable, and you can have trouble deducting your attorney fees. The same occurs with interest. You might receive a tax-free settlement or judgment, but pre-judgment or post-judgment interest is always taxable (and can produce attorney fee problems). Sometimes, that can make it attractive to settle your case rather than going to judgment.