



# Taxability of Lawsuits and Settlements



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## IRS GUIDANCE:

- IRS Webcast: Taxability of Lawsuit Judgments and Settlements –  
<https://www.irsvideos.gov/TheTaxabilityOfLawsuitsAndSettlements/>
- IRS Memorandum: Income and Employment Tax Consequences and Proper Reporting of Employment-Related Judgments and Settlements:  
<https://www.irs.gov/pub/lanoa/pmta2009-035.pdf>
- IRS Internal Revenue Bulletin No. 1996–53 (includes Rev. Ruling 96-65)  
<https://www.irs.gov/pub/irs-irbs/irb96-53.pdf>
- IRS Audit Techniques Guide: Lawsuits, Awards, and Settlements  
<https://www.irs.gov/pub/irs-utl/lawsuitesawardssettlements.pdf>

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IRS Resources:

[www.irs.gov](http://www.irs.gov)

- Publication 5137, the FSLG (Federal, State and Local Governments) Fringe Benefits Guide
- Publication 15-B, Employer's Tax Guide to Fringe Benefits
- Publication 963, Federal-State Reference Guide
- Publication 5138, Quick Reference Guide for Public Employers

# Taxability of Lawsuits and Settlements

Expenditure Codes for Settlements:

- 553150 **Non-Employee** Indemnities, Restitution, Settlements (Non-Reportable)  
Payments to victims for losses and damages suffered due to natural or man-made causes. Also includes payments (other than those to current/former employees) of court-ordered restitution or settlements, and other associated costs as ordered by the Courts when the amount is not reportable to the IRS such as compensatory damages due to personal physical injury, sickness, or medical expenses.

# Taxability of Lawsuits and Settlements

Expenditure Codes for Settlements:

- **553155 Current/Former Employee** Indemnities, Restitution, Settlements (Non-Reportable)

This should only be used for payments to current or former employees. Includes payments of court-ordered restitution or settlements, and other associated costs as ordered by the Courts when the amount is not reportable to the IRS such as compensatory damages due to personal physical injury, sickness, or medical expenses.

# Taxability of Lawsuits and Settlements

Expenditure Codes for Settlements:

- 553160 **Non-Employee** (Typically a Vendor) Court-Ordered or Legal Settlements Reportable to the IRS on Form 1099 MISC in Box 7  
Payments identified in court-ordered or other legal authority settlements which would otherwise have been coded with one of the object of expenditure codes identified for tracking as 1099 reportable.

# Taxability of Lawsuits and Settlements

Expenditure Codes for Settlements:

- **553165 Current/Former Employee** Court-Ordered or Legal Settlements  
Reportable to the IRS on Form 1099 MISC in Box 3  
This should only be used for court-ordered or other legal authority settlements to employees or former employees. Payments for punitive, liquidating, other taxable damages or costs, and payment for compensatory damages not paid on account of personal physical injuries or sickness, for example emotional distress. *[This code is not appropriate for any form of back pay, front pay, overtime pay, dismissal pay, severance pay. These payments must go through payroll. If a payroll reportable item is erroneously processed through accounts payable, contact DCAR - Payroll Reporting at 405-521-3258 for assistance in correcting.]*

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## Expenditure Codes for Settlements:

- 553180 Court-Ordered or Legal Settlements – Paid To/Thru **Attorney**  
Payments for court-ordered or legal settlements of litigation when warrants are issued to attorneys, either as sole payee or joint payee, for plaintiff awarded amounts or plaintiff's attorney amounts.

NOTE 1: The total amount of the warrant payable, either as sole payee or joint payee, must be reported to the attorney on the Form 1099 MISC in Box 14.

NOTE 2: Payments to attorneys for plaintiff fees, must be included in the plaintiff's reportable amount. The total amount of the settlement, not just the payment to the plaintiff, must be included on the 1099 MISC Form issued to the plaintiff. Agencies will need to adjust the 1099 registers to reflect the total amount of the settlement to the plaintiff for proper reporting (send to Beth Brox at [beth.brox@omes.ok.gov](mailto:beth.brox@omes.ok.gov)).

NOTE 3: Amounts payable to attorneys that were processed through payroll as a miscellaneous deduction and paid from the 994 class-fund must be adjusted on the Agency's 1099 register to ensure the attorney reporting is correct at year-end (send to Beth Brox at [beth.brox@omes.ok.gov](mailto:beth.brox@omes.ok.gov)).



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## Expenditure Codes for Settlements:

- 553220 Other IRS Reportable Income of Form 1099 MISC in Box 3  
Payments include income that is reportable but not in one of the other boxes on the 1099 MISC form and no other expenditure code applies. Payments include prizes and awards paid to individuals other than employees (*Note: employee awards and prizes must go through payroll*); legal settlements for punitive damages, damages for nonphysical injuries or sickness, and any other taxable damages (this would be for non-employee and non-contractor settlements but not settlement payments to attorneys); payments made to individuals for participating in a medical research study or studies; payments made to individuals for a deceased employee's final wages (normally these are processed through payroll and should only be used on a case by case basis); and payments such as those made to individuals under the Firefighter Death Benefit (excluding spouse, former spouse, or child - use code 553150).

# Taxability of Lawsuits and Settlements

- Lawsuits, Awards, and Settlements Reporting Information Form
  - Currently in draft form
  - Use to record payment information for correct reporting
  - Can be kept internally and/or sent to OMES for year-end reporting
- Expected release date:
  - End of May 2017

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QUESTIONS?

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