



Remove a Barrier to Justice for Taxpayers Harmed by Corporate Misconduct

Our American system should allow victims to hold wrongdoers accountable, not discourage them from coming forward. But currently, people who successfully hold a corporation accountable have to pay taxes on reimbursed legal expenses that actually go to their attorneys. For some, this has left them worse off than if they had not pursued justice. We need to make it easier for people to stand up for themselves, not harder. We must stop taxing reimbursed legal expenses and remove this barrier to justice.

People seeking justice should not be punished for defending themselves. Sometimes when a person wins a case against corporate wrongdoers, that corporation reimburses their legal expenses. But today, the tax code treats those reimbursed legal costs as the person's income even though the funds go to their attorneys. This artificially inflates their income, which for someone struggling to make ends meet, can deny them access to tax credits they depend on. Congress should stop the IRS policy of taxing reimbursed legal fees, so people can take care of themselves while they stand up for themselves.

No one should go into debt just to defend themselves in court. But one unfair tax law can do just that. A credit union wrongfully repossessed a car owned by Army Sergeant Patrick Clarke. After a years-long court battle that exposed a pattern of wrongdoing by the credit union, Sgt. Clarke recovered damages and had his legal expenses reimbursed back to his attorneys. And although the reimbursed fees did not go to him, Sgt. Clarke was threatened with a tax on the reimbursed legal fees which would have wiped out his entire recovery, leaving him worse off than when he started.

Most of us believe that people should treat others fairly and with respect. But some corporations, like payday lenders and debt collectors, prey on people who are struggling to make ends meet, with high-cost loans and harassment to collect, accompanied by unfair terms in the fine print and excessive penalties. When corporate bad actors break the law, people should be able to hold them accountable. We must remove the barriers for people seeking justice against wrongdoers.

It's happened before. Congress acted in 2004 to lift a similar tax penalty for victims of discrimination, concluding that double taxing reimbursed legal expenses was unjust and would have a chilling effect on legitimate discrimination claims.

Congress can stop the IRS policy of taxing reimbursed legal fees and remove this barrier to justice so people can afford the legal help they need. End double taxation of reimbursed legal fees so people can afford the legal help they need. Changing the tax law will make it easier for people to hold corporations accountable for the harm they cause.