

I was awarded money from my Court Case! Do I need to pay taxes? The IRS says, "It depends."

The taxability of your settlement or judgment will depend on the underlying claim. In general, compensation for lost wages, lost profits, or back wages will be subject to income tax. Punitive damages awarded to you in your legal case will also be taxed. However, compensatory damages for physical injury or physical sickness are tax free. (Regardless of whether or not you receive them as lump sum or over time).

Taxability of claims awarded for emotional distress can be tricky. If your emotional stress was a result of a physical injury or sickness, then your award or judgment is tax free. However, if your emotional distress is from, let's say an unlawful discrimination case, then you must include the amount awarded in your income for tax purposes.

Bottom line; if you've been awarded a legal judgment or settlement, or have general tax questions, get professional advice from your CPA.



Stephen Kraft has been a CPA practicing in South Florida for over twenty years. His diverse background includes estates, trusts, and not for profit entities, however, he specializes in the accounting and income tax planning for individuals and business. If you have taxable income or owe the IRS, call Steven Kraft to discuss your options.

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