

SENATE, No. 3034

STATE OF NEW JERSEY 216th LEGISLATURE

INTRODUCED JUNE 11, 2015

Sponsored by:

Senator STEPHEN M. SWEENEY

District 3 (Cumberland, Gloucester and Salem)

SYNOPSIS

Disallows tax deduction under corporation business tax and gross income tax for punitive damages paid in connection with legal action; includes amount paid as punitive damages on behalf of taxpayer in income for tax purposes.

CURRENT VERSION OF TEXT

As introduced.



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1 AN ACT disallowing tax deductions for punitive damages paid in
2 connection with the conclusion of a legal action and including
3 amount paid as punitive damages on behalf of a taxpayer in
4 income for tax purposes, supplementing P.L.1945, c.162
5 (C.54:10A-1 et seq.) and Title 54A of the New Jersey Statutes.
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7 BE IT ENACTED by the Senate and General Assembly of the State
8 of New Jersey:
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10 1. Notwithstanding the provisions of subsection (k) of section 4
11 of P.L.1945, c.162 (C.54:10A-4), for privilege periods beginning on
12 or after the January 1 next following enactment of
13 P.L. , c. (C.)(pending before the Legislature as this bill):

14 a. no deduction from entire net income shall be allowed for any
15 amount paid or incurred for punitive damages in connection with
16 any judgment in, or settlement of, any action; and

17 b. entire net income shall include any amount paid to or on
18 behalf of a taxpayer as insurance or otherwise by reason of the
19 taxpayer's liability or agreement to pay punitive damages.
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21 2. Notwithstanding the provisions of N.J.S.54A:5-1, for the
22 purposes of determining the amount of a category of gross income
23 pursuant to subsections b., d., k., or p. of N.J.S.54A:5-1 for taxable
24 years beginning on or after the January 1 next following enactment
25 of P.L. , c. (C.)(pending before the Legislature as this bill):

26 a. no deduction shall be allowed for any amount paid or
27 incurred for punitive damages in connection with any judgment in,
28 or settlement of, any action; and

29 b. the category of gross income shall include any amount paid
30 to or on behalf of a taxpayer as insurance or otherwise by reason of
31 the taxpayer's liability or agreement to pay punitive damages
32 relating to the taxpayer's business generating income in that
33 category.
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35 3. This act shall take effect immediately.
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38 STATEMENT
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40 This bill disallows tax deductions under the corporation business
41 tax and the gross income tax for punitive damages paid or incurred
42 in connection with a judgment in or settlement of a legal action and
43 includes in a taxpayer's taxable income the amount paid to, or on
44 behalf of, the taxpayer as insurance or otherwise by reason of the
45 taxpayer's liability or agreement to pay punitive damages.

46 Under current law, a corporation or an individual business owner
47 may deduct the cost of court-ordered punitive damages as an
48 "ordinary business expense." This tax loophole allows companies

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1 to wreak horrible damage to public assets and private property,
2 destroying lives and livelihoods, and write it off as a cost of doing
3 business.

4 This bill eliminates that tax break, and requires corporations
5 risking environmental destruction to face the true costs of their
6 actions.