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Acquitting John Edwards, \$2M; Deducting His Legal Fees, Priceless

John Edwards' legal fees for his trial were substantial. See [Uncle Sam Got More Than John Edwards From Billionaire Heiress](#). Even pricey legal fees can look a lot less unreasonable when you can deduct them. There's a good chance Mr. Edwards can find a way. See [The Only Good Legal Fees Are Tax Deductible Legal Fees](#).

Although it was a criminal trial, the charges related to his conduct in his chosen trade or business: politics. That arguably makes the legal fees deductible. See [Can Execs Deduct Legal Fees Above-The-Line?](#) Besides, Mr. Edwards may have other avenues too. See [Six Tax-Wise Ways To Reduce Your Legal Bills](#).

Moving into more scandalous territory, what about deducting the payment to Rielle Hunter to keep her quiet? It's well known that Edwards didn't **personally** pay her, and the apparent source of funds was donations. The trial was about who paid her with what funds and whether Mr. Edwards was personally aware of it.



Image via theweek.com

Still, if someone in Mr. Edwards' position had paid hush money (let's assume not from campaign sources but from his own pocket), would it be deductible? The answer depends on the facts and how Edwards positioned himself but it's not out of the question. In fact, hush money and even blackmail has probably been claimed on more tax returns than you might think. See [Media Matters Boss Paid Former Partner \\$850k 'Blackmail' Settlement](#).

Many taxpayers try to find a business connection to most any legal mess. Whether they'll succeed depends on the facts and what motivated the payment. See [Tax Deductions for Damage Payments: What, Me Worry?](#) The tax code prohibits deducting "any fine or similar penalty paid to a government for the violation of any law." See [Section 162\(f\)](#) and [BP, Oil, and Deducting Punitive Damages](#).

Bribes and illegal payments are also nondeductible. See [Cleaning Up: Tax Deductions for Restitution, Fines, and Penalties](#). But when the IRS audits and denies a deduction, some people take the IRS to court. In [SEC v. Bilzerian](#), Mr. Bilzerian paid off his stockbroker and deducted it even though Bilzerian was convicted of securities fraud and conspiring to defraud the IRS.

Bilzerian argued the payoff *itself* wasn't illegal. Since Bilzerian's actions caused the broker a loss, Bilzerian paid him \$125,000 to cover it. Bilzerian deducted it, but the IRS disallowed it.

Regardless of whether the payment *itself* was legal, the IRS said it furthered an illegal activity so was nondeductible. But the Tax Court sided with Bilzerian, ruling that only payments illegal by *themselves* are nondeductible. See [IRS Cracking Down on Government Settlements](#). And like Bilzerian, John Edwards knows how to position himself.

For more, see:

[Strange But Legit Tax Deductions](#)

[Using John Edwards' "It Was A Gift" Defense](#)

[Unusual Tax Deductions? How About Blackmail?](#)

[Will BP Oil Spill Victims Pay Tax On \\$7.8B Settlement?](#)

[Duke Lacrosse Tax Lien Highlights How Lawsuits Are Taxed](#)

[When 'I'm Too Sexy' Lawsuit Settles, Will IRS Win Too?](#)

[Michael Jackson Death Doctor Can Deduct His Legal Fees](#)

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