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THE TAX LAWYER

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### Tallying Up John Travolta's Sex Lawsuit Proceeds

The one-time shocker lawsuit brought by several massage therapists against film titan John Travolta may no longer be on tabloid front pages. Still, when it does hit the news it's hard not to look. It started with accusations of bizarrely forward conduct. See [Second Male Masseur Files \\$2M Sexual Battery Lawsuit Against John Travolta](#).

It got even more Hollywood when Gloria Allred entered the Klieg lights. See [John Travolta Sex Scandal: Gloria Allred Informs Actor's Attorney She's Weighing Legal Options](#). And then like one of the

tightly controlled sealed envelopes held by PricewaterhouseCoopers at the Oscars, this suit went underground. It's to be resolved by a private judge and out of the public eye. See [John Travolta law suit not going to trial, to be resolved behind closed doors](#).

But if money changes hands as seems likely, will the massage therapist settlements be reduced by taxes? Probably. If you are injured in a car



accident, your physical injury settlement should be tax-free. See [Section 104](#). Only punitive damages and interest will be taxed. See [Tax-Free Wrongful Death Punitive Damages?](#)

But if you sue for discrimination or harassment at work, your wage loss will be subject to withholding. Any other monies are likely to be taxed too. Such are the sometimes complex tax rules governing the payment of legal settlements and judgments. See [10 Things To Know About Taxes On Damages](#).

If you get tax advice **before** your settlement is documented, you can often improve on the tax result. See [Address Taxes When You Mediate Civil Disputes](#). The IRS isn't bound by the parties' tax characterization, but it is often respected if reasonable.

One of the bones of contention is just what constitutes personal physical injuries or sickness. The IRS hasn't defined it, but normally wants to see "observable bodily harm" such as bruises or broken bones. If the case arises out of employment, the IRS knee-jerk reaction is that such recoveries are wage loss or are otherwise taxable. See [The IRS Speaks Out On Employment Lawsuit Settlements](#).

However, an employee suit may be partially tax free if the employee has physical sickness from working conditions. It must be much more than merely emotional distress. In one case, stress at work produced a heart attack. See [Is Physical Sickness the New Emotional Distress?](#) In another, stressful conditions exacerbated the worker's pre-existing multiple sclerosis. See [Tax-Free Physical Sickness Recoveries in 2010 and Beyond](#).

Sexual abuse, even the fondling alleged in the Travolta suit, may not be enough to be tax-free, especially if the plaintiffs can't show damages. The IRS has ruled some clergy sex abuse settlements tax-free even though the abuse occurred years before and only emotional injuries could be shown. The IRS *assumed* some of it was physical enough at the time to trigger the continuing emotional injuries years later. See [IRS Allows Damages Exclusion Without Proof of Physical Harm](#).

The Travolta plaintiffs will probably have to pay tax. What's more, they may have to pay tax on their lawyers' shares too. If a contingent fee

lawyer is to receive 40%, the tax law assumes the client got 100% and then paid the lawyer even if the lawyer is paid his share directly. But unless the client is running a business, the client may have no way to deduct the legal fees.

For more, see:

[Kris Humphries v. Kim Kardashian: LaLa Land Lawsuit?](#)

[When Settling Litigation ALWAYS Address Taxes](#)

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

[As Bullying Claims Proliferate, Will IRS Take A Share?](#)

[Bill Would Make Wrongful Conviction Awards Tax-Free](#)

[Baldwin v. Costner Suit May Come Down To Taxes](#)

[Facebook IPO Lawsuits: Will IRS Share?](#)

[Whitney Houston's Death and Taxes](#)

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

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