

## Settlements — Taxability

on line 8a of Form 1040.

- **Punitive Damages:** Amounts are taxable and should be reported as “Other Income” on line 21 of Form 1040. It does not matter if punitive damages are related to a physical injury or physical sickness.
- **Emotional distress or mental anguish:** Amounts are taxable to the extent that they exceed medical cost, not previously deducted, for treatment of emotional stress or mental anguish. A statement showing the entire settlement amount less related medical costs should be attached to the return. The net taxable amount should be reported as “Other Income” on line 21 of Form 1040.
- **Employment discrimination or injury to reputation:** Amounts are taxable and should be reported as “Other Income” on line 21 of Form 1040.

**Loss-of-use or loss-in-value of property** settlements may be taxable if the settlement exceeds your basis in the property.

- Property settlements that are less than the adjusted basis of your property are not taxable and generally do not need to be reported on your tax return.
- When property settlements exceed your adjusted basis in the property, the excess is gain. Gains on personal capital assets are reported on Form 4797, Sale of Business Property.

Some settlement recipients may need to make estimated tax payments if they expect their tax to be \$1,000 or more after subtracting credits & withholding. Information on estimated taxes can be found in IRS Publication 505, Tax Withholding and Estimated Tax, and in Form 1040-ES, Estimated Tax for Individuals.

**For additional help contact the IRS at 1-800-829-1040.**

All of the forms and publications referenced in this publication are available from the IRS at [www.irs.gov](http://www.irs.gov), or paper copies can be ordered by calling 1-800-829-3676 (1-800-TAX-FORM).

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Department of the Treasury  
**Internal Revenue Service**

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Publication 4345 (Rev. 10-2005)  
Catalog Number 38586D