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New Reed-Grassley Bill Would End Corporate Practice of Deducting Payments for Illegal Behavior from Taxes

Bill Introduced After Reports That JPMorgan Could Write Off Billions from Settlement

WASHINGTON, D.C. – Members of the Coalition for Sensible Safeguards welcomed the introduction Wednesday of the Government Settlement Transparency & Reform Act (S. 1654), which would close a loophole that allows corporations to reap tax benefits when making payments to settle allegations of violating regulations. The bill was introduced by U.S. Sens. Jack Reed (D-R.I.) and Charles Grassley (R-Iowa).

Under current law, if corporations reach a settlement with the government over penalties for regulatory violations, part of that settlement can be written off as a tax deduction. The penalty paid is literally treated as the cost of doing business. The issue was highlighted recently when JPMorgan reached a reported \$13 billion settlement with the government over mortgage lending abuses; reports indicated the company could actually write off a majority of the settlement and save an estimated \$3 billion.

“Allowing corporations that violate laws to deduct settlements from their taxes undermines the incentive for corporations to comply with laws designed to protect the public,” said Katherine McFate, president of Center for Effective Government and CSS co-chair. “The bill introduced by Senators Reed and Grassley is an important first step in closing the settlement loophole and restoring credibility to enforcement of our nation’s laws.”

“Ordinary citizens don’t deduct their parking tickets or library fines from their taxes. Corporations like JPMorgan shouldn’t be able to deduct their settlements for wrongdoing either,” said Francisco Enriquez, tax and budget associate at U.S. PIRG. “The settlement loophole costs taxpayers billions each year. It needs to be closed, and we applaud Senators Grassley and Reed for doing something about it.”

“A corporate penalty is effective only if it hits the company where it hurts: in their bottom line,” said Lisa Gilbert, director of Public Citizen’s Congress Watch division. “It is unjust in the extreme for taxpayers to subsidize settlements when companies commit corporate crime. We are happy to see these senators take the first step to close this settlement loophole.”

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The Coalition for Sensible Safeguards is an alliance of consumer, labor, scientific, research, good government, faith, community, health, environmental, and public interest groups, as well as concerned individuals, joined in the belief that our country's system of regulatory safeguards provides a stable framework that secures our quality of life and paves the way for a sound economy that benefits us all. For more information about the coalition, see http://www.sensiblesafeguards.org/about_us.