

## Settlements for Employment Related Claims

A taxable employment suit can lead to quick dissipation of the settlement:

- The entire amount of the settlement is taxable in the year of receipt
- Settlement proceeds can be invested only on an after-tax basis
- Poor management of funds can lead to quick dissipation

*You can structure\*:*

- All types of employment cases
- Attorneys' fees
- Other negotiated workplace settlements

*\*Note: This does not include wage loss*

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### ***The Problem with receiving a lump sum settlement for an employment suit—TAXES***

### ***The Solution—A STRUCTURED SETTLEMENT***

#### ***Benefits of Structured Settlements:***

- Payments are made by well capitalized and secure life insurance companies
- By utilizing a periodic payment arrangement, deferring settlement dollars over a period of time results in less money being lost to taxes
- Application of the Alternative Minimum Tax may be avoided since payments are spread over time, lessening the effective tax bracket of the tax payer
- Payments are tailored to the claimant's specific needs; they can be made over a fixed period of time or for a lifetime. Lump sum payments can even be made in the future to correlate with important events
- Attorneys are also eligible to defer recognition of income through an attorney fee Structure. Attorney fee structure also provides the maximum tax benefit for the claimant.

A structured settlement or periodic payment plan via an annuity can result in a substantial tax savings and effective financial management of the settlement proceeds. Comparing a periodic payment arrangement that is a pre-tax investment with a lump sum settlement illustrates the power of this solution:

- Earn interest on the principal pre-tax investment
- Custom designed payment streams
- Highly competitive rates of return
- Payments 100% guaranteed by a major Life Insurance Company
- Excellent planning tool
- Ensure your future income needs
- Enables claimant and attorney potential tax deferral

#### ***Who is eligible to settle an employment claim using a periodic payment settlement?***

- Self-insured corporations
- Municipalities
- Government organizations
- Insurance companies

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STRUCTURED FINANCIAL ASSOCIATES



## *An Innovative Way to Settle Employment Claims*

### *Defer Taxes, Receive Competitive Rates of Return, and Lessen the Tax Burden*

Structured Settlements providing tax-free periodic payments to an injured party are available for physical injury claims and Workers' Compensation claims. Moreover, a recent Private Letter Ruling (PLR 200836019) solidifies the option of using periodic payments to resolve employment claims.

Settlements for employment claims are taxable to the recipient. Using periodic payments, a claimant can receive payments over time to lessen the tax burden of the non-wage settlement. The payments can be tailored in a variety of ways to meet the claimant's specific needs. The claimant can diversify their settlement proceeds by taking some cash up front and deferring the remainder by way of tax-deferred, fixed, future periodic payments. Additionally, attorneys may negotiate for periodic payments that result in a much better outcome for the attorney and the claimant from an income tax perspective.

The benefit for the defense is that it allows offers to be made, relying on traditional negotiating strategies using settlement payouts that meet or exceed the demands of the claimant. Structured settlements stretch available settlement dollars to better meet the needs of the claimant.

A claimant with an employment claim stemming from a hostile work environment would have lost most of the settlement to taxes had the claim been paid out in a lump sum. Instead, a series of periodic payments will provide the claimant with a secure income stream, specifically tailored to the claimant's future needs.

According to the Private Letter Ruling, the claimant was not determined to have constructive receipt, cash or economic benefit from the non-wage structured settlement. Therefore, the claimant was only responsible for taxes on each payment in the year in which it was received.

By using periodic payments for the claimant and attorney fee portions of this settlement, the claimant in the example below will pay taxes only on the future periodic payment amounts in the year they are received greatly enhancing the taxable equivalent return and amount available for investment.

<b><i>Employment Settlement as a Lump Sum Cash Settlement</i></b>		
<b><i>vs.</i></b>		
<b><i>Periodic Payments</i></b>		
	<b>Lump Sum</b>	<b>Periodic Payments</b>
Settlement	\$1,000,000	\$1,000,000
Attorney Fees & Expenses	- 400,000	- 400,000
Net Settlement Amount	\$ 600,000	\$ 600,000
Taxes Paid in Year One (35% federal, 6% state*)	- 246,000	- 0
Net to invest in Year One	\$ 354,000	\$ 600,000



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