

Is Your Personal Injury Settlement Taxable in California?

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You suffered an injury and losses to property. The litigation is over, and the attorney secured a settlement offer, which you think is reasonable. Now you expect to get your money, pay the lawyer's contingency fee and return to your life. However, the primary concern is ***if the personal injury settlement is taxable***. Whether you went to trial or won a verdict, or the lawyer settled the case before or after filing a claim in a court of law is immaterial. ***Under the federal or state law, the compensation you get for personal injuries in California is non-taxable***. It means neither the federal government (IRS) nor the state government can impose taxes on your compensation for physical injuries and sickness due to the accident. ***Settlement for lost income due to days off work, medical expenses incurred, loss of consortium, emotional distress, attorneys' fees, pain and suffering resulting directly from physical injury and sickness will not be taxed.***



Exceptions to the Federal or State Laws Regarding Tax Settlement

While the law requires that no taxes are imposed on a personal injury settlement, there are instances when the proceeds you receive in the form of compensation are taxable.

- **Breach of Contract:** You'd be taxed for damages resulting from a breach of a contract leading to your injury if your attorney was basing the legal claim on the breach of contract.
- **Punitive Damages:** In case the jury rules that you're eligible for punitive damages, then the law requires that you pay taxes for punitive damages. The court awards the plaintiff punitive damages as a punishment to the defendant. If you have vindictive damages, claim, your attorney will ask the jury to divide the verdict into compensatory damages (non-taxable) and punitive damages. That way, the IRS can only impose

taxes on the latter.

- **Interest on Judgment:** In California, interest accumulates depending on the duration the case stays pending. Suppose you filed your lawsuit on 1st Aug 2014, then you're eligible for interest from the time of filing the lawsuit. And if it happens that you win the trial, but the defendant appeals and the claim gets delayed further only to receive compensation on 1st Aug 2017, then you'll get your damages plus the interest spanning three years.
- **Emotional Anguish Not Part of Your Claim:** On top of compensation for the physical pain and injuries, you're eligible for compensation for mental anguish and emotional distress resulting directly from the accident. If you're compensated for mental distress and emotional anguish not included in your legal claim, the law requires that taxes may be imposed on your settlement.
- **Property Damages:** The IRS general rule is that compensation for the loss and damages to your property is not taxable. However, you'll pay taxes if you receive more than the adjusted basis for your property, the additional money is considered income and may be taxed.

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Would you like to file a personal injuries legal claim for compensation in California?

Johnson Attorneys Group has a team of personal injuries advocates who can help handle any case. In the past few years, we've managed to recover over 98.4 million dollars in compensation for our clients. We don't ask for any legal fees whatsoever until we've won and settled your case. We operate from 12 convenient locations across the state. We offer free case evaluations and take time orienting you through the whole legal process. Contact us 24/7 at 1-800-208-3538.