

December 10, 2013

Dear Senator:

On behalf of the hundreds of national and state organizations that comprise our coalitions, we urge you to co-sponsor the Government Settlement Transparency and Reform Act, S. 1654, sponsored by Senators Jack Reed (D-RI) and Charles Grassley (R-IA). This important, bipartisan legislation would prevent corporations from deducting from their taxes settlement payments that are intended to punish bad behavior. Under current law, corporations routinely write off settlement payments for violating regulatory standards as a normal business expense, forcing other taxpayers to subsidize a part of their wrongdoing and blunting the deterrent effect of the penalty.

The American people deserve this reform. After being victimized by corporate malfeasance, they should not be forced to help pick up the tab for the corporation's debt to society. Permitting corporations to deduct the costs of the penalties they owe simply adds insult to injury.

JPMorgan Chase & Co. has finalized a \$13 billion settlement with the federal government over its faulty mortgage lending practices that led to the 2008 financial crisis and Great Recession. Although the tax code explicitly prohibits deductions for "any fine or similar penalty paid to a government for the violation of any law," corporations regularly deduct payments for wrongdoing that are not explicitly penalties intended to be non-deductible for tax purposes. While the Justice Department prohibited \$2 billion of the settlement from being tax deductible, that allows JPMorgan to deduct the remaining \$11 billion, providing a tax windfall of nearly \$4 billion.

S. 1654 would clarify the law to prevent the deduction of penalty-like payments and institute other reforms to stop corporations from passing a portion of the costs of their wrongdoing onto America's taxpayers.

There is precedent for this legislation. For the past decade, the Securities and Exchange Commission (SEC) has made a prohibition on deductions a precondition of settlement with the financial firms it regulates. But not all agencies follow this practice. A survey by the Government Accountability Office found that almost two-thirds of big corporate settlements with the government were deducted in whole or part (p. 18).

Without reform, JPMorgan and other corporations will continue to deduct settlement payments that are intended as penalties from their taxable income. To deter corporations from violating the standards Congress has set to protect the American public and have wrongdoers fully pay their penalties, Congress should explicitly rescind tax write-offs for illegal corporate behavior. The Government Settlement Transparency and Reform Act would do this and we strongly urge you to co-sponsor it.

Sincerely,

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