NEWS FROM THE OFFICE OF
SENATOR LISA MURKOWSKI
United States Senate

Press Release of Senator Murkowski

MURKOWSKI INTRODUCES TAX LEGISLATION TO ASSIST EXXON VALDEZ OIL SPILL PLAINTIFFS

Contact: Kevin Sweeney 202-224-4513
Tuesday, June 6, 2006

WASHINGTON, D.C. – Senator Lisa Murkowski today introduced tax legislation to give the plaintiffs in the Exxon Valdez oil spill settlement the ability to increase retirement contributions and to provide tax relief through income averaging.

The bill covers all of the plaintiffs, 80% of whom are commercial fisherman, and is drafted to cover any possible settlement while the case is in litigation and any amounts received under the judgment if it is upheld. The current level of court-approved punitive damages is $4.5 billion, plus interest. The Ninth Circuit Court of Appeals is expected to issue a ruling on this case later this year.

“This bill provides a fair shake to those impacted by the spill when it comes to contributions to retirement plans and averaging of income for tax purposes,” said Senator Murkowski. “It is imperative that we address this issue soon as we anticipate a decision by the Ninth Circuit Court of Appeals later this year.”

The bill includes the following provisions:

Contributions to Retirement Plans • Increases the caps on deductions and income for traditional IRAs to the extent of the income the individual receives from the settlement or judgment. • Allows contributions to Roth IRAs to the extent of the income from the settlement or judgment. • Allows contributions to any other type of qualified retirement plan [e.g., SEPs, 401(k)/Profit Sharing Plans, etc] to the extent of the income received from the settlement or judgment.

The bill gives the plaintiffs until the end of the taxable year in which they receive the settlement to transfer funds to one of the aforementioned retirement plans. In practice, plaintiffs would be able to use settlement funds to contribute to retirement plans until the day before the tax filing deadline (until April 14) for the taxable year when they received the funds.

Income Averaging This bill draft allows a plaintiff to average his or her income between December 31 of the year he or she receives the settlement or judgment payment and January 1, 1994 – the year of the original court decision in Anchorage.

Lump Sum Payments vs. Periodic Payments There is a possibility that the plaintiffs will receive settlement/judgment funds as periodic payments, instead of a lump sum payment. If the former is the case, this bill is drafted so that the plaintiffs can still take advantage of the provisions in the bill.

Social Security and Medicare Taxes There were concerns raised that plaintiffs would have to pay Social Security taxes on any settlement or judgment (punitive damages) payments they receive. The bill is drafted so that any settlement or judgment payments would not be subject to Self-Employment Contributions Act

(SECA) taxes. SECA taxes are essentially what a self-employed person pays towards Social Security and Medicare. While punitive damages generally are not subject to SECA taxes, there has been some difference of opinion whether settlement payments are subject to SECA taxes – there is an IRS revenue ruling stating that settlement payments are subject to SECA taxes while some tax court cases have taken a different view. Language in the bill ensures that neither settlement nor punitive damage payments will be subject to SECA taxes.

256525