

January 30, 2024

The Honorable Ron Wyden, Chairman  
The Honorable Mike Crapo, Ranking Member  
Senate Finance Committee  
219 Dirksen Senate Office Building  
Washington, DC 20510

Re: The End Double Taxation of Successful Consumer Claims Act

Dear Chairman Wyden and Ranking Member Crapo:

We, the undersigned public interest organizations, write in strong support of S. 3459, the End Double Taxation of Successful Consumer Claims Act introduced by Sen. Catherine Cortez Masto (D-NV). The bill would ensure that taxpayers are no longer subjected to unexpected and unjustified penalties after they successfully hold bad corporate actors accountable in court.

Our organizations are committed to supporting the ongoing strength and vitality of longstanding consumer statutes that protect consumers from fraud, and unfair and deceptive practices. Provisions in these statutes ensure that consumers of all income levels are able to enforce the law by awarding earned legal expenses to the attorneys who help consumers win their cases. Under certain laws, consumers are not obligated to or expected to pay for legal representation to enforce them.

The awarded fees allowed under these laws are paid directly to a consumer's attorney to compensate them for their work. The attorney, in turn, pays income tax on their compensation. However, under current interpretations of tax law, the consumer is also mistakenly expected to pay income tax on the same funds even though the consumer never receives them, they are never within the consumer's control, and the consumer derives no economic advantage from them. It is unlikely that double taxing funds paid to consumers' attorneys in this manner has ever been the Internal Revenue Service or Congress's intent.

This illogical tax code glitch can create myriad issues for consumers. For example, these never-seen funds artificially inflate a consumer's taxable income, making it appear as if they earned more than they did. This creates additional obstacles for consumers attempting to access their tax refunds, certain tax credits, and income-dependent benefits. Further, consumers may face tax bills that are higher than their actual compensation in their cases.

Additionally, double taxing earned legal expenses can make settlement difficult as consumers must focus on mitigating the financial consequences of unfair double taxation. This creates

greater costs for consumers, businesses, and our court system alike.

Congress has acted before to lift a similar tax penalty from victims of discrimination. Recognizing that unfair taxes could have a chilling effect on individuals with legitimate claims, Congress amended the tax code in 2004 so individuals with employment and civil rights claims would not be taxed on the legal expenses awarded to their attorneys. The End Double Taxation of Successful Consumer Claims Act would similarly bring the tax code back in line with the congressional intent behind consumer protection laws.

We seek your support to remove this consumer tax burden and to restore common-sense tax fairness. We look forward to working with you on this important legislation.

If you have any questions or would like to discuss these issues further, please contact Christine Hines at [christine@consumeradvocates.org](mailto:christine@consumeradvocates.org).

Sincerely,

American Association for Justice  
Americans for Financial Reform  
Center for Justice & Democracy  
The Community Tax Law Project  
Consumer Action  
Consumer Federation of America  
Consumers for Auto Reliability and Safety  
Consumer Reports  
Jacksonville Area Legal Aid  
National Association of Consumer Advocates  
National Association of Consumer Bankruptcy Attorneys  
National Consumer Law Center (on behalf of its low-income clients)  
National Consumers League  
Public Citizen  
Public Good Law Center  
Public Justice  
Oregon Consumer Justice  
Woodstock Institute