

109TH CONGRESS
2^D SESSION

S. 3422

To provide for the tax treatment of income received in connection with the litigation concerning the Exxon Valdez oil spill.

IN THE SENATE OF THE UNITED STATES

JUNE 6, 2006

Ms. MURKOWSKI introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To provide for the tax treatment of income received in connection with the litigation concerning the Exxon Valdez oil spill.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. TAX TREATMENT OF INCOME RECEIVED IN**
4 **CONNECTION WITH THE EXXON VALDEZ LITI-**
5 **GATION.**

6 (a) INCOME AVERAGING OF AMOUNTS RECEIVED
7 FROM THE EXXON VALDEZ LITIGATION.—

8 (1) IN GENERAL.—At the election of a qualified
9 taxpayer who receives qualified settlement income
10 during a taxable year, the tax imposed by chapter 1

1 of the Internal Revenue Code of 1986 for such tax-
2 able year shall be equal to the sum of—

3 (A) the tax which would be imposed under
4 such chapter if—

5 (i) no amount of elected qualified set-
6 tlement income were included in gross in-
7 come for such year, and

8 (ii) no deduction were allowed for
9 such year for expenses (otherwise allowable
10 as a deduction to the taxpayer for such
11 year) attributable to such elected qualified
12 settlement income, plus

13 (B) the increase in tax under such chapter
14 which would result if taxable income for each of
15 the years in the applicable period were in-
16 creased by an amount equal to the applicable
17 fraction of the elected qualified settlement in-
18 come reduced by any expenses (otherwise allow-
19 able as a deduction to the taxpayer) attrib-
20 utable to such elected qualified settlement in-
21 come.

22 Any adjustment under this section for any taxable
23 year shall be taken into account in applying this sec-
24 tion for any subsequent taxable year.

1 (2) COORDINATION WITH FARM INCOME AVER-
2 AGING.—If a qualified taxpayer makes an election
3 with respect to any qualified settlement income
4 under paragraph (1) for any taxable year, such tax-
5 payer may not elect to treat such amount as elected
6 farm income under section 1301 of the Internal Rev-
7 enue Code of 1986.

8 (3) DEFINITIONS.—For purposes of this sub-
9 section—

10 (A) APPLICABLE PERIOD.—The term “ap-
11 plicable period” means the period beginning on
12 January 1, 1994, and ending on December 31
13 of the year in which the elected qualified settle-
14 ment income is received.

15 (B) APPLICABLE FRACTION.—The term
16 “applicable fraction” means the fraction the nu-
17 merator of which is one and the denominator of
18 which is the number of years in the applicable
19 period.

20 (C) ELECTED QUALIFIED SETTLEMENT IN-
21 COME.—The term “elected qualified settlement
22 income” means so much of the taxable income
23 for the taxable year which is—

24 (i) qualified settlement income, and

1 (ii) specified under the election under
2 paragraph (1).

3 (b) CONTRIBUTIONS OF AMOUNTS RECEIVED TO RE-
4 TIREMENT ACCOUNTS.—

5 (1) IN GENERAL.—Any qualified taxpayer who
6 receives qualified settlement income during the tax-
7 able year may, at any time before the end of the tax-
8 able year in which such income was received, make
9 one or more contributions to an eligible retirement
10 plan of which such qualified taxpayer is a bene-
11 ficiary in an aggregate amount not to exceed the
12 amount of qualified settlement income received dur-
13 ing such year.

14 (2) TIME WHEN CONTRIBUTIONS DEEMED
15 MADE.—For purposes of paragraph (1), a qualified
16 taxpayer shall be deemed to have made a contribu-
17 tion to an eligible retirement plan on the last day of
18 the taxable year in which such income is received if
19 the contribution is made on account of such taxable
20 year and is made not later than the time prescribed
21 by law for filing the return for such taxable year
22 (not including extensions thereof).

23 (3) TREATMENT OF CONTRIBUTIONS TO ELIGI-
24 BLE RETIREMENT PLANS.—For purposes of the In-
25 ternal Revenue Code of 1986, if a contribution is

1 made pursuant to paragraph (1) with respect to
2 qualified settlement income, then—

3 (A) except as provided in paragraph (4)—

4 (i) to the extent of such contribution,
5 the qualified settlement income shall not
6 be included in taxable income, and

7 (ii) for purposes of section 72 of such
8 Code, such contribution shall not be con-
9 sidered to be investment in the contract,
10 and

11 (B) the qualified taxpayer shall, to the ex-
12 tent of the amount of the contribution, be treat-
13 ed—

14 (i) as having received the qualified
15 settlement income—

16 (I) in the case of a contribution
17 to an individual retirement plan (as
18 defined under section 7701(a)(37) of
19 such Code), in a distribution described
20 in section 408(d)(3) of such Code,
21 and

22 (II) in the case of any other eligi-
23 ble retirement plan, in an eligible roll-
24 over distribution (as defined under
25 section 402(f)(2) of such Code), and

1 (ii) as having transferred the amount
2 to the eligible retirement plan in a direct
3 trustee to trustee transfer within 60 days
4 of the distribution.

5 (4) SPECIAL RULE FOR ROTH IRAS AND ROTH
6 401(k)s.—For purposes of the Internal Revenue
7 Code of 1986, if a contribution is made pursuant to
8 paragraph (1) with respect to qualified settlement
9 income to a Roth IRA (as defined under section
10 408A(b) of such Code) or as a designated Roth con-
11 tribution to an applicable retirement plan (within
12 the meaning of section 402A of such Code), then—

13 (A) the qualified settlement income shall
14 be includible in taxable income, and

15 (B) for purposes of section 72 of such
16 Code, such contribution shall be considered to
17 be investment in the contract.

18 (5) ELIGIBLE RETIREMENT PLAN.—For pur-
19 pose of this subsection, the term “eligible retirement
20 plan” has the meaning given such term under sec-
21 tion 402(c)(8)(B) of the Internal Revenue Code of
22 1986.

23 (c) QUALIFIED SETTLEMENT INCOME NOT IN-
24 CLUDED IN SECA.—For purposes of chapter 2 of the In-
25 ternal Revenue Code of 1986 and section 211 of the Social

1 Security Act, no portion of qualified settlement income
2 shall be treated as gross income derived from a trade or
3 business carried on by a qualified taxpayer.

4 (d) QUALIFIED TAXPAYER.—For purposes of this
5 section, the term “qualified taxpayer” means any plaintiff
6 in the civil action In re Exxon Valdez, No. 89–095–CV
7 (HRH) (Consolidated) (D. Alaska).

8 (e) QUALIFIED SETTLEMENT INCOME.—For pur-
9 poses of this section, the term “qualified settlement in-
10 come” means income received (whether as lump sums or
11 periodic payments) in connection with the civil action In
12 re Exxon Valdez, No. 89–095–CV (HRH) (Consolidated)
13 (D. Alaska).

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