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PRODUCT & SERVICE GUIDE

IRS Issues Guidance on Deductibility of Fines and Penalties

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May. 12, 2020



IRS

Department of the Treasury
Internal Revenue Service

The Internal Revenue Service has issued [proposed regulations](#) under the Tax Cuts and Jobs Act (TCJA) that provide guidance to taxpayers and governments with respect to fines, penalties and certain other amounts.

The TCJA disallows a deduction for the payment of fines, penalties, and certain other amounts. Specifically, taxpayers may not deduct amounts that, pursuant to court orders or settlement agreements, are paid to, or at the direction of, governments in relation to the violation of any law or the investigation or inquiry into the potential violation of any law.

Under the TCJA, this disallowance may not apply to amounts that taxpayers establish, and court orders or settlement agreements identify, are paid as restitution, remediation, or to come into compliance with a law so long as the amounts otherwise qualify as deductible under the Internal Revenue Code.

The proposed regulations describe how taxpayers may meet these requirements and define key terms and phrases such as restitution, remediation, and paid to come into compliance with a law.

The TCJA also requires governments to report these amounts to the Internal Revenue Service and taxpayers. The proposed regulations provide guidance to governments related to these reporting requirements.

For more information about this and other TCJA provisions, visit [IRS.gov/taxreform](https://www.irs.gov/taxreform).

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