Tax Revenues Should Not Be Lost Due to JPMorgan Chase's Bad Behavior

November 4, 2013

Attorney General Eric Holder
U.S. Department of Justice
950 Pennsylvania Avenue, NW
Washington, DC 20530

Dear General Holder:

The 74 organizations below applaud efforts of your department and allied agencies to impose some accountability on the faulty mortgage lending practices of big banks, which was a major cause of the 2008 financial crisis that triggered the worst economic downturn since the Great Depression. As your enforcement actions unfold, it is important that the American people—already victimized once by Wall Street's malfeasance—not be forced to pick up more of the tab.

That's precisely what would happen if the banks responsible for the crisis are allowed to deduct from their taxes any part of the payments they make in settlement of the claims against them by the federal government. Therefore, we urge you to include in agreements reached with any parties a prohibition against deducting any portion of the settlement payments.

Media reports indicate that JPMorgan Chase & Co. is on the verge of reaching $13 billion in settlements with federal and state prosecutors over faulty mortgages the company and its subsidiaries packaged and sold. (Five billion dollars related to that amount has already been included in a settlement reached with the federal government's home financing regulator.) It has also been reported that JPMorgan could get a tax break of around $4 billion by deducting the settlement costs from its tax bill.

As you know, the tax code prohibits tax deductions for fines or other payments "to a government for the violation of any law." But payments that are viewed as compensatory or remedial are considered a cost of doing business and are therefore deductible. Even payments that sound as if they are penalties or fines can be claimed as remedial and thus eligible for a tax deduction. It all depends on how the settlement is worded and how the I.R.S. interprets that wording.

The government can prevent defendants from shifting part of the cost of their wrongdoing onto other taxpayers by specifically forbidding it in the settlement agreement. The Securities and Exchange Commission (SEC) did just that in a $550 million settlement with investment bank Goldman Sachs in 2010. (In fact, in 2003 the SEC instituted a policy requiring that its settlements must include language making it clear that payments are a penalty and therefore should not be tax deductible.) There was a

similar provision in the federal government's $4 billion criminal settlement with BP over the Gulf oil spill.

Wrongdoers should bear the full cost of their malfeasance and not be allowed to get a tax break. That's not only fair, but also acts as a better deterrent to future wrongdoing and saves the government precious taxpayer dollars. Therefore, we urge you to include in any settlement agreement reached with JPMorgan or other firms responsible for the Wall Street meltdown a prohibition on deducting the settlement payments from their taxes.

Sincerely,

9to5
Action for the Common Good
AFL-CIO
Alliance for a Just Society
Alliance for Retired Americans
American Federation of Government Employees
American Sustainable Business Council
Americans for Democratic Action
Americans for Financial Reform
Americans for Tax Fairness
Campaign for a Fair Settlement
Campaign for America's Future
Center for Biological Diversity
Center for Effective Government
Community Action Partnership
Community Organizations in Action
Consumer Action
Croatan Institute
Demos
Domini Social Investments LLC
Green America
Jubilee USA Network
National Association of Neighborhoods
National People's Action
New Rules for Global Finance
Oblates of Mary Immaculate
OWL-The Voice of Midlife and Older Women
Progressive Asset Management
Progressive States Network
Progressives United

Public Citizen
Rebuild the Dream
Responsible Wealth
SAFER
Strategic Counsel on Corporate Accountability
Tax Justice Network
The Arc
The Every Child Matters Education Fund
The Sustainability Group At Loring, Wolcott & Coolidge
United for a Fair Economy
US Public Interest Research Group
USAction
Working America

State Organizations

Arizona	American Federation of State County & Municipal Employees Local 2960
California	California Reinvestment Coalition
Connecticut	ConnPIRG
Delaware	Delaware Ecumenical Council on Children and Families
Florida	United Chinese Association of Florida
Georgia	Georgia Rural Urban Summit
Georgia	Georgia Student Justice Alliance
Georgia	MoveOn.org (Atlanta Council)
Georgia	MoveOn Gwinnett County (Georgia)
Idaho	Idaho Community Action Network
Illinois	Housing Action Illinois
Illinois	Woodstock Institute
Iowa	Iowa Citizens for Community Improvement
Kansas	Kansas AFL-CIO
Massachusetts	Massachusetts Peace Action
Michigan	UAW Local 6000
Nebraska	Sisters of Mercy West Midwest Justice Team
New Jersey	NJ State Industrial Union Council
New Mexico	New Mexico Voices for Children
New York	Central New York Citizens in Action, Inc.
New York	Fiscal Policy Institute
New York	New Economy Project
North Carolina	Action NC
Oregon	Oregon Action
Pennsylvania	Philadelphia War Resisters League

Texas	Neverland Designs
Texas	Texans United To Amend
Texas	TexPIRG
Washington	WA State Chapter NASW
Washington	Washington State Labor Council, AFL-CIO
Wisconsin	Institute for Wisconsin's Future