



AWARDS FOR UNLAWFUL DISCRIMINATION

The Income from Discrimination Exclusion acts of 2002 and 2003 exclude from District Gross Income all amounts received from all discrimination awards except:

- a. amounts received as compensation, frontpay/back pay, for services performed or would have been performed had there not been unlawful discrimination or
- b. punitive damages.

(Even though frontpay/backpay is subject to District income tax, a substantial tax advantage can be obtained by income averaging frontpay/backpay, not punitive damages. See below.)

INCOME AVERAGING OF TAXABLE COMPENSATION

The taxable compensation can be reduced by deductible expenses incurred. These are expenses incurred in prosecuting the claim. The taxable income may be averaged over a period based on the number of years covered by the claim. See the worksheet below. Example, if your claim covered the period 1995 through 2001 (six years), and you received a compensation award in 2002, you would average it over the six year period 2002 through 2007.

Punitive damages received from a claim of unlawful discrimination may not be averaged; they are taxable in full in the year received.

Income Averaging for Discrimination Compensation Awards

1	BACKPAY Discrimination award of compensation for services performed as an employee, former employee or prospective employee.	\$. 00
2	FRONTPAY Discrimination award of compensation for services which would have been performed but for a claimed violation of law.	\$. 00
3	TOTAL BACKPAY AND FRONT PAY <i>Add lines 1 and 2</i>	\$. 00
4	DEDUCTIBLE EXPENSES allowed for making or prosecuting any claim of unlawful employment discrimination on your behalf.	\$. 00
5	NET BACKPAY/FRONTPAY <i>line 3 minus line 4</i>	\$. 00
6	Number of years in the Backpay/Frontpay period			
7	NET AMOUNT OF DISCRIMINATION AWARD TO BE INCLUDED IN CURRENT YEAR'S INCOME and in subsequent years <i>divide line 5 by line 6</i>	\$. 00
8	THIS YEAR Subtract from Federal Adjusted Gross Income (FAGI) the amount to be included in income in subsequent years <i>(line 5 minus line 7)</i> . Enter the result here and on Line j, Calculation A, Subtractions from FAGI, in the D-40 Instructions. %	\$. 00
9	SUBSEQUENT YEARS For each future year of the averaging period, enter the amount on Line 7 on the appropriate line of Calculation B, Additions to FAGI, in the D-40 Instructions. %	\$. 00