



Insurance.com Releases Guide on Car Insurance Settlements for Taxpayers

March 30, 2021

What's taxable isn't always black and white

Foster City, CA – March 30, 2021 – It's tax season, and some drivers may be asking, "[Are car insurance settlements taxable?](#)" if they've recently received one after an accident. Experts know it's not always cut and dry because there are several components to every settlement. While it may be best to consult a tax attorney, [Insurance.com](#) is releasing a guide before Tax Day to help.

Taxable

- Pain and suffering or emotional distress: *may* be taxable
- Car insurance settlement for lost wages: taxable

Not Taxable

- Typically, money to repair or replace a vehicle is not taxable
- Auto insurance settlement for medical bills: tax-exempt*

Gray Area

- Car insurance settlement for pain and suffering taxable: taxes vary
- If pain and suffering is the result of a physical injury: not taxable
- If pain and suffering is classified as emotional distress: taxable

"Typically, the IRS only taxes money (income) that makes you wealthier than you were before, but there are always exceptions," notes Ashlee Tilford, the site's insurance analyst and managing editor.

FAQs

- Is interest earned on car accident settlements taxable?
- If the money from the [car insurance company](#) is deposited in a bank account or mutual fund and earns interest – that interest is considered income and is always taxable
- Are punitive damages in an insurance settlement taxable?
- Punitive damages are taxable because they are not compensating a driver for out-of-pocket losses

How to Reduce the Tax Owed on a Car Insurance Settlement

- Structured [auto insurance settlements](#) can help save between 25-35%: if it covers future lost wages, consumers can avoid some taxes by having it paid out over an extended period
- The insurance company must purchase an annuity in an amount that will earn enough interest income to replace lost wages (non-taxable)
- The rest paid by the insurance company is taxable
- There are two categories of damages when suing another driver: how a settlement is classified will impact the tax obligation.
- Special damages are easy to quantify - lost wage compensation is always taxable because it is considered income
- General damages are more subjective and include (non-taxable) pain and suffering

** IRS exception - "If you receive a settlement for personal physical injuries or physical sickness, you must include in income that portion of the settlement that is for medical expenses you deducted in any prior year(s) to the extent the deduction(s) provided a tax benefit. If part of the proceeds is for medical expenses you paid in more than one year, you must allocate on a pro-rata basis the part of the proceeds for medical expenses to each of the years you paid medical expenses."*

About Insurance.com

Insurance.com is owned and operated by [QuinStreet, Inc.](#) (Nasdaq: [QNST](#)), a leader in providing performance marketplace technologies and services to the financial services and home services industries. QuinStreet is a pioneer in delivering online marketplace solutions to match searchers with brands in digital media. The company is committed to providing consumers with the information and tools they need to research, find and select the products and brands that meet their needs.

Insurance.com is a member of the company's expert research and publishing division. Insurance is a trusted online resource dedicated to educating consumers on auto, home, health and life insurance, developing relationships directly with carriers to offer consumers comparison rates from multiple companies. Since 2001, Insurance.com's industry-first online tools, data-based reporting and experienced experts have helped consumers make informed insurance-related decisions, so they can choose the right insurance for their individual needs.

Twitter: [@InsuranceDotCom](#)

Facebook: <https://www.facebook.com/InsuranceDotCom>

Media contact

Amy Eury

Public Relations Manager

aeury@quinstreet.com

Direct +1.412.532.9352

[LinkedIn](#)