Rep. Peter Welch (D-Vt.) on Thursday introduced legislation to close a tax loophole that allows corporations to write off punitive damages they pay plaintiffs in a lawsuit.

The lucrative deduction has allowed companies like Phillip Morris and Exxon-Mobil, which have lost major class action lawsuits, to skirt paying hundreds of millions in taxes. As BP prepares to defend itself against countless lawsuits, it could be poised to write-off much of the damages it may be forced to pay.

Welch's bill, the Stop Deducting Damages Act, would save $315 million over ten years by closing the loophole.

"Losing a lawsuit should not qualify a corporation to win a lucrative tax break," Welch said. "This loophole is bad public policy and it's costing taxpayers money. By closing it, we can ensure that punitive damages are actually punitive."

The tax code currently treats punitive damages, which are awarded to a plaintiff when a defendant engages in reckless conduct, as "ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business." Welch's bill would simply strip such damages from the list of deductable expenses.

When Exxon-Mobil was forced in 2005 to pay $500 million in punitive damages following the Exxon Valdez oil spill, the company was able to deduct the entire amount from its tax bill, saving it $200 million. That same year the company reported profits of $36.1 billion.