

## Section 120 Fact Sheet

### Legislative History of the Tax Exempt Status for Prepaid Legal Service Plans: IRC Section 120

- A. First enacted in 1976, as part of the Tax Reform Act of 1976, for a period of five years.
- B. Extended on seven separate occasions (1981, 1984, 1986, 1988, 1989, 1990 and 1991).
- C. Provision sunsetted on June 30, 1992.
- D. Introduced with bi-partisan support in House and Senate every Congress since 1992.
- E. Introduced in House, 110<sup>th</sup>, by Rep. Pete Stark (HR 1840), with 35 co-sponsors
- F. Introduced in Senate, 110<sup>th</sup>, by Sen. Gordon Smith (S. 1130), with 7 co-sponsors

### Benefits Derived from Group Legal Plans

- A. Enhance employee productivity by allowing workers to focus on their jobs, not their legal troubles:
  - 1. Stress brought about by legal problems is reduced by knowing that legal advice is available at little or no cost.
  - 2. Legal services can resolve acute problems, especially those involving lawsuits, garnishment, tax disputes and issues arising from the purchase of goods and services.
- B. Prevent disputes by providing for review of legal issues early on:
  - 1. Review of real estate contracts, mortgage documents and deeds before signing to ensure clients know what type of mortgage is offered and the actual interest rate being charged.
  - 2. Consumer contract review to spot potential problems (e.g., home repairs, time shares and other agreements).
- C. Provide additional education and security for retirement benefits
  - 1. Review solicitations for investment of rollover funds such as IRA's and 401(k) accounts
  - 2. Review estate plan and necessary legal documents.
  - 3. Intervene in cases of fraud and theft of retirement funds.
- D. Meet the need of an aging population by providing advice and services regarding:
  - 1. Wills and trusts, enabling property to be passed on.
  - 2. ~~Power of attorney to address incapacity.~~
  - 3. Living wills to establish the level of medical intervention desired when facing a terminal illness.
  - 4. Access to nursing home care and the ability to preserve assets.
  - 5. Guardianship and conservatorship for disabled adults, minor children and grandchildren.
- E. Enable active and retired workers to fight for their rights in court, a right which is often restricted by virtue of the cost of legal services.

### Why Section 120 Should be Reinstated

- A. Failure to reinstate Section 120 has triggered a tax increase on workers who are covered by employer sponsored plans:
  - 1. Workers are taxed on the benefit regardless of whether they use it during the plan year.
  - 2. Any type of additional tax on retirees who receive this benefit is significant (as most retirees live on fixed incomes).
- B. Reinstatement of Section 120 represents a targeted tax cut designed to encourage equal access to justice for working, tax-paying employees and their families. It would also enable Congress to demonstrate that it supports middle income workers. Without its restoration, employers will continue to allocate financial resources to alternate tax exempt benefits -- providing no additional tax revenue -- and the legal needs of millions of middle income workers will go unmet.
- C. The playing field for employer-paid benefits should be level, with equal treatment for all such benefits.
- D. Legal plans provide benefits to the Federal Government and to the economy by:
  - 1. Reducing dependence on government programs by helping with child support enforcement, spousal and child abuse, domestic violence, and evictions.
  - 2. Reducing stress on families by providing assistance with legal problems, many of a financial origin, which often strain marriages and relationships.
  - 3. Promoting productivity in the workforce by allowing employees to focus more on their jobs and less on legal and financial problems.