

Qualified Settlement Funds: An Overview

A qualified settlement fund (“QSF”), also referred to as a 468B Trust, is an exceptionally useful settlement tool that allows time to properly resolve complex cases.

How does a QSF work?

A QSF is a trust or account that holds settlement proceeds from litigation. QSFs are established by court order and are regulated under 26 C.F.R. § 1.468B-1. The defendant(s) fund the QSF and are then dismissed with prejudice and a full release of all claims. At that point, the QSF assumes the liability for managing the settlement funds and distributing the allocations.

A QSF can help parties settle disputes while taking advantage of tax benefits, deferring taxation, gaining extra planning time, resolving liens, paying parties with no liens, and paying parties as liens are resolved.

What are the benefits of using a QSF?

There are many benefits associated with qualified settlement funds, including:

- The defendant is eligible for an immediate tax deduction for the payment. Income earned by the QSF is taxed at the maximum rate for trusts in the taxable year.
- A qualified settlement fund administrator streamlines the settlement process and simplifies the fund’s administration.
- The QSF may also enter into a settlement agreement with the plaintiffs and can enter into a qualified assignment, pursuant to the terms of Rev. Proc. 93-94.
- Plaintiffs gain the time they need to receive a proper settlement consultation and to determine their best settlement options.
- The additional time also allows for lien resolution and the preparation of required documentation without the time pressures of litigation.
- Plaintiffs without any outstanding issues will not have to wait for their co-Plaintiffs’ issues to be resolved in order to receive their settlement distribution.

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