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The Trouble with Taxing Third-Party Litigation Funds

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Third-party litigation, also known as litigation finance, describes the “nonrecourse funding of litigation by a non-party for a profit.” Under a typical agreement, a litigant or a contingent-fee lawyer receives cash from a third-party litigation fund in exchange for a percentage of the potential claim. The litigant uses the proceeds to either pay for living expenses or costs of litigation. The contingent fee lawyer uses the proceeds to diversify risk and smooth out cash flow.