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Tax Compliance

Star-Studded Tax Advice: Four Things Celebrities Should Consider

Floyd Mayweather may have knocked out Conor McGregor in last weekend's Las Vegas match, but he still has a score to settle with the IRS.

Mayweather is guaranteed to take home at least \$100 million for his Aug. 26 win, but his total prize is likely to skyrocket after pay-per-view payments are accounted for. A portion of that could go straight to the Internal Revenue Service, after the now-retired professional boxer in July asked for more time to pay his \$1.6 million tax bill from 2015.

Mayweather isn't the first high-wealth celebrity to run into tax trouble. Actor Wesley Snipes spent more than two years in prison for failing to file tax returns, and the estate of singer Michael Jackson is currently battling the IRS over the value of the artist's image rights. Practitioners told Bloomberg BNA that celebrities—including singers, actors, and athletes—can rest easier come tax season if they keep these things in mind:

1. Pay Uncle Sam First One consideration celebrities must take into account is that because they are prone to draw more IRS attention than an average taxpayer, keeping their tax liability in mind when allocating earnings is vital.

Celebrities naturally attract the IRS's attention based on publicity value and high income levels, said David W. Klasing, a tax attorney and certified public accountant in Los Angeles. "It really comes down to publicity value for the IRS," he said.

Sean Packard, tax director at OFS Wealth, recommends opening a second bank account and immediately placing into it a percentage of income for tax purposes. "It's easy for a Floyd Mayweather to get a \$100 million check, post a picture on Twitter, and think it's all his and not think 'oh yeah, well 40 percent of this has to go to the government,'" he said.

Because many celebrities aren't employed by a specific company, income isn't always automatically withheld for tax purposes, said David Hryck, a partner at Reed Smith LLP. Hryck said celebrities are given the gross amount of their earnings, and need to set money aside to pay their estimated tax bill.

"Many of them are creatives and not necessarily business people," Hryck said. "At the end of the tax deadline maybe the money has been spent."

2. Have Economic Discipline Practitioners said that a specialized financial management team is a necessity for celebrities who might not have the time or know-how to plan for their tax liability.

"Typically I want to make sure the client has a good team in place," Hryck said. "I kind of look at other aspects of what they are doing—make sure they have the right accountant and business manager."

Packard said tax planning is a uniquely specialized industry, and that planning for an athlete is different from an individual who is planning to work until they reach full retirement age. "You need to make sure you work with someone who is experienced in the field." Packard used the adage "you can lead a horse to water, but you can't make them drink," when describing the difficulties of getting celebrity clients to keep their tax bill in mind.

"Lots of times guys have enablers around them. Friends or family coming to the trough trying to get as much money as they can," he said. "They are supporting people around them, and when it's time to pay the taxman, the money is distributed already. Try to stick to a budget."

Hryck said celebrities often do receive good advice, but maybe some advisers "can't control their clients." Many business managers are more focused on garnering deals than on the technical aspects of financial management, he said.

3. Get a Second Opinion Celebrities sometimes are targeted by tax professionals wanting to sell the next big wealth-management plan that promises to offset a taxpayer's liability.

Packard said some of his clients have been targeted by financial advisers promising to "legally knock down your tax bill 'X' amount" without even knowing the details of the individual's tax liability.

The reason the government prosecutes is for the deterrent value, Klasing said, adding that celebrities often are "risk-seeking-type personalities" who might be inclined to take their chances on an offer to limit their tax exposure, even if it's a scam.

"I would always get a second opinion for anything I might be doing in terms of tax preparation," Klasing said. "The moment you have to sign a confidentiality agreement for getting tax advice, you should be wary of that advice."

4. Consider All Jobs A celebrity's income often comes from more than just their paycheck for starring in a Hollywood film or playing in a championship game. Speaking engagements, book deals, and even invest-

ments in startups have created new avenues for celebrities to bring in money that the IRS will want a piece of.

“Because they’re paid as independent contractors for these types of activities, they may not realize that there is no tax withholding, so 40% of their net will need to get paid to the government plus whatever state taxes they would owe on that income,” Packard said in an Aug. 28 email.

Using tax professionals leaves little room for confusion as to what activities celebrities owe tax on, Klasing said. “I believe the IRS, and especially the criminal in-

vestigation division of the IRS, would not lend much credence to the concept of ‘Tax Confusion,’ where Internal Revenue Code Section 61 so clearly defines income as basically any accession to wealth from all sources so derived,” he said in an email.

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