



Robert W. Wood

THE TAX LAWYER

TAXES 01/22/24

Alec Baldwin, Indicted In Shooting Death, Can Write Off His Legal Fees



A grand jury in New Mexico indicted [Alec Baldwin for involuntary manslaughter in fatal 'Rust' shooting](#). This revives the criminal case against him in the fatal shooting of a cinematographer on the film set. Mr. Baldwin still claims that he never pulled the trigger, although some dispute that claim.

He has only been *accused* at this point, and there are many takes on the story, which probably doesn't make you think about taxes. Yet lawyers can be expensive, and some sources note the actor's attempt to sell his pricy Hamptons home. In any case, sooner or later, people paying a lot for lawyers usually think about taxes.

After all, tax deductions can whittle a high legal bill down to size, or at least make the legal bills somewhat less painful. That's where the specific allegations against Mr. Baldwin might have a tax connection. There is no question that Baldwin was doing his job—acting is his career—when the shooting occurred. So does that make his defense costs business expenses? The cost of even high-priced lawyers can be fully deductible, depending on the circumstances. The hourly rate alone is not the issue, but rather the *nature* of the matter.

Unless you are running a business, many legal fees aren't tax deductible. Personal legal fees are non-deductible, but legal fees that help your business can be fair game. Expenses must be [ordinary, necessary and reasonable](#) to satisfy the IRS, but those standards aren't actually too tough. A more delicate question is whether something is really business or not. If it is, even criminal charges don't necessarily prevent tax deductions. Remember [John Edwards' \\$2M in legal fees](#)? The charges in his criminal trial related to his conduct in his chosen trade or business: politics!

The IRS could say that this indictment is personal. If the charges don't relate to your business or profession, some people try to claim deductions based on preserving their reputation. In the show business world, there are plenty of examples, from [Winona Ryder's](#) shoplifting, [Robert Blake's](#) murder charges, [Naomi Campbell's](#) phone-throwing, and [Lindsay Lohan's](#) DUIs, probation violations, and alleged theft?

Domestic doyenne [Martha Stewart](#) paid huge legal fees on an obstruction of justice charge from the sale of stock. To pay legal fees, she sold 75,000 shares of Martha Stewart Living stock (raising \$4.67 million). SEC filings revealed she sought reimbursement (as an officer and director) for \$3.7 million of fees for her successful defense on the charge that she tried to lift her own company's share price by declaring that she was innocent of insider trading.

The granddaddy of all celebrity legal cases was Michael Jackson's molestation trial. His acquittal on child molestation charges came at a price, as some estimates put the King of Pop's legal expenses as high as \$20 million. I don't know if he deducted them, but sometimes, [high-priced celebrity lawyers are tax deductible](#). Later, Dr. Conrad Murray was convicted in connection with Jackson's death, and could probably deduct *his* legal fees as a business expense. The legal expenses related to his profession, even if he ended up being called the [Michael Jackson death doctor](#).

For decades, there was a middle category between personal legal fees (not deductible) and business (deductible). The middle category was *investment* legal fees, and it was a huge one. But under the Trump tax reform law passed at the very end of 2017, many legal fees can't be deducted. Even in lawsuits that unquestionably have a profit motive can fail to qualify for a tax deduction for the legal fees. For a case in point, see [how IRS taxes killed plaintiff's \\$289M Monsanto weedkiller verdict](#). It's just one of the strange parts of how legal [settlement awards fare post tax reform](#).

The sheer size of Baldwin's legal bills may not matter. Lawyers are expensive, and the IRS knows that. Still, some bills are just too big and considered lavish. A lavish business [expense](#) is significantly higher than what is considered reasonable. Say a company pays triple the market rate for something. That

amount may be a lavish or extravagant expense. That makes the portion deemed lavish by the IRS not [tax deductible](#). But high-end doesn't mean unreasonable. The topic comes up most with entertainment expenses, as in [extravagant meals](#).

Check out my [website](#).