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Dolce & Gabbana: Tax Cheats OK, Parent Bashing Not

Controversial [comments against gay parenthood](#) by openly-gay [Domenico Dolce](#) and [Stefano Gabbana](#) may not have [broken the Internet](#), but what a whirlwind it's been! Little did the billionaire fashion duo know that when they spoke about the "classical" family in an interview, it would explode. They said "no [to] chemical children and [a] rented uterus." The reaction was immediate.

[Elton John](#), who [recently married](#) his longtime partner David Furnish and with whom he has two children, lashed out and calling for a boycott of Dolce & Gabbana. The fashion power-duo, the 27th richest men in Italy, were the subject of a cover story for Italian weekly *Panorama* titled "[Long-Live the \[Traditional\] Family](#)," in which the designers came out against the use of surrogate mothers while claiming children need "a mother and a father."

Dolce, added “I’m not convinced with what I call chemical children, a rented uterus, semen selected from a catalogue.” The pair has since tried to backpedal and explain this is just their personal choice; they are not judging others. But the sting remains. Curiously, given the economic punch of a boycott, their views could get them in more trouble than their tax problems. Throughout their multi-year criminal tax ordeal, the public and the media seemed to be behind the Italian billionaires.

That was so despite their more than \$1.65 billion net worth—each. The public didn’t mind when they were alleged to have sold their company, stuffing money offshore away from the tax man. The sale of the [Dolce & Gabbana](#) label to Luxembourg-based Gado may primarily have been a tax shelter. Financially, Italy ended up making out just fine, collecting 343.3 million euros in fines and restitution from the pair. Several courts found them [guilty of tax evasion](#), imposing 18 month jail sentences while prosecutors sought heftier [three-year prison terms](#).

In the end, though, the pair were vindicated and ruled not guilty by Italy’s highest court. So now D&G are OK with the taxman but not with Elton John. And yet taxes have a way of getting into virtually everything. Curiously, the subject of taxation and egg donations has hit the U.S. court system. Earlier this year, the U.S. Tax Court concluded that amounts received by an egg donor were taxable.

In [Perez v. Commissioner](#), Nichelle Perez, a California resident, contracted with Donor Source International, LLC to sell her eggs. During 2009, Perez went through two donation cycles and was paid a total of \$20,000. For each donation, she entered into two contracts—one with Donor Source and one with the anonymous intended parent. The contract with Donor Source made clear that Perez was not selling her eggs, suggesting instead that she was being compensated for her physical suffering.

Egg extractions are painful, but this language may have been designed with taxes in mind. Payments for physical injuries are tax-free, while the tax treatment of a sale of eggs, blood or body parts was not clear—until now. Ms. Perez said the payments were for her physical suffering so not taxable. The IRS said this was a sale, and the income tax applies.

The Tax Court agreed with the IRS. The court acknowledged Ms. Perez may have had physical pain, but the money was not to compensate her for an unwanted invasion or injury like a medical malpractice suit or car accident. It was for services rendered. Still, it’s worth noting that D&G are pretty good at tax maneuvers. Maybe they could come up with a better structure for taxes in the future.

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