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Manny Pacquiao Boxing IRS: Think Dionne Warwick, Not Willie Nelson

Filipino boxer [Manny Pacquiao](#) is famously feisty. A comeback kid adult, the versatile boxer won world championships in eight weight classes. He is even a lawmaker representing Sarangani province. Yet Philippine tax authorities say he owes 2.2 billion pesos (\$50.3 million). They want Pacquiao to produce his U.S. tax records and have moved to seize his assets.

The dispute is all about his boxing earnings in the U.S. Proving how much Pacquiao paid the IRS would help reduce his Philippine bill. Unfortunately, the IRS has weighed in too, slapping on a Federal Tax Lien for \$18.3 million in allegedly unpaid taxes for 2006 through 2010.

A tax lien is standard procedure, designed to protect the IRS's interest. Beating one is tough. Dionne Warwick did it, but not Willie Nelson. A tax lien goes against everything, real estate, personal property, financial assets and more.



Filipino boxer Manny Pacquiao at Waterfront Hotel in Cebu City. (Photo credit: Wikipedia)

Given that Pacquiao has fought almost exclusively in the US, the IRS claims he didn't pay \$1.160 million in 2006, \$2.035 million in 2007, \$2.862 million in 2008, \$8.022 million in 2009 and \$4.231 million in 2010. As Paul Caron quipped, [Manny Pacquiao's Next Fight: The Tax Man](#). After 14 fights in the U.S., he did not want to return to a 39.6% rate.

Because Pacquiao is not a U.S. resident or citizen, he does not pay U.S. tax on monies earned elsewhere. Foreign athletes must file U.S. income tax returns and face [special withholding rules](#). They generally must pay U.S. income tax on their U.S.-source income, but what is considered U.S.-source can be debated.

Disputes about how much to allocate and where endorsement earnings should be taxed are common. The IRS has a [special program](#) targeting foreign athletes and entertainers. Depending on an athlete's home country, treaty benefits can help.

Sadly for Pacquiao, usually by tax lien time much hasn't gone well. There may be a pile of notices somewhere that were not timely disputed. Tax liens can be about income, property, or even estate taxes. They can be state, federal or local.

Do tax liens ever turn out to be wrong? Occasionally, yes. After numerous run-ins with the IRS, [Dionne Warwick](#) had a \$2.2 million federal tax lien filed against her in 2009 for unpaid taxes from the 1990s. But the IRS revoked it when it turned out to be an accounting mistake. Ms. Warwick still owed the IRS just under \$1 million though.

Despite high earnings, tax bills for celebrities may go to managers or slip through the cracks. Many have suffered liens. Still, the IRS can file a [Notice of Federal Tax Lien](#) only after:

- IRS assesses the liability;
- IRS sends a Notice and Demand for Payment saying how much you owe; and
- You fail to fully pay within 10 days.

The IRS automatically has a lien and files notice so creditors know. IRS tax liens cover **all** property even that acquired **after** the lien filing. The courts use it to establish priority in bankruptcy proceedings and real estate sales. IRS liens last 10 years, and usually release automatically if IRS has not refiled them.

However, you're better off to get them removed immediately. Getting the IRS to release a lien usually involves: (1) paying the tax, interest and penalties; or (2) posting a bond guaranteeing payment. Even then the IRS may take 30 days. State or local government charges to file and release the lien are added to the amount you owe.

If the IRS knowingly or negligently fails to release a Notice of Federal Tax Lien when it should, you can sue for damages. But my guess is that Mr. Pacquiao won't be suing anytime soon. Instead, he'll be slogging through twelve rounds both with the IRS and with Philippine authorities.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.