



Robert W. Wood

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Oscars \$100K Free Gifts Trigger IRS Tax Bill

Free gifts are hard to resist, even if you're a star, unless they come with a tax bill. How can gifts be taxed as income? The answer is when they are not really gifts. Every year at the Oscars, there are many "free" gifts. Companies pay promoters to get their gear in gift bags. The companies pay a fee to donate the goodies. And the nominees get the stuff for free in the "Everyone Wins" nominee gift bag. Everyone wants celebs to show off their gear, so companies write off the cost. However, celebs have to report it as income, and the tax bill can be considerable. So the IRS wins too.

This year's Oscars swag bag has 53 items—down from 56 in 2018—with a value of [over \\$100,000](#). The bags are not officially endorsed by the Academy, but official or not, they are hard to ignore. This year's bag includes a week-long vacation in Greece, a luxury small-ship adventure to Iceland, the Galapagos, the Amazon, Costa Rica or Panama (valued at up to \$20,000 per person), an all-inclusive week-long wellness retreat in San Marcos, California, an annual membership to an exclusive cannabis-friendly social club, private therapy sessions, a set of 15 luxury false eyelashes, and a Yeti cooler filled with Jarritos. All sorts of products benefit from celebs giving them a try. Check out a [list of everything inside this year's bag](#).

It is all taxable, even if it is not provided in cash. Cash can feature at the Oscars too. Remember the cash fees-for-attire flap of the past? [Women's Wear Daily](#) once reported that Meryl Streep cancelled a Chanel custom couture creation after the fashion house refused to *pay her* to wear it to the Oscars. The [\\$105,000 couture dress](#) was already in production when Streep's team allegedly said, "Don't continue the dress. We found somebody who will

pay us." A representative for Ms. Streep [denied that claim](#), saying it is against Ms. Streep's personal ethics to be paid to wear a gown on the red carpet. But stories of pay to play continue.

The [Daily Mail](#) once noted that it is not uncommon for celebrities to make money by wearing gowns, jewels, and accessories for big awards shows. Some have been reported to receive up to \$250,000 to wear a dress on the red carpet. Swag or not, if a celebrity is paid to wear a dress to an event, can they just pocket the money, or is it taxable? Like just about everything else, the IRS gets its cut. And while the practice may not be widely discussed, there's little doubt that designers paying the fees should issue the stars an IRS Form 1099 for the fee. IRS Forms 1099 are required for the Oscars gift bags too, which have had their own tax and other controversies. In the past, the Academy of Motion Picture Arts and Sciences [sued Distinctive Assets](#) for promoting the gift bags as "official" Oscars swag. The lawsuit claimed that, "Distinctive Assets uses the Academy's trademarks to raise the profile of its 'gift bags' and falsely create the impression of association, affiliation, connection, sponsorship and/or endorsement." The lawsuit was [resolved amicably](#).



In 2006, the Academy stopped *officially* giving out gifts due to [IRS scrutiny](#). For years, the entertainment industry and the IRS locked horns over these "gifts." Eventually, the swag disputes were settled, with [swag being clearly taxable, and celebs getting IRS Forms 1099](#). Celeb or not, if you get a gift bag,

you have taxable income equal to its fair market value. Can't you argue this was a "gift" so it isn't income? Hardly. These merchants don't give them solely out of affection or respect. And though the value of these goodies really isn't pay, you [must report it on your tax return](#). In case any attendees forget, they receive an [IRS Form 1099](#) reporting it. Remember, [mistakes with Form 1099 cost big](#), and if you're [missing a Form 1099 you may want to keep quiet](#).

Gift bags are taxable, but what about gift certificates or vouchers for trips or personal services? If you redeem the certificates or vouchers, you include the fair market value of the trip or service on your tax return. If you make a selection in a 'free shopping room,' the value of your selection is income too. Still, some celebs regift the bags or turn them down. They can take a charitable contribution deduction if they donate the gift bag to a qualified charity. But the fair market value of the gifts must still be reported on their tax returns. That's where turning goodies down raises odd tax issues. If you turn down a bonus from your employer, it's still income according to the IRS. If you say to "pay me next year," it's still income when you were handed the bonus and asked to delay it. Organizations and vendors distributing gift bags issue IRS Forms 1099-MISC. So why don't celebs receive a Form 1099 when they say "thanks, but no thanks?" A Form 1099 tags you with income. It can be tough to untangle when you [disagree with an IRS Form 1099](#).

This is not legal advice. For tax alerts or tax advice, email me at Wood@WoodLLP.com.