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# Behind The Grammys Taxes

The Grammys award show is a big production, which [GRAMMY.com calls Music's Biggest Night](#). Awards are coveted for their status and industry recognition, but they can increase performer earnings too. On the surface, the show raises no tax issues beyond the luxury swag gifts nominees rake in. See [Grammy Nominations 2014: The Full List](#). It's worth a look at [the Cool Swag the Stars Take Home](#).

Is all that free stuff taxable? You bet, the IRS taxes it all, which is why some celebs re-gift it and try to avoid the extra taxable income. No one wants to receive a Form 1099 for the value of something they may not use. But this year, there have been questions about the nonprofit tax status of the organization behind the golden Gramophone statuettes, the National Academy of Recording Arts and Sciences.



NPR looked at the tax status of the organization and some of its colorful history. See [How The Organization Behind The Grammys Spends The Other 364 Days](#). With many millions of viewers and an expensive production budget, the Grammys show is both expensive and lucrative. CBS is the network of choice, having broadcast it for decades with a contract to keep doing so until at least 2021.

CBS' current licensing fee is reportedly in excess of \$20 million annually. Is that big fee taxed to the Academy? Not exactly, because it's classed as a type of non-profit. See [The Recording Academy – GRAMMY.org](#). Call it the Academy, the Recording Academy, the National Academy of Recording Arts and Sciences or NARAS, it is made up of 22,000 members paying \$125 a year. The Academy is non-profit but not itself a charity.

As the Tea Party scandal underscored, there are many different kinds of nonprofits. This membership organization does funnel money to charities of the full 501(c)(3) variety, making contributions to those charities tax deductible by donors. See [Financial Information – GRAMMY.org](#). The current President is Mr. Neil Portnow, who noted to NPR that the Academy gets donations and corporate sponsorships to MusiCares.

That charity spends \$3.5 million annually to help struggling musicians. Another charitable effort is helping to prevent substance abuse and promote

recovery. There are also grants for music research, the preservation and archiving of recordings. Yet monies are spent on lobbying lawmakers on issues of importance to the recording industry.

The Grammy Foundation offers scholarships, grants and opportunities for music education. The Academy runs the Latin Grammys and The Grammy Museum. All this charitable activity may well be enough to mean that the Academy is pristine. Yet it wasn't always that way.

In the early 2000s, the Academy's President was Mr. Michael Greene, a colorful figure criticized for big spending. At one time he had the dubious honor of being the highest paid non-profit exec in the country. That meant a \$2 million salary, a Mercedes and country club membership. The L.A. Times claimed less than 10% of donations helped indigent, unemployed and infirm musicians.

The IRS reportedly looked into it at that time, but apparently took no action. Mr. Greene ultimately resigned, though reportedly with an \$8 million package. Financials show that the Academy's current President earns a more modest \$1.5 million, but NPR noted that it is not clear exactly how much the telecast costs each year, nor where all of the big fees from CBS is spent.

The stakes are large, and nonprofits often face scrutiny from the IRS. Various penalties can be proposed, and in extreme cases, the government can threaten to revoke a tax exemption. Lavish spending and private inurement are classic problems in some non-profits.

For example, when the [LA Times](#) reported the IRS investigation of Los Angeles' Kabbalah Centre, the questions appeared to be whether funds inured to the Berg family that has controlled the Kabbalah Centre for decades. As for the Recording Academy, the big dollars that the Grammys have become could increase the focus on the relationship between revenue and charitable benefit.

*You can reach me at [Wood@WoodLLP.com](mailto: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.*