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THE TAX LAWYER

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Charlie Sheen Beats IRS, Slashes \$7M Tax Bill To \$3.3M

Actor Charlie Sheen has owed the IRS millions for years and has long been trying to hold them at bay. Convincing the IRS they are wrong is not easy, especially where the IRS has discretion, and where you admit you owe the taxes—filing returns and calculating yourself how much you owe. Trying to strike a deal with the IRS to pay in installments or to get them to accept an offer in compromise—accepting less than you admit you owe—is tough.

The *Two and a Half Men* actor owed the IRS nearly \$7 million, was tired of their collection efforts, and had tried for years to negotiate a deal with the agency. The numbers and history are complicated. He owed \$5.7 million just for 2015. For 2015, 2017 and 2018, it was nearly \$7 million, and after much wrangling, the IRS agreed to take \$3.3 million (with a standard potential kicker that if his income changes big time he could owe a little more). Taxes add up in Hollywood and just about everywhere else, and the IRS tries to collect with notices, liens and levies, and it's painful for everyone. There are two established ways to try to strike a deal with the IRS. There are installment payment arrangements and offers in compromise. Sheen tried both, unsuccessfully. Installment agreements are easier to get, since the IRS isn't cutting its bill, just getting paid over time.



Offers in compromise are tougher. You owe the IRS a million, but offer them less, will they take it? That's what Sheen did. If the IRS figures it can collect the whole amount, it's not easy to get an offer accepted. Sheen owed for 2015, 2017 and 2018, and offered \$1,240,000, but later upped it to \$3.1 million to cover all three years. He even put down \$626,000 with the IRS as the required 20% down payment on the deal. But then the IRS said no, and didn't even want to give back his \$626k deposit. He filed one case in Tax Court in 2018, arguing that the IRS had abused its discretion. Then he filed another, arguing that the IRS shouldn't have [rejected his offer in compromise](#). This suit recounts the tortured history and says the deal was a good one, and that he didn't get a fair shake from the area director of the IRS for Los Angeles. Sheen claimed that his \$3.1 million deal was approved by various people at the IRS.

Then, Sheen says it was rejected without the official explaining or offering an opportunity for Sheen to address his concerns. Next Sheen asked for a different IRS office to handle it, outside the jurisdiction of LA. And lest we

forget about his 2018 tax case, Sheen asked the judge to combine the cases into one. When I say Sheen throughout, I really mean Steven L. Jager, an LA area CPA and tax partner at Fineman West & Company, LLP, who also practices in Tax Court. I have to hand it to him for being persistent and being persuasive, beating odds that were stacked high against him. If you've ever dealt with the IRS, its easy to have some sympathy for Sheen. His court papers recount being shuttled from one IRS person to another, in different parts of the country. Some of the figures are eye-popping. When he was trying an installment agreement with the IRS, it came back saying it figured the actor could handle paying \$51,275 every month.

As to the offer in compromise figure of \$3.1 million, the IRS said it figured that his ability to pay was three or four times that. In Tax Court, the judge mostly agreed that Sheen needed better handling, and when the smoke cleared, Sheen came away with an accepted offer in compromise (and \$3.3 million, up from \$3.1). What's more, Sheen also agreed to a future income collateral agreement. The idea is that if Sheen suddenly starts making materially more income, the IRS has the right to revisit the compromise and to get some of that uptick in income. It is nice to avoid such agreements where possible, but it can be difficult to get the IRS to agree to write off a big tax bill. The future income collateral agreement is a way of getting the deal done, but giving the IRS some protection in case your fortunes turn around and you have a spike in your earnings.

Sheen managed to sidestep sales tax too, which was another big accomplishment. He has a house in Beverly Hills, plus other properties. No one *wants* to owe the IRS, or to have to ask the powerful tax collection agency for extra time to make payments. But it happens, even to wealthy and famous people. A few years ago [Forest Whitaker faced off with the IRS in court](#). Unlike Sheen, Whitaker was only trying for an installment payment deal, but the IRS said he

failed to comply with their procedures. The Tax Court sided with the IRS, noting that Whitaker had failed to do what was required. At numerous times, the IRS asked for substantiation and yet Whitaker failed to provide it. After losing in Tax Court, Whitaker even appealed to the Ninth Circuit, which upheld the IRS's actions. Boxing great Floyd [Mayweather once sued the IRS, asking them to await his McGregor fight so he could pay his taxes.](#)

The IRS likes to get paid, but they are used to granting installment agreements. But before applying for any payment agreement, you must file all required tax returns and cooperate. Taxpayers who need time can apply by filling out and submitting an IRS [Form 9465, Installment Agreement Request](#) and [Form 433-A](#), and sometimes a [Form 433-B](#). The Form 433 series of forms are basically financial statements that list all your income, expenses, and assets.

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