

# IRS May Compromise Tax Debts, Even if You're a Celebrity

By Robert W. Wood

There is something satisfying about compromising amounts you owe. Perhaps it is human nature to like to pay less, even when you recognize that you legitimately owe 100%. Shaving a little off the top, and especially lopping off a significant portion, somehow feels vindicating. You don't want to have your invoices for legal services discounted, putting you on the receiving end of this phenomenon.

But it sure is nice to be able to compromise bills you have to pay. Arguably among the most satisfying of all bills to discount is your tax bill. You might well acknowledge that you owe the taxes, you signed your return under penalties of perjury, and so on. But still, if your fortune isn't looking so bright when the IRS comes collecting, can you haggle a bit?

All this was on my mind when I read about Charlie Sheen's latest tax troubles, and victory. 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 only for 2015. For 2015, 2017 and 2018, he owned nearly \$7 million. Even so, after much wrangling, the IRS agreed to take \$3.3 million (with a standard potential kicker that if his income changes he could owe more).

Taxes add up in Hollywood and just about everywhere else, and the IRS tries to collect with notices, liens and levies. It's painful for everyone. There are two established ways to try to strike a deal with the IRS: 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 to get accepted. The basic idea is that you owe the IRS one amount but offer them less and hope 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. Future earning capacity matters a lot, as do assets. 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.

Yet in the end, the IRS said no, and they didn't even want to give back Sheen's \$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.

Sheen's CPA was persistent and persuasive, and he managed to elicit 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 having to sell some of his assets, too. 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. Not long 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.

In Whitaker's case, 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.

Sheen managed to pull off a victory in dealing with the IRS Collections Division. Not everyone is so lucky, and many people have been through the ringer with tax liens, levies, and more. Sheen's case is a useful reminder that even with the odds stacked against you, you can sometimes come

out on top and have the satisfying experience of paying the IRS less.

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