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Manny Pacquiao's \$20M Victory Over Bradley Is Big Win For IRS Too

Manny Pacquiao's [dominating win over Timothy Bradley](#) earned him \$20 million. That brings his career earnings above \$300 million. But some of the money is clearly going to pay taxes in his long brewing two-country tax flap. And given that this fight was in Las Vegas, the IRS has the upper hand.

Notably, Mr. Pacquiao is neither a U.S. resident nor a citizen. All of us on tax day know painfully well that Americans pay taxes on their worldwide income. But as a nonresident alien, Pacquiao doesn't pay U.S. taxes on monies he earns elsewhere. Of course, Mr. Pacquiao's big paydays and 14 fights were in the U.S.

Then, in early 2013, his adviser Michael Koncz sparked controversy by stating that Mr. Pacquiao would likely avoid fighting in the U.S. in the future. After all, our 39.6% rate is hard to swallow. All else being equal, fighting outside the U.S. in lower tax rate countries made sense. Yet return he did, and his \$20 million guarantee for facing Timothy Bradley was a big win, in cash and otherwise.



Foreign athletes must file U.S. income tax returns and face [special withholding rules](#) so they don't just pocket the money and run. They generally must pay U.S. income tax on their U.S.-source income. Earnings in Vegas? Clearly, that's all taxed by the IRS.

But in other matters, what is considered U.S.-source can be debated. It includes pay for performances, endorsements, merchandise sales, and royalty or other income closely related to the event. And big money can turn on exactly how the "Hollywood Accounting" is done.

The IRS has a [special program](#) targeting foreign athletes and entertainers. Depending on an athlete's home country, treaty benefits may apply. Yet disputes are common about how much income to allocate to particular countries and where endorsement earnings should be taxed. The U.S. Tax Court has often heard athlete tax disputes over promotional income, intellectual property and more.

Mr. Pacquiao's taxes are controversial with the IRS and with the counterpart Philippines Bureau of Internal Revenue. The versatile boxer is also a lawmaker in the Philippines, yet tax authorities there long clamored for his U.S. tax records. Exactly what does he pay where, and how does he divvy it all up?

For a time, his promoter, Top Rank Inc., evidently submitted correspondence to the Philippines tax man showing that he did pay U.S. taxes via withholding. But the official IRS documents to confirm it were long debated. Some reports say that in all, he owes as much as \$50 million.

Pacquiao's advisor, Mr. Michael Koncz, says Pacquiao's financial situation in the Philippines may be more politics than anything. Mr. Koncz has said that tax deductions are at the center of the tax disputes. Mr. Pacquiao is famously charitable.

Pacquiao's tax attorneys are said to be working on the case, and Mr. Koncz says it's going well. But the IRS is famously sticky, and U.S. charitable contribution rules are rigid. Mr. Koncz has expressed concern over Mr. Pacquiao's generosity with fellow Filipinos.

There are past liabilities for Philippine taxes and past liabilities to the IRS, once those are finally ironed out in court or otherwise. Clearly too, Mr. Pacquiao will owe current taxes to the IRS on his recent earnings. But the feisty boxer is already looking ahead. He noted after his Bradley fight that he thinks he can fight for two more years.

Perhaps he will face Juan Manuel Marquez or Mike Alvarado, who are scheduled to face off May 17th. The IRS will be watching.

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.