



Robert W. Wood

THE TAX LAWYER

TAXES 8/22/2014

Manny Pacquiao Lands \$75 Million Blow In Tax Evasion Case

You have to hand it to [Manny Pacquiao](#). The versatile and feisty boxer has won world championships in *eight* weight classes. His [dominating win over Timothy Bradley](#) earned him \$20 million. With career earnings above \$300 million, he'll need it for his long brewing tax fight.

He's fighting the IRS and the Philippine tax authorities at once. Mr. Pacquiao is not a U.S. resident or U.S. citizen. As a nonresident alien, Mr. Pacquiao does not pay U.S. taxes on monies earned elsewhere, but his big paydays and 14 fights were in the U.S. As he works out a deal with the IRS, he's fighting in the Philippines.

He is a perfect high profile target for tax evasion, and the Philippine government is in attack mode. But Pacquiao has avoided posting a cash bond, [a tax problem which amounts to about US\\$75 million](#). Pacquiao claims he paid his income taxes for 2008 and 2009 in the United States, and that a two-country treaty protects his money from being taxed twice.



Manny Pacquiao (Photo credit: Wikipedia)

©2011 joseph nebrida

But the Philippine government wants 3.3 billion pesos (roughly \$75 million), and had Pacman on the ropes. In fact, some of Mr. Pacquiao's assets were already frozen. He got them released but the cash bond was offered as an alternative.

The Pacman persuaded the Supreme Court in the Philippines to lift the bond requirement, getting him out of the corner and off the ropes. See [Pacquiao wins round in Philippine tax fight](#). Mr. Pacquiao's taxes are controversial with both the IRS and the Philippines Bureau of Internal Revenue. Exactly what does he pay where, and how does he divvy it all up?

The dispute is all about his boxing earnings in the U.S. Proving how much Pacquiao paid the IRS would help reduce his Philippine bill, but the IRS slapped on a Federal Tax Lien for \$18.3 million in allegedly unpaid taxes for 2006 through 2010. A tax lien is standard procedure, designed to protect the IRS's interest.

A tax lien goes against everything, real estate, personal property, financial assets and more. Beating one is tough, though it's happened. After numerous run-ins with the IRS, [Dionne Warwick](#) had a \$2.2 million federal tax lien filed against her in 2009 for unpaid taxes from the 1990s. The IRS revoked it when it turned out to be a mistake, but she still owed \$1 million.

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. The IRS has a [special program](#) targeting foreign athletes and entertainers. Depending on an athlete's home country, treaty benefits may apply, and that is one of Mr. Pacquiao's arguments.

Still, disputes about how much income to allocate to particular countries are common. The U.S. Tax Court has often heard athlete tax disputes over promotional income, intellectual property and more. For now, though, it appears that Mr. Pacquiao's more serious tax case is in the Philippines. As he works through it, at least he'll be holding on to the money for now.

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.