



Robert W. Wood

THE TAX LAWYER

TAXES 2/21/2015

Mayweather v. Pacquiao v. IRS

[Floyd Mayweather](#)'s undefeated record is on the line against [Manny Pacquiao](#) on May 2 at the MGM Grand Garden Arena in Las Vegas. In my book, [Manny Pacquiao](#) has another victory under his belt just by getting this historic fight set. Sure, [Mayweather](#) is the [world's highest-paid athlete](#) and is the favorite, but don't count the Pacman out. He and [Mayweather announced the richest fight in boxing history](#), and it looks like Mayweather's biggest payday.

Recall that in Pacquiao's decisive win over Chris Algieri in Macau, China, Pacman knocked his opponent down six times. He achieved the unanimous decision win in the same venue where he defeated Brandon Rios, at the Venetian Macao Casino. It is hard to ignore Macau, with a top tax rate of 12% compared to the top U.S. rate of 39.6%. There's no question but that these [Manny Pacquiao fights in China cost the IRS millions](#).



Getty

Pacquiao would rather stay out of Las Vegas now, though he made an important exception with Mayweather. With career earnings well above \$300 million, he is increasingly tax savvy, and must still hope for a KO in his long brewing tax fight. He has been fighting both the IRS and the Philippine tax authorities. His earnings just between June 2013 and June 2014 totaled \$41.8 million, putting him at number 11 among the [world's highest-paid athletes](#), and he collected a \$23 million purse for Algieri.

But where should his earnings be taxed? 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 some big paydays and 14 fights were in the U.S. Meantime, he is a high profile target and the Philippine government is in attack mode. Pacquiao claims he paid his income taxes for 2008 and 2009 in the U.S., and that a two-country treaty protects his money from being taxed twice.

He is on tap for a possible Senate seat in 2016, but it would help to get his taxes resolved. The Supreme Court of the Philippines ordered the boxing champ and potential Senator to answer the tax man's arguments against him. [Pacquiao landed a key blow in his tax evasion case](#) when he persuaded the court to lift the bond requirement. That was huge, since the Philippine government wants 3.3 billion pesos (roughly \$75 million).

That had Pacman on the ropes. Some of Mr. Pacquiao's assets were frozen, and the cash bond was offered as an alternative. The latest ruling showcases the see-saw of tax procedure. Mr. Pacquiao says the fraud assessments against him are not based in fact, and that allowing the government to collect on a speculative charge is unconstitutional. The Philippine tax agency isn't even following its own procedural rules, he alleged.

Proving how much Pacquiao paid the IRS would help reduce his Philippine tax bill, but the IRS slapped on a federal tax lien for \$18.3 million in allegedly unpaid taxes for 2006 through 2010. In the U.S., a tax lien goes against *everything*, real estate, personal property, financial assets and more. Beating one is tough, although [Dionne Warwick](#) once managed to do it.

Foreign entertainers and athletes must file U.S. income tax returns and face [special withholding rules](#) so they don't just pocket the money and run. In fact, the IRS has a [special program](#) targeting foreign athletes and entertainers. They generally must pay U.S. income tax on their U.S.-source income.

But 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. Depending on an athlete's home country, treaty benefits may apply, and that is one of Mr. Pacquiao's arguments.

Yet disputes about how much income to allocate to particular countries are common. The U.S. Tax Court often hears 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, he'll be fighting hard to hang on to his assets until it is all over.

Given his tenacity, I'm betting on Pacquiao to come out just fine. In that sense, fighting in Las Vegas again, especially against Mayweather, could mean a win against the IRS too.

For alerts to future tax articles, follow me on Forbes.com. Email 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.