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Oscars ‘Free’ Gifts Draw \$46k Tax Bill From IRS + \$16k From California



Some say that an Oscars statuette is the most valued item in Hollywood and one of the most coveted for launching or capping a career. The faux gold statue isn't taxed as income, but all those pricey luxury goods advertisers hand out to stars? You guessed it, they are taxable income. And the gifts are expensive, about \$126,000 worth this year. At the 37% IRS tax rate, that's \$46,620.

California-based stars will have to pay California's up to 13.3% tax too, another \$16k or so. That's up to \$63,378 in state and federal taxes.

That tax bill might make you think twice about grabbing the free gear. Distinctive Assets puts together and hands out the bags, with the user-friendly name "Everybody Wins" to nominees in acting and directing categories. The swag offering this year includes over 60 gifts, small and large, including a three-night stay at [The Lifestyle](#) in Canada worth \$40,000. If you want to look your best, how about a \$12,000 arm liposuction procedure from Dr. Thomas Su? Or a private hair restoration consultation with hair transplant surgeon Dr. Alan J. Bauman valued at \$7,000? Then there is up to \$10,000 worth of procedures from Dr. Konstantin Vasyukevich, including chemical peels, laser skin resurfacing and Botox.

Not all the freebies are about appearance of course, but luxury is the theme. You don't have to accept all the gifts or use all the vouchers, but whatever you do accept comes with a tax bill. Even the IRS website tells you that gift bags are [taxable income](#). And there's an IRS Form 1099 to remind the stars and their accountants to report the 'free' gifts. Even for celebrities, the allure of free stuff is hard to resist. Companies pay promoters to place their gear in gift bags so stars will use it, hopefully somewhere on camera. The companies pay a fee to donate the goodies, and nominees get the pricey items for free.

Everyone wants celebs to show off their gear, so companies naturally write off the cost on their taxes. That's a legitimate business expense on their taxes, but it's worth thinking about the recipient's side of the equation. Some celebs turn down gifts, and one reason is taxes, the celebs have to report the value of what they receive as income, and the taxes can be big. How can 'gifts' be taxed as income? The answer is when they are not really gifts. Top federal taxes are

37%, although they might go up, and then there is California tax topping out at 13.3%.

For many, the total tops 50%, and state taxes are painful, since you can only deduct \$10,000 in state taxes. Back in 2006, the Academy stopped *officially* giving out gifts due to [IRS scrutiny](#), so the gifts now are not formally part of the Academy. For years, the entertainment industry and the IRS locked horns over the tax treatment of these "gifts." Eventually, the tax disputes were settled, with [swag being clearly taxable, and celebs getting IRS Forms 1099](#).

Can't you argue this was a "gift" so it isn't income? With family sure, but not in this context, since these merchants don't give them solely out of affection or respect. Although the value of these goodies really isn't pay, you still have to report it on your tax return. In case any attendees forget, they receive an [IRS Form 1099](#) reporting it, and these [forms 1099 are key to your taxes](#). If you fail to report it, it can be [ugly with IRS tax bills and penalties](#).

If you redeem the certificates or vouchers, you include the fair market value of the trip or service on your tax return. If you make a selection in a 'free shopping room,' the value of your selection is income too. Still, some celebs regift the bags or turn them down. They can take a charitable contribution deduction if they donate the gift bag to a qualified charity. But the fair market value of the gifts must still be reported on their tax returns. Vendors distributing gifts issue IRS Forms 1099-MISC.

So why don't celebs receive a Form 1099 when they say "thanks, but no thanks?" A Form 1099 tags you with income. It can be tough to untangle when you [know that your Form 1099 is wrong](#). Cash can feature at the Oscars too, and stories of pay-to-play still come up from time to time. The [Daily Mail](#) once

noted that it is not uncommon for celebrities to make money by wearing gowns, jewels, and accessories for big awards shows. Some have been reported to receive up to \$250,000 to wear a dress on the red carpet.

Swag or not, if a celebrity is paid to wear a dress to an event, can they just pocket the money, or is it taxable? Like just about everything else, the IRS gets its cut. And while the practice may not be widely discussed, there's little doubt that designers paying the fees should issue the stars an IRS Form 1099 for the fee. IRS Forms 1099 are required for the Oscars gift bags too. In the past, the Academy of Motion Picture Arts and Sciences [sued Distinctive Assets](#) for promoting the gift bags as "official" Oscars swag.

The lawsuit claimed that, "Distinctive Assets uses the Academy's trademarks to raise the profile of its 'gift bags' and falsely create the impression of association, affiliation, connection, sponsorship and/or endorsement." The lawsuit was [resolved amicably](#). If any money was exchanged, the IRS probably got some of that too, though [lawsuit taxes often hinges on settlement wording](#). That's one of [five IRS rules on how lawsuit settlements are taxed](#).

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