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Prince’s Estate Settles IRS Tax Case

Prince’s Estate has settled its tax dispute with the IRS over the value of the star’s assets on his death. Prince died without a will in 2016, and that set off a number of legal proceedings. He did not have a spouse or children, but he had half-brothers and half-sisters who stood to inherit. Because he did not have a will or trust, the case had to be probated with all of the extra fees, delays and publicity that entails. There were numerous legal claims, including a wrongful death case that was eventually dismissed.

Yet the biggest legal dispute of all was with the IRS, and that was not directly related to whether he had a will. Everyone pays income tax during life, and depending on their assets, estate tax on death. Currently, the exemption is $11.7M per person, or $23.4M for a married couple. But beyond that, estates face a federal estate tax of 40%. A federal estate tax return must be filed, and unlike income tax audits that are rare, almost every sizable estate is audited by the IRS. Prince’s estate reported a taxable value of $82 million to the IRS. However, the IRS claimed that the estate’s taxable value was really a whopping $163 million. The case had some similarities to Michael Jackson’s

Estate tax case, which also involved a big valuation fight with the tax agency. And both cases were handled by the same Tax Court Judge, Mark Holmes.

The IRS wanted an additional $38.7 million in taxes and penalties from the estate. The IRS disputed the value of a vast array of assets, from real estate, to image rights to interests in companies. For almost every piece of property, Prince's Estate obtained an appraisal to substantiate the reported value. However, the IRS had its own appraisers who said it was all worth a lot more. As is so often true with estate tax cases, a lot of it is about valuation, just as occurred with the tax fight over Michael Jackon's image rights. In Prince's case, the IRS didn't want taxes and interest alone. They wanted penalties too, $32.4 million in estate taxes and $6.4 million in penalties. The agency contended that the singer, who died in April 2016, left an estate with a taxable value of $163 million, not the $82 million his estate reported on its tax return.

Valuation disputes arise in many different kinds of tax cases, including income tax cases. For example, when you donate land to charity, how big a deduction can you claim? The bigger the appraisal, the bigger the deduction. But for gift and estate tax purposes, the bigger the value, the bigger the tax hit. Valuation disputes are probably most classic in estate tax cases, especially on complex or unusual assets. That was certainly true in the Michael Jackson Estate tax case. And while there were a few difficult assets in Prince's Estate tax case, much of it was about real estate and more usual assets. Prince held real estate interests in undeveloped land, an industrial building, and residential lots. He had interests in Paisley Park Enterprises Inc. and NPG Records, as well as a share of music compositions, and rights of publicity.

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