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Seinfeld, Tax Lessons, Yada, Yada, Yada

By Robert W. Wood

As entertainers and observers of popular culture honor the 25th anniversary of the show, Jerry Seinfeld's life lessons are still being discussed around today's version of the water cooler. Even a show about nothing can teach us something. In fact, there are a surprising number of tax lessons in the show, including these:

1. IRS Has Power. In "The Truth," aired September 25, 1991, the IRS asks Jerry about a $50 charitable contribution to rescue the people of Krakatoa. He made the contribution but the Krakatoan charity turned out to be fake. Jerry says the IRS is "like the mafia. They can take anything they want." That may seem overstated, but it's true that the IRS has a lot of power. Never forget it.

2. Timing Matters. Sure, the IRS has power, but there are limits too. Jerry's audit was for 1985 or 1986, yet the show aired in 1991. If Jerry filed his 1986 tax return in 1987, this audit was beyond the IRS's three year statute of limitations. There are plenty of procedural safeguards as long as you file on time, are savvy, respond to notices, and keep the administrative process going.

3. Write-offs Count. In "The Package," aired October 17, 1996, Kramer convinces Jerry to claim that his stereo was broken during shipping. Their conversation about write-offs mirror what many Americans think, as if "Oh, I'll just write it off," means the expense doesn't count.

Kramer: "It's just a write-off for them.
Jerry: "How is it a write-off?"
Kramer: "They just write it off."
Jerry: "Write it off what?"
Kramer: "Jerry, all these big companies, they write-off everything."
Jerry: "You don't even know what a write-off is."
Kramer: "Do you?"
Jerry: "No. I don't."
Kramer: "But they do, and they are the ones writing it off."

In reality, of course, if you write off $100 and are in a 35% tax bracket, your cost is $65, not zero.

4. Watch Unreasonable Expenses. In "The Chicken Roaster," aired November 14, 1996, Elaine is President of the J. Peterman catalog company and makes outrageous purchases on the Peterman account. She buys George an $8,000 sable hat and Peterman's accountant complains.

Aghast at being questioned by Peterman's accountant, Elaine's first response is, "Isn't the President allowed to do whatever they want?" In the real world—and even on Seinfeld—the answer is plainly "no." The IRS would frown upon this, just like Peterman's accountant.

5. Stock Options are Tricky. In "The Money," aired January 16, 1997, Elaine discusses the stock options she received as President of J. Peterman. As Jerry says acidly, how options work is interesting only "when it's your money." After Peterman revokes Elaine's options, she gets upset that the stock rose 12 points, which would have turned a profit.

6. Even Awards are Taxed. In "The Summer of George," aired May 15, 1997, Kramer is hired to be a seat filler at the Tony Awards. Kramer is rushed on stage with a group and is accidentally awarded a Tony. Kramer might have to pay tax on it even though he wasn't part of the cast that *actually* won. Why? The producers tell Kramer he can keep the Tony if he fires Raquel Welch. When Kramer does it he has income: he received the Tony as compensation for firing Raquel Welch.

7. Gifts are Taxed Too. In "The Wink," aired October 12, 1995, while employed by the Yankees, George signs a birthday card for Mr. Steinbrenner. The card winds up framed and presented. If a gift is valued at $14,000 or more, the donor must report the gift to the IRS. So each Yankee should arguably report a share of the gift. But intent can be scrutinized. Here, this "gift" might be to induce Steinbrenner to offer favorable contracts. If so, Steinbrenner would have to include the card's value in *his* income.

8. Everyone Uses Independent Contractors. In "The Maid," aired April 30, 1998, a maid's boss avoids paying payroll taxes by making his maids independent contractors. "Whoa! Give it to the girl. I'm an independent contractor. Tax purposes!" But classifying workers is not discretionary. Employers can face taxes, interest and penalties plus liabilities to their workers for violating the "right to control" test.

In "The Race," aired December 15, 1994, Jerry dates Lois, who works for Jerry's high school track adversary, Duncan. Duncan threatens to fire Lois unless she gets Jerry to race him. Duncan "controls the means of production," Lois explains. The more you control your worker, the more likely they are to be classified as an employee.

9. Claiming Losses. After Kramer fires Raquel Welch in "The Summer of George," she destroys Kramer's Tony. It is debatable whether the Tony is a business or personal asset. Casualty and theft losses on personal assets over $100 can be claimed as an itemized deduction. Still, Kramer may not be able to recover the value of the Tony because the Tony's value probably doesn't exceed 10 percent of his adjusted gross income.

However, if Kramer's only income is the Tony itself (after all, he doesn't work!), Kramer may be able to claim the loss. If Kramer can characterize the Tony as property held in a trade or business, there is no limit on the deduction. Remember, he didn't win the Tony, it was paid to him for firing Raquel Welch.

Maybe Kramer could claim the statuette was a business asset owned by Kramerica Industries which he founded in "Male Unbonding," aired June 14, 1990. This company endured most of Seinfeld's nine year run, most notably in "The Voice," aired October 2, 1997.

Speaking of losses, in "The Frogger," aired April 23, 1998, Peterman purchased a prized piece of cake for $29,000—which Elaine eats. Peterman might consider the cake a business acquisition and deduct it.

10. Mailing Dates Count. In "The Sniffing Accountant," aired October 7, 1993, Jerry and Newman suspect that their accountant is "on" something. They worry his judgment is affected but are afraid to confront him. They fire him through the mail and the mailing date becomes important because the accountant goes bankrupt. Mailing dates count in taxes too.

Had Jerry and Newman mailed their letter in time, they would have received the money the accountant was holding. Postmarks and certified mail matter. Any tax return, claim or statement that must be filed with the IRS or the Tax Court is regarded as having been timely filed if it is postmarked on or before the due date.

Actually, there's even more tax law in Seinfeld, as a trip through a boxed set of DVDs will reveal. Yada, yada, yada.

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