

Yes, Even Celebrities Have To Pay Taxes

By Robert W. Wood

It can sometimes seem like celebrities have it made, getting loads of free goodies and preferential treatment. Yet taxes are the great leveler, and no matter how famous you are, you still have to file a tax return. Of course, you need to pay too, although most tax lawyers and accountants will tell you that it is far better to file your tax return and report accurately, even if you cannot pay. You can work out a deal later with the IRS (and/or the California Franchise Tax Board) to pay them.

And paying your taxes is where our story begins. Many a celebrity has had trouble coming up with the cash. Willie Nelson once had a \$16.7 million tax debt, a whopping \$10.2 million of which was in interest and penalties alone. Actor Charlie Sheen may be most famous for his TV role in *Two and a Half Men*, but now he's hoping for a better role from the IRS. And he's gone to court to do it. He owes the tax man millions, is tired of their collection efforts, and has been trying to negotiate a deal with the agency.

This story isn't fit for a screenplay, but it's a familiar one in Hollywood and just about everywhere else. Tax bills mount up, the IRS tries to collect with notices, liens and levies, and it's painful for everyone. There are two established ways to try to strike a deal with the IRS. There are installment payment arrangements and offers in compromise. Sheen has tried both, unsuccessfully.

Installment agreements are easier to get, since the IRS isn't cutting its bill, it is just getting paid over time. Offers in compromise are inherently tougher. Say you owe the IRS a million, but offer them less, will they take it? That's essentially what Sheen did. If the IRS figures it can collect the whole amount, it's not easy to get an offer accepted.

It is a little hard to tell the total of Sheen's tax debts, but he owes the IRS for 2015, 2017 and 2018. His 2015 liability alone was \$5.7 million. It appears that he originally offered the IRS \$1,240,000 as a compromise, but he later upped it to \$3.1 million to cover all three years. He even put down \$626,000 with the IRS as the required 20% down payment on the deal. Since the IRS has said no, Sheen may not get his 20% down payment back.

Taking the IRS to court can sometimes help, and it invariably delays things even if you can't get a better deal from the judge. Sheen filed one case in Tax Court back in 2018, arguing that the IRS had abused its discretion in turning him down. Now, he's filed another Tax Court case, this time arguing that the IRS shouldn't have rejected his offer in compromise. This suit recounts the tortured history of his discussions with the IRS and says that the deal he offered the IRS was a good one.

The suit even calls out a particular person at the IRS, that Sheen says was unfair. He says he didn't get a fair shake from the area director of the IRS for Los Angeles. Sheen claims that his whopping \$3.1 million deal was approved by various people at the IRS. But then he says it was rejected without the official explaining his reasoning or offering an opportunity for Sheen to address his concerns. Now Sheen wants a different IRS office to handle it, outside the jurisdiction of LA.

And lest we forget about his 2018 tax case that is still pending, Sheen asked the Tax Court judge to combine the cases into one. If you've ever dealt with the IRS, it's easy to have some sympathy for Sheen. His court papers recount being shuttled from one IRS person to another, in different parts of the country. Of course, some of the figures are eye-popping. When he was trying an installment agreement with the IRS, the IRS came back saying it figured that the actor could handle paying \$51,275 every month.

As to the offer in compromise figure of \$3.1 million, the IRS said it figured that his ability to pay was three or four times that. Predictably, some of the brouhaha is over what Sheen should sell, and some is over the value of some assets. Sheen has a house in Beverly Hills, plus other properties, and the IRS says he could full pay if he wanted.

No one wants to owe the IRS, or to have to ask the powerful tax collection agency for extra time to make payments. But it happens, even to wealthy and famous people. A few years ago, Forest Whitaker faced off with the IRS in court. He was only trying for an installment payment deal, but the IRS said he failed to comply with their procedures.

The Tax Court sided with the IRS, noting that Whitaker had failed to do what was required. At numerous times, the IRS asked for substantiation, and yet Whitaker failed to provide it. After losing in Tax Court, Whitaker even appealed to the Ninth Circuit, which upheld the IRS's actions. Boxing great Floyd Mayweather once sued the IRS, asking them to await his McGregor fight so he could pay his taxes.

The IRS likes to get paid, but they are pretty used to granting installment agreements. Before applying for any payment agreement, you must file all required tax returns and cooperate. Taxpayers who need time can apply by filling out and submitting an IRS Form 9465, Installment Agreement Request and Form 433-A, and sometimes a Form 433-B. The Form 433 series of forms are basically financial statements that list all your income, expenses, and assets.

It's worth noting that these forms—like tax returns—must be signed under penalties of perjury. A surprising number of criminal tax cases have arisen out of simple things like trying to pull the wool over the IRS's eyes in an audit, trying to hide assets when the IRS is trying to collect, or misstating your assets or accounts when you are trying to convince the IRS to give you a deal.

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