

ENTERTAINMENT LAW



DEATH, TAXES AND COMEBACKS

"Real Housewife" Teresa Giudice now joins Nicholas Cage, Martha Stewart, Wesley Snipes, Willie Nelson, Stephen Baldwin, Val Kilmer, Marc Anthony, Lindsay Lohan, Pamela Anderson, Ozzy & Sharon Osbournes, Lauryn Hill, Sophia Lauren, 1980s comic Sinbad, Survivor 1 winner Richard Hatch, and Dolce & Gabbana, among other celebrities, who have faced serious tax issues with back tax bills well in the hundreds of thousands, and in some circumstances, millions of dollars. Some have been subject to enormous liens on their estates, others have gone bankrupt, others have negotiated plea deals, and still others have had the grave misfortune of being convicted and sentenced to jail for tax evasion.

While some speculate that this is a fate particularly disproportionate to celebrities, I would venture to guess that celebrities make up no great percentage of so-called tax cheats than that which exists among the rest of American society. However, when the issue

involves celebrities, it makes news because: (1) They are celebrities—everything they do makes the news; and (2) They tend to have incomes far in excess of most Americans, so that when the IRS (Internal Revenue Service) does catch them, they are caught big time with astronomical amounts owed.

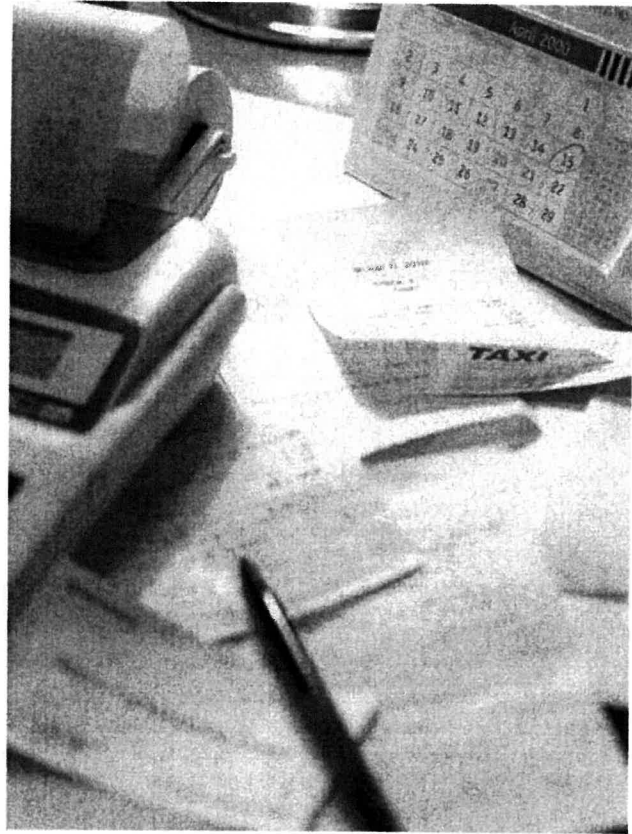
In 2011, Professor Stuart P. Green of Rutgers Law School researched why people cheat on their taxes (source: <http://www.cnbc.com/id/42472944>). Green concluded that people cheat because the social norms imposed by American society (i.e. our country's own moral compass) do not place much concern on our common duty to pay the fair amount of tax owed. A general belief exists that my neighbor cheats, so I should be able to cheat. Furthermore, regardless of political affiliation, if one feels the tax system is unfair for a myriad of reasons, the inclination to cheat is stronger. Add to this the complexity of the tax code and the understanding that audits are rare, and an easy setting exists for otherwise good citizens to cheat on their taxes. Professor Green estimates that in 2011, the difference in the amount of tax actually due to the federal government and the amount taxpayers actually reported and paid was almost \$300 billion (15% of federal revenues).

He also states that about 30 to 40 percent of Americans tend to fail to pay all of the taxes they genuinely owe.

In 2013, the rationale identified just two years ago by Professor Green is further compounded by the fact that an outward animosity toward the entire tax system has become a regular featured part of political discourse among politicians. Having elected officials rallying against our tax system on a nightly basis is not likely to strengthen the country's moral compass when it comes to voluntarily reporting the amount of tax that each of us owes. For celebrities, this can send the message "everyone does it, why can't I be like everyone?" It also sends the message that if the celebrity gets caught, the adoring public will still be adoring, with little harm to popularity. In the realm of our collective moral compass, tax evasion is a far cry from say, domestic battery. So there is no greater disadvantage for a celebrity to cheat than an average citizen. The celebrity can likewise be rest assured that his or her fans will still adore him or her, and in fact, some new fans may arise via the tax cheat's new cool rebel status.

In the case of celebrities, some can live in a cocoon in which they are already of the belief that the decisions they make are far removed from society's social norms. Those that live in this cocoon conduct their daily activities with a sense of entitlement and a belief that rules don't apply to them. Traffic tickets are avoided with an autograph, lines are cut at restaurants, and bad behavior rarely has consequences, so why shouldn't the celebrity who views himself or herself as a "national treasure" be able to take some liberties in regard to accurately reporting what's owed to our national treasury?

In other situations, those cocoons can make celebrities simply oblivious to how the world works. Some celebrities have no higher education beyond high school. Some may rarely watch the news except for portions relevant to them. Entire entourages perform all the mundane life tasks for the celebrities that the rest of us must otherwise worry about. And just as celebrities can all too often be taken advantage of by financial advisors that embezzle because the celebrity isn't looking, that same oblivious failure to be accountable for their own affairs can lead to a failure to recognize that the payment of mundane income tax is also a part of life.



Regardless of whether celebrities find themselves in trouble with the IRS because they chose to have their brother-in-law be their financial manager, or because they believe their stardom renders them above the law, or simply because they made the same bad choices that 30–40 percent of Americans regularly make in regard to how they report taxes, the fact remains that the public will always be fascinated by the story. Celebrity tax scandals get more attention than those of average wealthy tax cheats, because America loves stories involving a fall from grace. Fortunately for celebrities, America loves even more a comeback story. Until America's moral compass begins to associate shame and perhaps disgust with tax cheats, celebrities who find themselves in hot water with Uncle Sam can be rest assured that Americans will rush in line for tickets to that grand benefit concert or that next blockbuster film — the paydays of which will help to remove the tax liens and help their favorite celebrity pay-off their indebtedness to the national treasury. And remember—a good spin doctor can spin any publicity.

-David Albert Pierce, ESQ

David Albert Pierce is managing partner of Pierce Law Group LLP in Beverly Hills, representing both celebrities and production entities in all areas of entertainment law. Visit www.piercelawgroupllp.com for more information.