



April 8, 2011

5 Tax Lessons from the Celebrities

When they are rich and famous everything they do becomes headline news. That includes their tax-capades. Yes, the run-ins the rich and famous have with the IRS can serve as good lessons for all of us. Here are 5 of them.

Tax lesson #1 – Wesley Snipes

In what has become a famous case for all the wrong reasons for Wesley Snipes, the actor was sentenced to jail in December 2010. The thing that got him there is his interpretation of Section 861 of the tax code that pertains to taxable foreign income. The infamous Section 861 Argument was interpreted to mean that income made in the US is tax-exempt. Snipes based his claims on the Section 861 Argument and declared that he had no taxable income for the years 1996 and 1997. Hence he claimed and was given a refund of his taxes of \$12 million.

However, not long after that, the IRS began an audit on his taxes and accused Snipes of tax evasion. He was subsequently found guilty and sentenced to prison. He is expected to be released July 13, 2013.

Tax lesson #2 – Willie Nelson

The take home from Willie Nelson's tax woes is to be careful about investing in tax shelters. Tax shelters are places you can invest in to reduce your tax liability such as mining companies and your own retirement account. But you have to be sure they are legitimate. In 1990, Willie Nelson invested in illegitimate shelters and was slapped with a tax bill of \$16.7 million. As a result, his assets were seized, his accounts frozen and his royalties were signed over to the government.

Anyone can invest in tax shelters, not just the rich and famous, so be careful if or when you do.

Tax lesson #3 – Joe Francis

The 'Girls Gone Wild' boss faces a whopping tax lien of \$33,819,087.14. The thing that got him into trouble was false tax deductions made in 2002 and 2003. For those years, Francis was charged in 2007 with two felony tax evasion counts over \$20 million of false business deductions. In November 2009, Francis pleaded guilty to two misdemeanor charges of filing false business deductions and bribing Nevada jailers.

Tax lesson #4 – Richard Hatch

The name might not be familiar but Hatch was the winner of the inaugural Survivor reality show for which he was paid \$1 million. Things turned sour for Hatch when he failed to pay taxes on his earnings. According to Hatch, CBS was supposed to pay his taxes. The court did not buy his story and sentenced him to 3 years in prison.

Tax lesson #5 – LeBron James

Here's a tax lesson from a celebrity that did not get into trouble with the IRS. NBA star LeBron James saved a significant amount in taxes by moving to Florida from New York. The reason is that Florida is one of the few states in the US that does not have state income taxes (New York's state taxes are more than 10% for the rich). Thus, James saves a few million dollars every year playing for the Miami Heat instead of the New York Knicks.