

Lindsay Lohan Tax Problem Common Among Celebrities



By Jo Piazza

Many celebrities work on projects that give them million-dollar paychecks, so why can't they all hire good accountants? That's what many



people were wondering this week when they learned Lindsay Lohan is the latest

celebrity to run into some IRS trouble.

Lohan reportedly received notice from the IRS that she owes almost \$94,000 in unpaid income taxes from 2009. According to TMZ, the actress was unaware of the issue until recently.

Hopefully Lohan will take some of her recent *Playboy* paycheck to make

things right with Uncle Sam and remember to file her taxes properly this year by the April 15 deadline. But let's remember that the often-beleaguered actress doesn't exactly have too many role models to look up to these days; her father, Michael Lohan, owed the government over \$12,000 in unpaid taxes in 2010.

Of course, Lohan is also not the only celebrity scofflaw out there. In fact, stories about famous folk avoiding their taxes and getting into trouble seem to hit the news all too often.

Other celebrities who have had recent run-ins with the IRS include rapper Method Man, who was arrested for failing to pay \$33,000 in back taxes in 2009, and "Pan Am"

But the biggest celebrity tax offender of recent years was Wesley Snipes, who was actually sentenced to three years in prison for failing to pay over \$17 million in taxes. He started serving his sentence in December 2010.

One reason for all the taxation trouble for these celebrities? They often work as independent contractors and it can sometimes be

tricky to keep track of every income stream coming their way.

"Celebrities are contract brands, not employees," said Joshua S. Barger, vice president of tax services for Foundation Financial Group. (Barger has no connection to Lohan's financial situation.) "Since they have higher

earnings, they may also have a greater risk of audit and additional taxable events as well as additional income and properties."

In some cases, a celebrity acts as a self-employed contractor for different companies and they then receive a 1099 tax form -- and they are supposed to be making quarterly

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actress Christina Ricci, who was hit with a federal income tax lien of nearly \$180,000 on her 2008 earnings. "Baywatch" babe Pamela Anderson owed nearly half a million dollars to the IRS in 2010 and actor Nicholas Cage was reported to owe more than \$6 million to the IRS at the end of 2009.

estimated tax payments to the IRS. If a celebrity -- or anyone, for that matter -- doesn't comply with IRS guidelines, they could be subject to penalties and interest.

And even though their taxes may be more complicated than the typical W9 form that employees of other professions often receive, celebrities can often be negligent when it comes to handling their financial accounts. Busy stars often expect others -- like their assistants or managers -- to worry about making sure their affairs are in order.

"Celebrities get into tax trouble because all of their economic situations are handled by a business manager (who is usually an accountant) and the celebs pay no attention to the details. Costs, like taxes, usually do not interest them," explains **New York CPA Howard S. Krant of Adeptus Partners, LLC.**

"Typically, their business managers get paid on a percentage of the celebrity's gross income. And, unless they are paying attention, they often don't care whether the celebrity spends every penny he or she makes and they do not put aside some of that celebrity's money to pay taxes, nor do they develop a tax plan to save the celebrity the most money."

It seems the key to fixing their finances is for a celebrity to hire a good business manager. That job should ideally go to someone outside of a star's inner circle -- not their father, their best friend or husband, as is often the case.

"A celebrity's business manager should probably be paid an hourly fee -- not a percentage of gross income," **Krant** says. "The business manager should be budgeting out and monitoring all of the celebrity's expenses (and taxes are an expense, like insurance). The business

manager should develop tax strategies that will save the celebrity the most money -- but more importantly, they should be setting aside monies to pay those taxes as a part of their budgeting."

Taxes, like death, really are a great equalizer -- they are the one of the few things celebrities can't easily wriggle their way out of by signing a few autographs or making a call to their lawyers.

"Ultimately, celebrities, just like everyone else, are responsible for their financial condition and for keeping up with the Tax Man," says Nick Rizzi, founder and CEO of Smart Tax. "Unfortunately, if celebrities are in tax trouble because of errors, there is no easier way than just taking on the mistakes head-on and being made accountable."