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## 4 Ways To Protect Entertainers From IRS Meltdowns

By **Ama Sarfo**

Law360, New York (March 07, 2014, 6:06 PM ET) -- Rapper Lil Wayne has reportedly been slapped with a \$12 million IRS tax lien, joining a long list of entertainers like actors Lindsay Lohan and Wesley Snipes who've butted heads with the agency. Entertainers and athletes often have erratic pay schedules that complicate their IRS filings, but with careful guidance they can avoid missed taxes, experts say.

Self-employed people like entertainers often run into tax trouble because they receive money from several different sources, and good advice is hard to come by, according to tax attorney Cary Bryson of Bryson Law Firm LLC. And those issues are intensified when large sums of money — and fame — are involved, experts say.

"A lot of athletes and entertainers are so proficient at the area of their choosing that they don't necessarily have a good handle on business, and they trust a lot of business issues to individuals who aren't looking out for their best interests," said Bradley Dorin, a tax attorney with Selig & Associates Inc. "They often sign things they don't even read. You see that in other walks of life as well, but when it happens with celebrities, it's a news curiosity."

Here are tips experts say are indispensable when helping entertainers and athletes secure their taxes properly.

### **Create a Corporation**

People who hit monetary windfalls — like lottery winners or inheritance recipients — often squander their funds because they're unfamiliar with handling large lump sums of money and overestimate the money's staying power. Then, when it's time to pay taxes, they receive a rude awakening. Entertainers and athletes are no different, experts say.

"Often, there's no real preparation prior to the monetary event," said Timothy Speiss, partner-in-charge of EisnerAmper's personal wealth advisers group and vice president of EisnerAmper Wealth Planning LLC. "And then, there's a lot of people the athlete or entertainer has to manage and pay. In the case of athletes, whose average playing career lasts three to six years, they also have to think about their lives after sports. Those are factors that make entertainers and athletes more different to serve than a CEO who has probably been on a trajectory to make a substantial income for a lot longer, and has learned a lot of things along the way."

Tax attorneys can prevent clients' fortunes from imploding — and keep enough money to pay tax bills — by setting up corporations or limited liability companies that pay their clients wages, which are taxed every paycheck, experts say.

"My suggestion is that such clients establish themselves as an LLC, and then within the LLC, they create a corporation so that there are two parts to the LLC — themselves, and the corporation," said Howard Krant, a certified public accountant who handles entertainment and sports clients for advisory firm Adeptus Partners LLC. "If there's only one person in an LLC, then it's considered to be a disregarded LLC."

Krant says entertainers and athletes should replicate that structure for all of their business needs.

"They should copyright songs under a different corporation for liability purposes. They should create separate touring companies to accumulate income and expenses for particular tours," he said. "They should do this from a liability perspective and a tax perspective."

Some people say this kind of structure is inefficient because clients then have to pay withholding taxes, but Bryson says those payments are well worth it when avoiding IRS audits.

"I'm more interested in getting the income taxes paid," he said.

### **Meet Quarterly — at the Least**

Experts resoundingly say that tax attorneys and other members of an entertainer's financial team should establish formal quarterly meetings at the very least to discuss old business, new business and recurring issues.

"If you aren't talking to your clients but for every six months, you should be fired," Speiss said. "A lot can happen in six months. This is a very interactive process, and with some clients, we talk to them several times a week. You need to be very close to your client — they live in a very fast-paced world. If you don't talk to them, you could miss something."

Such meetings should be attended by tax attorneys, financial advisers and all essential stakeholders in the client's career, experts say.

And those meetings are the time to shine a bright light on investments and activities that typically land entertainers and other high-net-worth individuals in tax trouble, like sophisticated investments that aren't right for a particular client or management issues within a client's corporation or foundation, Speiss said.

Investment and foundation management issues are particularly important for entertainers and athletes, who are particularly susceptible to scams.

Just a few months ago, the U.S. Department of Justice said a Chicago attorney who allegedly helped professional athletes and wealthy attorneys fraudulently claim \$16 million in tax credits **cannot represent or advise** clients on tax matters or prepare tax returns for individuals outside his family.

Some of those individuals included NFL football heavyweights like ex-Ravens star Ray Lewis and former Tennessee Titans defensive end Jevon Kearse, according to court documents.

### **Seek Trustworthy Financial Advisers**

Tax attorneys who have been entrusted to help find a financial adviser for a famous client

should obtain at least three references for each individual under consideration and ask for the adviser's client service plan, Speiss said.

Attorneys should also inquire about more complex fact patterns the adviser has seen, he added.

This is on top of routine inquiries attorneys should make into the adviser's billing practices and protocols, educational credentials and licensing history, experts said.

And attorneys should also look for advisers who are inquisitive and willing to look beyond the numbers, said Angie Bryson, also of the Bryson Law Firm.

"The biggest complaint that some clients have is that their advisers aren't proactive," she said.

"Many self-employed individuals inherently have tax issues because they get a lot of money from different sources, and they just get bad advice," Cary Bryson said. "So many people are trying to take advantage of them."

### **Settle Administratively**

Celebrity tax woes make the news when attorneys let the matters get out of hand, meaning the impetus is upon tax attorneys to keep their clients' cases out of the public domain, Dorin said.

That's why attorneys need to be proactive in dealing with state and federal revenue agencies to settle any problems administratively, before a prosecution comes about.

"There are more entertainers in trouble than you'd think, but the best attorneys strive to keep those matters quiet, and that's why you don't know about them," Dorin said.

"One thing my practice does is to vigorously represent in person. We don't fax things, write in and allow things to lapse and proceed to tax court," Dorin added. "We're at the IRS and state revenue offices on a daily basis. We make sure that we're there to immediately deal with revenue officers and make sure that our clients' issues don't become a matter of public record."

--Editing by Jeremy Barker and Katherine Rautenberg.

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