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Donald Sterling Laughing All The Way To The Bank, With $2 Billion Tax Free?

Donald Sterling could make $2 billion virtually tax free from the forced sale of his L.A. Clippers. Well, that's according to Robert W. Wood, writing in *Forbes* yesterday.

Wood's detailed explanation is not easy to de pher if you don't happen to be an accountant or tax lawyer, but it is possible to understand the general thrust of his argument. The initial assumption, especially considering that Sterling only paid $12.5 million for the team in 1981, is that taxes must take a large chunk.

Not so, says Wood; it all depends on how the actual ownership of the team is structured. And the magic letters are "C" and "S." If the Clippers is a "C " corporation, then corporate taxes would be due. But if it is an "S" entity, meaning that the legal owner is a the Sterling Family Trust, then whether Steve Ballmer – the prospective buyer – buys stock or assets, no corporate tax is due.

It is reasonable to assume that Mr. Sterling probably has the best tax advice money can buy, which means, at the worst, the Sterlings would only be liable, at the worst, for less than $400 million in federal taxes.

Of course, there is the small matter of California state income tax, currently standing at 13.3 percent, which could take another $264 million. If the sale does actually produce $2 billion, and the Sterlings pay $662 million in income tax, that leaves $1,338,000,000. or $669 million each tax-free. But that is the worst case scenario. For example, Sterling could try to roll over his gain and set it off against other investments.

A quirk in the tax code – Section 1033 to be precise – allows you to defer taxes when your property is taken involuntarily. Sterling can logically argue the Clippers sale was forced on him by the NBA. The reason is irrelevant and not covered by any tax laws. If, within two years, Sterling were to invest the money in similar or related fields, those investments can be set off against tax.

The final irony, given that Donald Sterling is 80 years old, and not in the best of health, is that he can avoid paying the whole of the $662 million federal and state tax bill very simply.

According to Donald W. Wood, all that Donald Sterling has to do is to die – and the whole of the tax liability is simply wiped out! But that is not the only option if the Section 1033 conversion basis can be applied.

Of course, there is the possibility that he or his estate might have to go to court. But Wood thinks that Mr. Sterling might enjoy that — and there’s plenty at stake. In that sense, it’s a a win-win situation for Donald Sterling.

Not a bad payoff as compensation for such a gross invasion of his privacy!