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\$100K 'Gifts' Plus Pay To Wear Oscar Attire -- Two Reasons IRS Watches Academy Awards

Every year at the Oscars, there are many 'free' gifts. Companies pay promoters to get their gear in gift bags, The companies pay a fee to be able to donate the goodies. And the nominees get the stuff for free. Everyone wants celebs to show off their gear, so companies write off the cost. However, celebs have to report it as income, and the tax bill can be considerable. In a way, the biggest winner is the IRS. This year, there's an unrelated cash angle being discussed: fees for attire.

This year's swag bag has 41 items—down from [80 in 2015](#) and [50 in 2016](#)—and is valued at [over \\$100,000](#). The bags are not officially endorsed by the Academy, but they are hard to ignore. This year's bag includes a luxury 6-day Hawaiian vacation at Koloa Landing Resort at Poipu, a 14K gold and diamond encrusted bracelet, a 10-year supply of Oxygenetix Breathable Foundation and Moisturizer, Chubby Chipmunk Hand-Dipped Chocolates, Crayola My Way customized box of crayons, and Dandi Patch underarm sweat patches. All sorts of products benefit from celebs giving them a try. Here is a [list of everything inside this year's bag](#).



An Oscar Statue inside The Oscars Greenroom, Designed By Rolex at The Ray Dolby Ballroom at Hollywood & Highland Center on February 22, 2017 in Hollywood, California. (Photo by Christopher Polk/Getty Images)

Regarding fees for attire, [Women's Wear Daily](#) reported that Meryl Streep cancelled a custom couture Chanel creation after the fashion house refused to pay her to wear it to the Oscars. The [\\$105,000 couture dress](#) was already in production when Streep's team allegedly said, "Don't continue the dress. We found somebody who will pay us." A representative for Ms. Streep [denies that claim](#), saying it is against Ms. Streep's personal ethics to be paid to wear a gown on the red carpet. But according to the [Daily Mail](#), it not uncommon for celebrities to make money simply by wearing certain gowns, jewels, and accessories for big awards shows.

In fact, some are reported to receive up to \$250,000 to wear a dress on the red carpet. If a celebrity is paid to wear a dress to an event, can they just pocket the money, or is it taxable? Not surprisingly, like just about everything else, the IRS gets its piece. And while the practice does not appear to be widely discussed, there's little doubt that designers paying the fees should issue the stars an IRS Form 1099 for the fee. That's certainly the rule for the Oscars gift bags too, which have had their own controversies.

In the past, the Academy of Motion Picture Arts and Sciences [sued Distinctive Assets for promoting the gift bags as "official" Oscars swag](#). The lawsuit claimed that, "Distinctive Assets uses the Academy's trademarks to

raise the profile of its 'gift bags' and falsely create the impression of association, affiliation, connection, sponsorship and/or endorsement." The lawsuit was [resolved amicably](#). In 2006, the Academy stopped *officially* giving out gifts due to [IRS scrutiny](#). For years, the entertainment industry and the IRS locked horns over these 'gifts.'

Eventually, the swag brouhaha was settled, with [swag being taxable and celebs getting IRS Form 1099](#). Celeb or not, if you get a gift bag, you have taxable income equal to its fair market value. Can't you argue this was a "gift" so it isn't income? Hardly. These merchants don't give them solely out of affection or respect. And though the value of these goodies really isn't pay, you [must report it on your tax return](#). In case any attendees forget, they receive an [IRS Form 1099](#) reporting it. Remember, [mistakes with Form 1099 cost big](#), and if you're [missing a Form 1099 you may want to keep quiet](#).

Gift bags are taxable now, but what about gift certificates or vouchers for trips or personal services? If you redeem the certificates or vouchers, you include the fair market value of the trip or service on your tax return. If you make a selection in a 'free shopping room,' the value of your selection is income too.

Some celebs regift the bags or turn them down. They can take a charitable contribution deduction if they donate the gift bag to a qualified charity. But the fair market value of the gifts must still be reported on their tax return. And that's where turning goodies down raises odd tax issues. If you turn down a bonus from your employer, it's still income according to the IRS. If you say to "pay me next year," it's still income when you were handed the bonus and asked to delay it.

Organizations and vendors distributing gift bags issue IRS Forms 1099-MISC. So why don't celebs receive a Form 1099 when they say 'thanks, but no thanks'? A Form 1099 tags you with income after all, and they can be tough to untangle, though if you [disagree with an IRS Form 1099 you can try](#). IRS Form 1099 rules are voluminous and Byzantine. Many companies wisely figure it's safer to issue a Form 1099 to anything that moves.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.