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THE TAX LAWYER

TAXES 11/11/19

Facing 50 Years, Can Lori Loughlin & Other Admissions Scandal Defendants Write Off Legal Fees?

The news that [Lori Loughlin was charged with bribery and could face 50 years in prison](#) shows the astounding stakes of the [college admissions scandal, which include tax stakes too](#). Even before you consider the tax write-offs parents may have claimed for ‘donations’ or the private foundations that gave money—all of which raise touchy tax issues—how about legal fees? Can the parents claim tax deductions, especially if their whole career is dramatically impacted?

Lori Loughlin is a good example. The Hallmark Channel often featured her, but quickly cut ties when she was indicted. An indictment is only an accusation, but an indictment alone can have a big impact. Defending yourself against criminal or even civil charges may well impact your business or career.

When high-earning celebrities or business people pay amounts designed to improve or save their careers, that’s a business expense, right? Not necessarily.

Paying legal settlements and legal fees may sound like business as usual. In a business context, many of them are fully tax deductible, so many taxpayers try to find a business connection to virtually any legal mess. In general, though, how taxpayers fare depends on the facts, the origin of the dispute, and what motivated the payment. Lawsuits are by their nature adverse.



One [key rule about legal settlements](#) is that most occurring in a business context are tax deductible. The tax rules are even tougher today, with new [tax rules giving no deduction for legal fees](#). One set of tax restrictions that started in 2018 limits [tax write-offs in confidential sexual harassment cases](#). More generally, there's considerable focus by litigants as they look for [ways to deduct legal fees under the new tax laws](#).

The [IRS says some business expenses are personal](#), but which are business and which are personal? You might think it's obvious, but your view and the IRS' view may differ. Business and personal can often seem mixed up, such as when you do entertaining, try to motivate employees, go on combined business and work trips, and more. Even lawsuits can seem to be jumbled up. What if a supervisor sexually harasses an employee? This conduct may be personal and outside the scope of the supervisor's employment. Yet it arises out of a working relationship, and often involves company property, business trips, etc. The company usually covers legal bills and settlements, but there are new [tax rules about confidential sexual harassment settlements and legal fees](#) are taxed.

How about legal fees that could arguably help a celebrity's career? One impact may be to change her income-earning potential, but the IRS would say the conduct producing the legal dispute is purely personal. That would make legal fees non-deductible, no matter how high they are. The IRS would probably say the same about some other big legal expenses, including the legal costs of:

- [Charlie Sheen's \\$10 million blackmail](#);
- [Winona Ryder's alleged shoplifting](#);
- [Robert Blake's defense when he was accused of killing his wife](#);
- Supermodel [Naomi Campbell](#) over throwing telephones; and
- [Lindsay Lohan](#), for DUIs, probation violations, and more.

[Martha Stewart](#) paid huge legal fees on an obstruction of justice charge from the sale of Imclone stock. To pay legal fees, she sold 75,000 shares of Martha Stewart Living stock (raising \$4.67 million). SEC filings revealed she sought reimbursement (as an officer and director) for \$3.7 million of fees for her successful defense on the charge that she tried to lift her own company's share price by declaring that she was innocent of insider trading.

The granddaddy celebrity legal fiasco was Michael Jackson's molestation trial. His acquittal on child molestation charges came at a price. Some estimates put the King of Pop's legal expenses at \$20 million. I don't know if he tried to deduct any of them, but ironically, Dr. Murray, convicted in connection with his death, could probably deduct his fees as a business expense even though he was convicted. After all, facing a civil malpractice trial or a criminal trial, his legal expenses relate to his trade or business. He was treating Michael Jackson and being paid for it.

Senator John Edwards once faced a criminal trial, but the charges related to his conduct in his chosen trade or business: politics. That could make legal fees tax [deductible](#). Remember, expenses must be [ordinary, necessary and reasonable](#) to be deductible. In tax law, an expense is "ordinary" even if it is once in a lifetime. Necessary is also easy. Even a payment in cash without a receipt can sometimes generate a tax deduction. In fact, one [tax receipts rule IRS keeps quiet is that they're optional](#).

Check out my [website](#).

This is not legal advice. For tax alerts or tax advice, email me at Wood@WoodLLP.com.