



Robert W. Wood

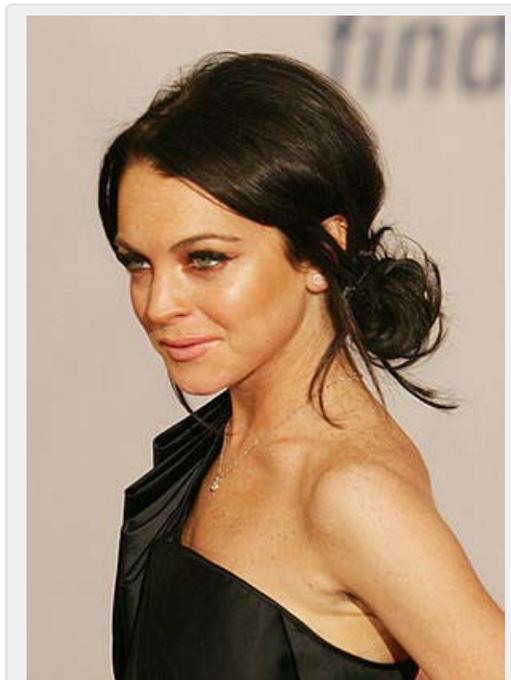
THE TAX LAWYER

Nov. 26 2012

Sorry Charlie: Sheen's \$100K Taxes For Lindsay Lohan Itself Is Taxable

[Lindsay Lohan](#) doesn't have Elizabeth Taylor's earning capacity and isn't the most disciplined starlet around. TMZ reported that Charlie Sheen paid Lindsay Lohan [\\$100,000 to cover her tax debt](#). Lohan's tax mishap started when she failed to pay close to \$100K in 2009 taxes. That led to a [\\$94K tax lien](#). Reports said Lohan changed management teams and tax bills were lost in the shuffle. [In taxes, Lindsay Lohan is no Kim Kardashian](#).

But then her 2010 taxes also went missing. The IRS filed [another lien against Lohan](#) for just under \$150K for the 2010 tax year. Lohan just starred in [Liz & Dick](#) though some say [Lindsay Lohan did Elizabeth Taylor wrong](#). Enter Sheen, himself no virgin to legal scrapes. Since his pal LL allegedly owed \$233,904 to the IRS for 2009 and 2010, Sheen gave Lohan a \$100K leg up.



Actress Lindsay Lohan. Photo by Rafael Amado Deras. (Photo credit: Wikipedia)

But unless Sheen's money was loan, more taxes may be due from Sheen or Lohan. After all, when someone pays your debt you have income and the IRS gets a piece. See [Ten Things To Know About COD Income](#). That means Lohan would owe around \$35K in taxes just for Sheen's \$100K payment.

Could Sheen say it's a gift so not income? Maybe. See [When "Loans" Are Taxed As Income](#). But then Sheen might have to pay gift tax. He can give \$13K to anyone free of gift tax each year, but to give \$100K he'd either have to use his lifetime credit (if he hasn't already) or pay gift tax. If the \$100K wasn't a loan, Sheen may prefer treating it as income to Lohan. See [Grab The \\$5M Gift And Estate Tax Perk: It's Gone In 2013](#).

As for Lohan, having the IRS file public documents indicating you're a tax deadbeat must be embarrassing, especially the second time around. See [Lindsay Lohan — IRS Cracking Down Over Massive Tax Debt](#). At the very least, Lohan faces tax notices that must be addressed. See [Got A Tax Notice? Here's What To Do](#). The IRS can file a [Notice of Federal Tax Lien](#) only after:

- IRS assesses the taxes;
- IRS sends a demand saying how much you owe; and
- You fail to fully pay it within 10 days.

The lien notice is used by courts to establish priority in bankruptcy, sales of real estate, etc. IRS liens last 10 years, and usually release automatically if IRS has not refiled them.

Getting the IRS to release a lien usually involves: (1) paying the tax, interest and penalties; or (2) posting a bond guaranteeing payment. See [IRS Publication 1450, Request for Release of Federal Tax Lien](#).

Respond to Every IRS Notice! IRS liens hurt credit ratings, scare customers, prevent real estate closings and more. If possible, don't let it get to the lien filing stage. Take tax notices and letters seriously, and follow the procedural steps outlined. See [Received An IRS Notice? 10 Simple Tips](#). The IRS has liberalized some lien rules. See [IRS "Fresh Start" for Tax Liens and Installment Deals?](#) Yet it doesn't look like they'll

*Robert W. Wood practices law with [Wood LLP](#), in San Francisco. The author of more than 30 books, including *Taxation of Damage Awards & Settlement Payments* (4th Ed. 2009 with 2012 Supplement, [Tax Institute](#)), he can be reached at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*