

Gift-Giving Can be Taxing

By Reg P. Wydeven
September 23, 2006

Earlier this summer I had the privilege of golfing in the U.S. Oil Co., Inc.'s Open charitable outing. Held on three beautiful golf courses, the event had over 450 golfers and raised an unbelievable \$744,600 for various charities. The evening wrapped up with a terrific dinner and auctions at Van Abels supper club and featured Deanna Favre as a guest speaker.

In addition to some great golf and a delicious meal, I also received a beautiful Samsonite(r) suitcase for participating in the event. While I could have used a compass to find my shots or an abacus to calculate my score, the suitcase is awesome and has all kinds of James Bond-esque secret compartments.

Not only do you receive a suitcase, volunteers are everywhere treating you like royalty. I ate four complimentary cheeseburgers and had four complimentary Mountain Dew's! All that was missing at the outing was a red carpet.

The red carpet, of course, is most commonly associated with glamorous celebrity-packed events, such as the Oscars. The royal treatment we golfers got at the U.S. Oil Co., Inc. Open pales in comparison to the pampering celebrities receive at the Academy Awards ceremony.

Since the early 1970s, the Academy of Motion Picture Arts and Sciences has given out gift bags or baskets to presenters and performers at its annual awards ceremony. At first, the gifts started out rather modest, typically consisting of jewelry or wine. Recently, the baskets have received almost as much press coverage as the award winners.

Companies typically donate their products to the Academy, hoping the celebrities will promote them. The gift basket from the 2006 awards show was estimated to be worth more than \$100,000. It included such items as a 60GB iPod from Apple, a vintage Kay Unger silk kimono, a six-night stay at the JW Marriott Ihilani Resort & Spa in Hawaii and a BlackBerry 8700c. The celebrities could have used my Samsonite suitcase just to lug all that stuff home.

Because the gift baskets have received so much press and have gotten so extravagant, the IRS wants to make sure the celebrity recipients understand the tax ramifications for receiving these gifts. That's why the IRS and the Academy sat down to hammer out an agreement regarding "outstanding tax responsibilities" on baskets given out up through 2005.

In a press release, the IRS clarified that starting in 2006, federal income tax law dictates that receiving gift bags will be treated as income, as opposed to tax-free gifts, because they are not given "solely out of affection, respect or similar impulses for the recipients of the gift bags". In exchange, the IRS is not requiring taxes to be paid on gift bags received in 2005 or earlier.

Not only do the recipients of the gift bags have to claim them as taxable income, the organizations giving the gifts have to tuck a 1099 into the basket as well, reflecting the fair market values of the goodies inside.

As a result, the Academy has announced that it will no longer give out the gift bags at future ceremonies. Academy officials felt it was unfair to celebrities to give them a gift that had a tax liability attached to it.

Celebrities can avoid the tax liability by donating the gifts to charity. The Reg Wydeven Foundation happily accepts such gifts.

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