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The Oscars: Academy Awards "Swag Bags" are taxable income, and the IRS is watching

Each Oscar nominee will receive an "Everybody Wins at the Oscars" gift basket, aka Swag Bag, worth just less than \$48,000.

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Pity the poor Oscar nominee.

The famous ones spend nearly half a year pressing the flesh with Academy Awards voters and traipsing endless red carpets, enduring interminable panel discussions and fly-by-night awards ceremonies, making nice with grumpy reporters in vainglorious pursuit of the coveted little gold man. And yet come Sunday at the Dolby Theatre, four out of five nominees in the directing and marquee acting categories will go home empty-handed — a startling ratio of failure to success.

But none of them really loses. **Each will score an "Everybody Wins at the Oscars" gift basket worth just less than \$48,000.**

Sealed With A Gift. Stuff We All Get. SWAG. The celebrity acquisition of expensive goods and luxury services in exchange for an implicit endorsement has become an entrenched tradition during awards season. In the week leading up to the Oscars, dozens of swag suites pop up around Hollywood in the hopes of attracting nominees, although most often they bring out reality stars and hangers-on looking to score a coffee maker or pair of designer sunglasses.

But in an era when social media exposure has changed the freebie playing field and the stigma associated with reaping the gratis gifts can prove a liability to a star's popularity, when increased tax scrutiny has substantially deflated swag bags' net values and reality stars have diluted the power of the swag marketplace, the rules of celebrity gifting in Hollywood have been fundamentally rewritten.

Not only are the companies included in the package giving away things for free, they're even paying big bucks for the right to do so at a time when profiteering from swag is hardly a sure bet. Distinctive Assets, the marketing firm that puts together the gift, charges brands a minimum of \$4,000 — and up to \$20,000 — to be included in the basket.

Most A-list movie stars — think Angelina Jolie or George Clooney — wouldn't be caught dead “swagging.” Not only do many celebrities fear freebie-hoarding blow-back, top stars can get things for free more discreetly.

Moreover, most of the big-ticket items in the post-Oscar gift basket aren't even redeemed. Last year, interior designer Seyie Putsure offered a gift card worth \$10,000 toward a design consultation for three rooms in a star's home. Only Jessica Chastain took her up on it.

In four years of giving away \$20,000 African safaris for two, Premier Tours only had one Oscar nominee turn up on the exotic getaway: Marisa Tomei.

“When celebrities do go, we don't get much publicity because many refuse to take pictures,” said Julian Harrison, president of the Philadelphia-based travel company. “If they don't go, we don't have to front the cost, but we've still gotten the media value out of it.”

The tax implications certainly aren't helping. In 2007, the Internal Revenue Service forced the Academy of Motion Picture Arts and Sciences and the Hollywood Foreign Press Assn. to pay back taxes on the lavish gift baskets the groups had given to Oscars and Golden Globes attendees. (Neither organization has given out a pricey package post-telecast since the crackdown.) **The IRS requires the recipients of swag bags to declare** anything they receive as income, because the gifts come in exchange for attending an event and are not simply given out of generosity.

Despite the financial risks, many brands still spend their entire annual marketing budget at a swag suite in the hope of finding just one influential person to embrace their product.

“I’m not pleased about paying \$3,000 to be here, but that’s the cost of doing business,” said Megumi Hosogai, who was at Kathy Duliakas’ Celebrity Oscar Suite & Party giving away sunglasses specially designed not to touch wearers’ cheeks (so as not to ruin makeup). “This is literally my last dime. It would be better if my glasses were going on Jennifer Lawrence instead of Christina Milian, but you get what you pay for, and I don’t have the money to get my glasses on A-listers.”

This week, suites were held everywhere from ritzy Beverly Hills hotels to Hollywood’s Taglyan Complex, a “cultural center” adjacent to a church and modeled after a European villa. There were plenty of free facials, age-defying creams and cheap-looking jewelry. Some suites featured more risqué fare. At Duliakas’ lounge, an aesthetician displayed silicone breast implants to showcase the business’ services. At the Red Carpet Celebrity Retreat at the SLS Hotel, the makers of the FixSation — a vibrator attached to a skimpy pair of lace panties — were hopeful Chelsea Handler would stop by.

“She probably wouldn’t be offended; she’s a great candidate,” creator Tiffany York said of Handler. “For reality stars — this is nothing compared to what they’re used to.”

But it is those reality stars who are diluting the power of gift suites, say some industry veterans.

“When I started in 2000, you’d see celebrities like Halle Berry and Clint Eastwood. It was more about a thank-you from the award show,” said Karen Wood, founder of Backstage Creations, which runs official gifting suites for the MTV Movie Awards and the Tony Awards. “Now, most ‘celebrities’ in the ambush marketing suites aren’t really relevant to the event itself. I literally saw Halle Berry’s dog walker get invited to one.”

The latest Information Age developments have also changed the swag game. A few years ago, the ideal endgame for swag suite mavens was to land a tabloid photo of a star cuddling swag on a celeb-watching page of InStyle, In Touch Weekly or Us magazine — or, to a lesser degree, a mention on a celebrity blog like JustJared.com or PerezHilton.com at Sundance and beyond has fundamentally changed.

Now, said Kari Feinstein, who sets up style lounges in advance of numerous film festivals and awards shows, “It’s all about social media. It’s all about getting your stuff into a celebrity’s hands and having him or her tweet it or Instagram about it to all their followers.”

Veronique Vicari, whose Jewelry by Veronique booth was prominently installed at Feinstein's Style Lounge last month at the Sundance Film Festival, can attest to social media exposure's ability to boost the bottom line. She saw sales spike when reality show star (and Kardashian sister) Kendall Jenner put a photo of a piece from Vicari's collection on her Instagram account. "I got about \$3,000 in orders that day," Vicari said. "One Instagram can change everything."

At the Grammys gifting lounge in downtown L.A., Distinctive Assets President Lash Fary was busy encouraging all of his sponsors to tweet pictures of anyone who stopped by their booths. "Celebrities used to send thank-you notes, but now if they retweet you that's the modern equivalent," said Fary. "No celebrity who comes in is getting products for free. That's what people don't understand. Every single client who Sting posed with put a picture of him on their Facebook page holding their product. The value of that picture is worth way more than the \$240 product he got."

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