BY BRADFORD S. COHEN AND SCOTT J. LORESCH

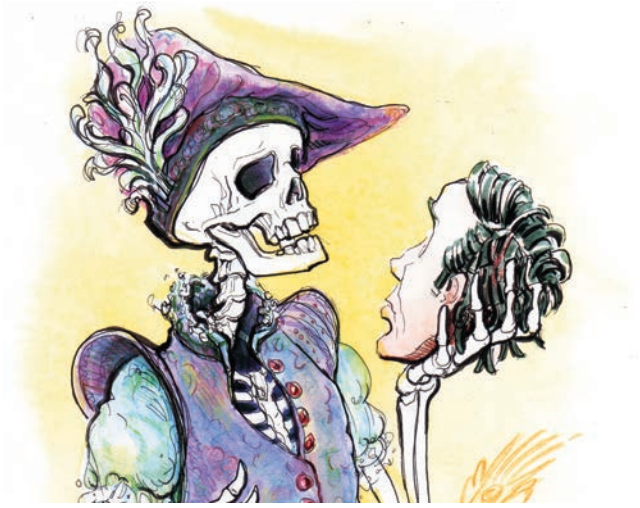
Tax and Estate Planning for Postmortem Celebrity

MOVIEGOERS WHO SAT DOWN TO WATCH the latest Star Wars film, *Rogue One: A Star Wars Story*, may have been surprised to see a middle-aged Peter Cushing reprising the role of Grand Moff Tarkin, the ruthless overseer of the Death Star's construction. Since Cushing passed away in 1994 at the age of 81, the posthumous performance could only be that of an impersonator or the work of a cutting-edge special effects studio. To those in the movie industry, the performance represents a notable achievement in special effects.[1] To trusts and estates practitioners, the posthumous performance raises a number of other questions: Does a studio have the right to use a celebrity's image after his or her death? If so, is there any way to plan ahead to avoid the misappropriation of a celebrity client's likeness after death? If a posthumous performance can generate income for the performer's estate or its beneficiaries, what are the income and estate tax implications? How can the income and estate tax impact be minimized? These questions all touch on the treatment of the right of publicity after a celebrity's death.

There is no single, clear definition of the right of publicity, but it may be defined generally as the right to use an individual's name, image, likeness, or persona. The right of publicity can be distinguished from copyright in that copyright law protects the owner of a work, whereas the right of publicity protects the person depicted in that work. For example, a photographer may hold a copyright to a given photograph and may bring an action under federal copyright law for a third party's unauthorized use of the photograph. In contrast, the subject of the photograph would not have a claim under copyright law for the unauthorized use since he or she does not own a direct interest in the photograph. Instead, the subject's claim must be that the unauthorized use of the photograph violates a more personal right by, for example, suggesting a personal endorsement or involvement, creating unwanted associations with the subject's likeness, or profiting from a persona that the subject, at least intuitively, feels should belong only to him or her.

Publicity rights are more analogous to federal trademark rights, which prevent one person from commercial use of words, terms, names, or symbols that are likely to mislead or deceive consumers regarding association with another person or mislead consumers regarding the quality or origin of a product or service.[2] Right of publicity and trademark may overlap, for example, when there is false endorsement, unauthorized commercial use of a celebrity's likeness, falsely suggested endorsement, or the likelihood of consumer confusion.[3] However, federal trademark law is concerned more with misrepresentation regarding the commercial source of a product—whether an individual, a corporation, or otherwise—whereas the right of publicity is concerned with unauthorized commercial use of an individual's name, likeness, or other distinguishing characteristics.[4]

In contrast to other intellectual property rights, such as copyrights, trademarks, and patents, federal law does not currently provide direct protection for an individual's right of publicity.[5] Instead, the right of publicity developed under state common law as an outgrowth



RICHARD EWING

of the common law right to privacy.[6] Currently, 38 states provide a right of publicity under statute, common law, or both.[7] While each of these states protects at least the individual's name and likeness, the protection provided by states varies widely in scope, with some states explicitly extending protection to an individual's photograph, voice, signature, and appearance—even gestures and mannerisms.

After death, state laws diverge further in protection of publicity rights. A majority of states do not extend rights of publicity after death. Of the states that do provide a right of publicity after death, 15 states—including California— currently provide statutory protection[8] and six states currently provide protection under common law.[9]

California's right of publicity statute was originally enacted in 1971.[10] Under the statute in its original form, rights of publicity did not extend beyond a celebrity's death. In 1979, in a case brought by the heirs of Bela Lugosi against Universal Pictures, the California Supreme Court reversed a trial court ruling that had held that Lugosi's heirs were entitled to recover the profits made by the defendant for use of Lugosi's likeness, directing the trial court to enter a judgment in favor of Universal Pictures.[11] In 1984, in part in response to *Lugosi v. Universal Pictures*, the California legislature enacted what is now Civil Code Section 3344.1, extending the right of publicity beyond death and making the right inheritable by a celebrity's heirs and assignable to a celebrity's beneficiaries.[12] In 1999, the California legislature further expanded the postmortem right of publicity by extending the length of the right from 50 to 70 years after the celebrity's death.[13] In 2007, in response to litigation around the estate of Marilyn Monroe, California enacted a further amendment to Section 3344.1, which explicitly extends the postmortem right of publicity to celebrities who died before January 1, 1985, and which explicitly allows for transfer of the postmortem right of publicity in contracts, trusts, or other tes-

Bradford S. Cohen is a partner and Scott J. Loresch is an associate in the Tax, Trusts & Estates group at Jeffer Mangels Butler & Mitchell LLP in Los Angeles.

tamentary instruments executed before January 1, 1985.[14]

Perhaps unsurprisingly, California is among the states that provide the strongest protections for publicity rights after death.[15] In contrast, New York does not currently provide postmortem protection for an individual's right of publicity. Given the disparity among state protections after death, the state in which a celebrity was domiciled at the time of his or her death can be the determining factor in whether the celebrity's right of publicity continues to have lasting value to beneficiaries, as the successors to Marilyn Monroe's estate discovered. Despite the fact that Monroe's estate was probated in New York after her death in 1962, a successor to Monroe's estate attempted to enforce Monroe's posthumous right of publicity in California, based on Monroe's ties to California at the time of her death, against a company that was selling unauthorized merchandise bearing Monroe's likeness and photographs. In response to the Monroe litigation, the California legislature passed a law clarifying that even the rights of publicity of decedents who died before the January 1, 1985, effective date of California's posthumous right of publicity statute, were protected under the statute.[16] However, a federal district court, affirmed by the Ninth Circuit, held that Monroe's estate was estopped from claiming California domicile, since Monroe's executor repeatedly took the position that she was domiciled in New York in probate and other proceedings.[17]

In light of the wide range of states' approaches, lack of uniformity, and increasingly national and even global scope of the use of publicity rights, some commentators have called for a federal statute addressing right of publicity.[18]

Given the expanding scope of publicity rights after death, a celebrity's estate planning advisors should plan ahead for the postmortem management of these rights. Just as an individual's estate planning documents may name an investment advisor to assist in management of the estate's investments or a business manager to assist in oversight of a business held by the estate, a celebrity's living trust (or the irrevocable trust to which the celebrity's publicity rights are transferred) should name an individual or team responsible for management of the client's publicity rights after death. This person or team should include an experienced entertainment lawyer and business manager, not necessarily the client's executor, trustee, agent, or family. Not only can such an appointment help to maximize the value of the celebrity's publicity rights, but it also may avoid conflict among the celebrity's beneficiaries and avoid saddling an executor or trustee with the responsibility of navigating business negotiations after the celebrity's death. If the celebrity has specific wishes regarding how his or her publicity rights should or should not be used after death, estate planning documents should provide direction to the publicity rights manager. For example, Robin Williams's living trust reportedly provided that his right of publicity should not be exploited during the 25-year period following his death.[19] It is not yet clear, however, the extent to which such limitations on exploitation of a celebrity's publicity rights may be considered when valuing a celebrity's posthumous publicity rights for estate tax purposes.

As advances in technology expand the ways in which celebrities' likenesses are utilized after death, the tax implications of publicity rights after death will also become increasingly important. In considering a given right held by a decedent's estate, a threshold question for the estate tax practitioner is whether the right represents an asset or an income stream for tax purposes. If the right is an asset, it may be subject to estate tax[20] and receive a "step up" in its tax basis equal to the right's fair market value.[21] If the right is instead an income stream derived from the personal efforts of the decedent during his or her lifetime (or "income in respect of the decedent"), it would not receive this tax basis

adjustment (or step-up), but would still be subject to estate tax.[22]

Among the first cases to address directly whether a decedent's right of publicity was an asset to be included in a decedent's gross estate for federal estate tax purposes was *Estate of Andrews v. United States*.[23] V.C. Andrews was an author of young adult paperback novels in the 1970s and 1980s. When she died in 1986, Andrews's publisher sought to capitalize on the record demand for her novels by continuing to release books under her name. With the agreement of the executor of Andrews's estate and her surviving family, a ghost writer was hired to write first one and then several additional novels, which were released under Andrews's name and went on to commercial success. Andrews's estate tax return did not include the right to use Andrews's name as an asset, and on audit of the estate tax return, the IRS determined that Andrews's name was an asset with a fair market value of over $1 million, based on the anticipated revenue stream from the posthumous publication of ghostwritten novels. The U.S. District Court for the Eastern District of Virginia held that Andrews's name was an asset of the estate and had a value of $703,500 on her date of death.

More recently, the valuation of a celebrity's right of publicity arose in the estate of Michael Jackson. In reporting the value of Jackson's right of publicity on his estate tax return, the executor of Jackson's estate initially claimed the right of publicity to be worth just $2,105 at the time of his death in 2009,[24] based on an analysis of the modest earnings generated by Jackson's publicity rights in the years leading up to his death.[25] In an audit of Jackson's estate, the IRS initially claimed that Jackson's publicity rights were worth more than $400 million at the time of his death;[26] however, prior to trial, the IRS revised this valuation downward, to $161 million.[27] Hearings before the Tax Court regarding this issue took place in February 2017.[28]

If the decedent's right of publicity is an asset of his or her estate, rather than income in respect of the decedent, estate planning practitioners must also consider whether the right of publicity constitutes a capital asset for income tax purposes in the hands of the estate and its beneficiaries. If the right of publicity is a capital asset, and the celebrity's estate later sells the right of publicity to a third party, any gain recognized by the estate on the sale would be taxed at capital gains rates rather than ordinary income rates.

The Internal Revenue Code defines "capital asset" negatively: if an asset is not in one of an enumerated list of excluded categories of assets, it is a capital asset. Among the types of assets excluded from the definition of capital asset are certain self-created intangibles

and certain inventory and other property used in the taxpayer's trade or business.[29]

Self-created copyrights, musical and literary works, and "similar property"[30] produced by a taxpayer's personal efforts are excluded from the definition of "capital asset."[31] Accordingly, if the creator of such assets sells them during his or her lifetime, the gain will be subject to tax at ordinary income tax rates (currently less favorable than capital gains rates for individual taxpayers). Upon the death of the author, these self-created works become capital assets in the hands of the estate (since the efforts of the estate and its beneficiaries did not produce the assets). The right of publicity is distinct from rights under copyright law and generally bears more resemblance to trademark rights. Accordingly, while the value of publicity rights is undoubtedly generated by the personal efforts of the celebrity, the right of publicity probably is not excluded from the definition of capital asset under the exclusion for self-created copyrights and similar works. Further, if the right of publicity is excluded from the definition of capital asset under this provision during the celebrity's lifetime, the right of publicity would become a capital asset upon the celebrity's death.

Inventory and depreciable property used in a taxpayer's trade or business are generally also excluded from the definition of capital asset.[32] This raises the question of whether a celebrity's right of publicity is: 1) depreciable property in the hands of the estate or 2) used by the estate in a trade or business (rather than, for example, held for investment). The answers to these questions likely depend upon the facts and circumstances of a given case. If the estate establishes a company that licenses the celebrity's name to third parties, the right of publicity probably would constitute depreciable property used in the taxpayer's trade or business; therefore, the right of publicity would not be a capital asset. If the estate instead merely holds the right of publicity for future sale, the right of publicity probably would be a capital asset.

Regardless of whether the right of publicity is a capital asset in the hands of a celebrity's estate, it appears that, at least for decedents domiciled in states extending postmortem rights of publicity, the IRS views the right of publicity as an asset of the celebrity's estate, subject to estate tax. It remains an open question what position the IRS might take for celebrity decedents who are domiciled in states that do not extend posthumous rights of publicity.

An obvious next question for the estate tax practitioner is whether there is anything that a celebrity can do during his or her lifetime to remove these publicity rights from the celebrity's taxable estate or to reduce the value of the publicity rights included in the estate. With traditional assets, this might be accomplished by, for example, gifting or selling the assets to an irrevocable grantor trust established during the grantor's lifetime for the benefit of his or her children or other beneficiaries. For estate and gift tax purposes, the transfer to the irrevocable grantor trust is a completed sale or gift of the beneficial ownership of the transferred asset, which means that the asset is removed from the grantor's estate for estate tax purposes. However, for income tax purposes, a grantor trust is disregarded during the life of the grantor,[33] meaning that the grantor would continue to be taxed on the income generated by the transferred assets. This presents an additional benefit to the grantor, since the grantor's payment of income tax: 1) is not treated as a taxable gift to the beneficiaries of the trust[34] and 2) further reduces the grantor's taxable estate.

In the estate of a popular celebrity, such a transfer of publicity rights during life might save the estate from paying hundreds of millions of dollars in estate tax on an asset that may not be easily liquidated.[35] However, rights of publicity may not be so simple to remove from a celebrity's estate for a number of reasons. First, given the personal nature of the right of publicity, there is a threshold question as to whether the right of publicity may be transferred during the celebrity's lifetime.[36] At least in California, the answer

appears to be yes. In *Timed Out, LLC v. Youabian, Inc.*,[37] a California Court of Appeal reversed a trial court decision holding that two models could not assign rights in their likenesses. In reaching its conclusion that the models' publicity rights were assignable during their lifetimes, the court of appeals noted that Civil Code section 3344.1(b) explicitly contemplates such a transfer:

> Nothing in this section shall be construed to render invalid or unenforceable any contract entered into by a deceased personality during his or her lifetime by which the deceased personality assigned the rights, in whole or in part, to use his or her name, voice, signature, photograph, or likeness.[38]

There is also precedent for celebrities' selling outright interests in their rights of publicity during life. For example, in April 2016, Muhammed Ali reportedly sold an 80 percent interest in his name and likeness to a New York-based company for $50 million.[39]

A second issue raised by an inter-vivos transfer of a celebrity's rights of publicity is whether the celebrity's continued control over those rights following the transfer might result in the rights being included in his or her taxable estate. Notwithstanding the transfer, Section 2036(a)(2) of the Internal Revenue Code requires that, when a decedent retained the right during his or her lifetime to determine the persons who may possess or enjoy the income from property, the decedent must include that property in his or her taxable estate upon death, notwithstanding the fact that beneficial ownership may have been formally transferred during the decedent's lifetime.

While the application of Section 2036 and related provisions of the Internal Revenue Code to rights of publicity transferred during a celebrity's lifetime remains untested, celebrities may reduce the risk of such rights being brought back into their taxable estates. First, the celebrity should not be the trustee of the irrevocable trust to which he or she transfers the publicity rights, and if the celebrity retains the right to replace the trustee, the terms of the trust should require that an independent trustee (rather than a related or subordinate trustee) must be chosen as the replacement. Second, the celebrity should consider selling, rather than gifting, the publicity rights to the irrevocable trust since transfers resulting from a sale "for adequate and full consideration" are outside the scope of Section 2036.[40] A third issue, if the celebrity's career is ongoing, concerns the need to continue to make use of his or her persona and likeness without, for example, first seeking the approval of the trustee of a trust. This issue may create an opportunity, however, since the celebrity may enter into a contract with the irrevocable trust pursuant to which the celebrity is allowed to

continue to use his or her name, likeness, or other publicity rights in exchange for a series of royalty payments.[41] Since the irrevocable grantor trust is disregarded for income tax purposes, these payments will not result in taxable income to the celebrity or the celebrity's beneficiaries. Also, since the payments will represent an arm's-length fair value price for the celebrity's use of his or her name or likeness,[42] the payments should not be treated as gifts to the beneficiaries of the irrevocable trust. Accordingly, the celebrity may achieve a further reduction to his or her taxable estate.

Celebrities domiciled in California may be able to avoid some of these tax risks because the California Civil Code creates distinct lifetime (Section 3344) and posthumous (Section 3344.1) rights of publicity. A celebrity domiciled in California could transfer only the posthumous right of publicity to an irrevocable grantor trust during his or her lifetime, retaining the lifetime right of publicity. Section 3344.1 specifically allows the transfer of posthumous rights alone. By retaining a lifetime right of publicity, the celebrity could avoid risks related to retention of control and determining an arm's-length royalty rate for the lifetime use of the publicity rights. Further, since the retained lifetime right of publicity would terminate at the time of the celebrity's death pursuant to Section 3344, the celebrity should not be required to include the retained lifetime right of publicity in his or her estate.

As technology advances and posthumous performances become more and more prevalent, postmortem publicity rights are likely to continue to expand in scope. This will present new challenges to executors and beneficiaries, but it will also present new opportunities and responsibilities for celebrities and their advisors to plan ahead to minimize taxation, provide for their beneficiaries, and manage a lasting legacy. Moreover, as technology advances to allow digital recreation of celebrities' likenesses, studios may, in an effort to reduce the cost of hiring talent, create digital amalgamations of various body parts and gestures of beloved celebrities. Such a digital Frankenstein's monster might subliminally spark feelings of recognition and goodwill in audiences without obviously infringing on any one celebrity's rights. O brave new world, that has such actors in't! ■

[1] To older viewers, the appearance of Cushing may bring back memories of a string of posthumous performances in commercials in the 1990s, most notably a Super Bowl ad in 1997 in which Fred Astaire danced with a Dirt Devil vacuum. To younger viewers, the appearance may bring to mind the hologram of Tupac Shakur that performed at the Coachella Valley Music and Arts Festival in 2012.

[2] *See* 15 U.S.C. §1125(a).

[3] *See* WESTON ANSON, RIGHT OF PUBLICITY: ANALYSIS, VALUATION AND THE LAW 49 (2015) [hereinafter ANSON].

[4] *See* 1 J. THOMAS MCCARTHY, RIGHTS OF PUBLICITY AND PRIVACY §§5:7-17 (2d ed. 2016) (discussing differences between trademark and publicity rights) [hereinafter MCCARTHY].

[5] An individual may seek relief under federal trademark law for the use of his or her image or likeness, for example, on the theory that the defendant's use of the individual's likeness or persona is likely to give the impression of the involvement or endorsement of the individual or his or her estate.

[6] *See* MCCARTHY, *supra* note 4, at §1.25.

[7] *See* ANSON, *supra* note 3, at 72.

[8] Arizona, Florida, Hawaii, Illinois, Indiana, Kentucky, Nevada, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Virginia, and Washington are the other states.

[9] Georgia, Michigan, New Jersey, Pennsylvania, South Carolina, and Tennessee. (Pennsylvania and Tennessee recognize a postmortem right of publicity under both common and statutory law).

[10] CIV. CODE §3344 (1971, ch. 1595, §1).

[11] Lugosi v. Universal Pictures, 25 Cal. 3d 813 (1979).

[12] CIV. CODE §3344.1(b)-1(d) (1984, ch. 1704, §1).

[13] *Id.* §3344.1(g) (1999, ch. 1000, §9.5).

[14] *Id.* §3344.1(p) (2007, ch. 1135, §§1-2).

[15] Indiana provides even greater postmortem protection for rights of publicity. IND. CODE §32-36-1 (protecting right of publicity for 100 years after death and extending the right to gestures and mannerisms).

[16] *Id.* §3344.1(p).

[17] Milton H. Greene Archives, Inc. v. Marilyn Monroe, LLC, 692 F.3d 983 (9th Cir. 2012), *aff'g* 568 F. Supp. 2d 1152 (C.D. Cal. 2008).

[18] *See, e.g.*, J. Eugene Salomon Jr., *The Right of Publicity Run Riot: The Case for a Federal Statute*, 60 S. CAL. L. REV. 1179 (1987). More recently, the Uniform Law Commission announced its intention to create a committee to "study the need for and feasibility of drafting a uniform act or model law addressing the

right of publicity." Minutes to Midyear Meeting of the Committee on Scope and Program, Uniform Law Commission (Jan. 13, 2017), *available at* http://www.uniformlaws.org.

[19] Eriq Gardner, *Robin Williams Restricted Exploitation of His Image for 25 Years After Death*, The Hollwood Reporter, Mar. 30, 2015, available at http://www.hollywoodreporter.com/thr-esq/robin-williams-restricted-exploitation-his-785292.

[20] I.R.C. §2031(a).

[21] I.R.C. §1014(a).

[22] I.R.C. §§61(a)(14), 1014(c); *see also* O'Daniel's Estate v. Comm'r, 173 F. 2d 966 (2d Cir. 1949).

[23] Estate of Andrews v. United States, 850 F. Supp. 1279 (E.D. Va. 1994).

[24] Jeff Gottlieb, *Michael Jackson Estate Embroiled in Tax Fight With IRS*, L.A. Times, Feb. 7, 2014, *available at* http://articles.latimes.com [hereinafter Gottlieb] .

[25] Estate of Jackson v. Comm'r, Tax Ct. Docket No. 017152-13, Test. of Owen Dahl (Feb. 10, 2017), Trial Tr. vol. 13 (filed Feb. 17, 2017).

[26] Gottlieb, *supra* note 24.

[27] Estate of Jackson v. Comm'r, Tax Court Docket No. 017152-13, Respondent's Pretrial Memorandum (filed Feb. 1, 2017).

[28] Estate of Jackson v. Comm'r, Tax Court Docket No. 017152-13. As of the date of writing, the Tax Court has not reached a conclusion on this issue.

[29] I.R.C. §1221(a)(1)-(3).

[30] Treasury Regulations interpreting the definition of "capital asset" clarify that the phrase "similar property" is intended to include other property eligible for copyright protection. Treas. Reg. §1.1221-1(c)(1).

[31] I.R.C. §1221(a)(3). However, under I.R.C. §1221 (b)(3), authors of musical works may elect to treat the works as capital assets.

[32] I.R.C. §1221(a)(1)-(2). A number of interconnected provisions of the Internal Revenue Code may alter the character of gain recognized on the sale of property used in a trade or business. *See, e.g.*, I.R.C. §§1231, 1245. A complete discussion of these provisions is beyond the scope of this article.

[33] I.R.C. §§671-79; *see also* Rev. Rul. 85-13, 1985-1 C.B. 184 (holding that a sale between a grantor and an irrevocable grantor trust established by the grantor is disregarded for federal income tax purposes).

[34] Rev. Rul. 2004-64, 2004-2 C.B. 7.

[35] For example, if the IRS's original assertion as to the value of Michael Jackson's publicity rights were sustained, the estate could owe in excess of $160 million in additional estate taxes (40 percent of $400 million).

[36] Compare, for example, rights of privacy, which are fundamentally attached to the individual and cannot be transferred or assigned in a traditional sense.

[37] Timed Out, LLC v. Youabian, Inc., 229 Cal. App. 4th 1001 (2014).

[38] *Id.* at 1008, quoting Civ. Code §3344.1.

[39] Greg Johnson, *Ali's Name Value Put at $50 Million*, L.A. Times, Apr. 12, 2006, *available at* http://articles.latimes.com.

[40] I.R.C. §2036(a). The performer would need to hire an appraiser to perform an independent appraisal.

[41] Compare a grantor's payment of rent to an irrevocable trust in exchange for continued use of a personal residence that the grantor transferred to the irrevocable trust.

[42] In determining the amount of these arm's-length royalty payments, the celebrity should err on the side of overpaying the irrevocable trust, since any excess above fair value would be treated as a taxable gift. If instead the IRS determined that the celebrity was underpaying for the use of these rights, the IRS may argue that he or she retained an interest in the rights and that they should be brought back into the celebrity's estate for estate tax purposes.