



November 13, 2010

IRS Crackdown on Clubs in 2008 Produces Desired Effects

Since 2008, the IRS has tried to crackdown on taxing the amount of tips club employees receive. Recently, it obtained its first conviction of a club employee, a host at the Pure nightclub at Caesars Palace named Richard Chu. Chu pleaded guilty of not declaring at least \$112,000 in income, mostly tips in 2006. This conviction is the first in the IRS raid on the club and its management offices in 2008. The raid was regarded by many as the warning from the feds for club employees to declare their tips.

The Pure management has put in place a regulatory compliance program, assisted by the Nevada Gaming Commission and includes participating in security seminars by state regulators and constant communication with casino security personnel outside the club.

Pure management was recently bought over by Angel Management Group.

Many insiders in the industry already saw such a regulatory move coming especially considering the huge sums of money earned by these clubs and the drug use and prostitution that go on in the clubs. The government has also enforced the law in other areas as well.

The Nevada Gaming Commission fined Planet Hollywood half a million dollars for allowing illegal activities to go on in its now defunct Prive

nightclub. Metro police have made several arrests at pool parties organized by Rio and Hard Rock resorts of people on drug and prostitution charges.

It appears the crackdown by the IRS has had its desired effects. Joseph Margliarditi the recent CEO of Hard Rock Café, has conducted random drug tests on its employees including company executives. Wynn Las Vegas banned Paris Hilton from entering its premises after she was charged with cocaine possession in September. Likewise, Wynn also fired Hilton's boyfriend Cy Waits from his operations job after he was caught DUI. And Wynn also banned rapper Lil Wayne from a party there after he was prohibited from drinking alcohol upon his release from prison.

Some clubs have tightened their tip compliance procedures. Some club employees including cocktail servers have taken part in a voluntary tip compliance program by the IRS where their taxes are calculated based on the approximate amount of tips they receive. Other nightclubs compel their employees to attend workshops organized by Metro that cover handling drunk customers and checking IDs.

Some people have attempted to avoid paying taxes on tips by calling them by other names, like 'gifts'. But close to 90% of these cases that go to court end up in a conviction.