

The Financial Line-up

Financial Planning, News, and Tax Tips for Professional Athletes

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Editor: Allen W. Tharp, CPA

Genesis of the "Jock Tax "

By Rick VanderKnyff —MSN Money

The nonresident tax is nothing new. The Tax Foundation, however, says it took on a new life in 1991 when the Chicago Bulls beat the Los Angeles Lakers in the NBA Finals -- and the state of California decided to go after a piece of Michael Jordan's income. The Tax Founda-

tion report says that Illinois decided to retaliate the following year by levying a jock tax of its own, dubbed "Michael Jordan's Revenge" in the press.

The tax was applied only to players from states that taxed visiting athletes, which at the time was only California. Today, according to the report, "of the 24 states that have a professional sports

team, only four **do not** have a jock tax."

This is how it works. A pro athlete can be liable for taxes in two primary states, the state where the team is based and the state of residency. They can make it easier on themselves by living in a state without a personal income tax -- which is why so many pros live in Florida.

When they travel with their team, they are also liable for taxes in states with a jock tax. These states calculate the number of "duty days" a visiting athlete spends there for a road game, then send a tax bill for a prorated piece of the athlete's annual income.

Athletes claim these extra state-tax payments as credits in their home state to reduce their tax there. Theoretically, then, the jock taxes should not increase the overall tax burden, but because some states have higher tax rates than others, an athlete can end up paying more overall. It also creates a complex compliance issue for players who must file returns in multiple states. Most athletes are filing in anywhere from eight

"Deductibility "

The Most Misunderstood Aspect of Taxes

Because deductions are the easiest way to reduce your tax burden, we like to keep you up to date on what professional athletes may deduct.

Taxes

The most common deductions are for taxes. Individuals are able to claim state income taxes, real estate taxes and in some instances the value tax on your automobile when you register it.

The taxes you pay on your house or property may vary from year to year. Your property taxes will be recorded on a mortgage statement FORM 1098 or on a separate bill if you do not have an escrow account

Mortgage Interest

If you paid \$600 or more of mortgage interest during the year on any one mortgage, you will receive a FORM 1098 Mortgage Interest Statement or a similar statement from the mortgage holder. You should receive this statement by January 31 of the following year.

Business Related Automobile

Beginning on January 1, 2011, the standard mileage rates for the use of a car will be:

- 51 cents per mile for business miles driven
- 19 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

For professional athletes, business mileage is considered any of the following:

- Going home after season
- Driving to training camp
- Mileage to practice
- Personal appearances
- Medical appointments or treatments
- Mileage to airport/team office to start a road trip
- Mileage driven in summer to do conditioning



HAMILTON THARP, LLP
323 N. Pacific Coast Hwy 101* Solana Beach *California 92075 * (858) 481-7702
www.ht2cpa.com



Continued from Page 1 — "Genesis of the Jock Tax"

In the most extreme cases, the jock tax can lead to double taxation. In 2003, slugger Sammy Sosa, then with the Chicago Cubs, sued the state of Illinois because it denied the tax credits he paid for income taxes paid elsewhere. In 1998, he paid a total of \$65,316 in taxes to California, New York and three other states; Illinois charged him \$38,169 in taxes on the same income.

He lost the case, even though the judge agreed that double taxation was taking place. But the judge ruled that Illinois had the right to collect 100% of the taxes paid by athletes who are Illinois residents and play for teams based in the state. The state department of revenue said Sosa should have lodged his complaint against the five other states that taxed him.

Overall, the Tax Foundation argues, nonresident taxes are a wash for the 24 states with major league professional sports teams, because the tax and the accompanying credits basically cancel each other out. Some higher-tax states, such as California, come out as net winners, while some states lose out (and states like Washington and Florida, without a state personal income tax, stand above the fray).

The national Federation of Tax Administrators disputes that there are separate tax laws, such as a "jock tax," that target a specific profession. There is abundant evidence, however, that athletes are singled out for enforcement of nonresident taxes -- and that they are paving the way for other high-profile professions.

The Tax Foundation has called for the abolishment of the jock tax. The Federation of Tax Administrators has supported efforts by state tax agencies, professional teams and player associations to develop rules for a fairer and simpler apportionment of a nonresident athlete's income.

CONTINUED FROM PAGE 1—Deductability and Taxes

Road Trip Expense

Business related travel expenses are also deductible and include: taxi fares, parking fees, airline tickets, money spent above per diem.

Temporary Moving Expense

If you live temporarily in a hotel because the team has not told you to find a place or you have just gotten to a city, the following may be deductible: hotel cost (if not paid by team), laundry, car rental parking, meals, taxi, storage of belongings



Misc. Deductions

To claim any of the following miscellaneous deductions, they must exceed 2% of your income and must be paid during the tax year: agent fees, union or player association dues, trainer tips, league or team fines, phone calls to agent, team or financial advisor, conditioning cost, athletic equipment, tax preparation fees and investment fees.

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