

THE EFFECTIVENESS AND FAIRNESS OF 'JOCK TAXES'

by

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Abstract

This study focused on the effectiveness and fairness of non-resident taxes paid by professional athletes. Specifically, I examined whether states increase their income tax revenues from the practice of taxing non-resident athletes after factoring in the credits they must grant. Pogrowski (2009) analyzed states' non-resident income tax revenues, and concluded that a few states were able to significantly increase their tax revenues, while the majority only had slight increases. I completed a similar data analysis using 2013 data. This analysis includes the tax credits that a state must grant to its home athletes. I hypothesized that due to these tax credits, states only marginally increase their tax revenues. The results showed that while some states increased their revenues, some lost revenues, and many showed only marginal increases.

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INTRODUCTION

Taxation without representation is one of the core pillars on which the United States decided to start a revolution. Yet today, there are still many Americans who pay taxes without a say in the local or state government taxing them. Currently, this is the problem faced by athletes in all four of the major United States sports leagues, the National Basketball Association (NBA), National Hockey League (NHL), Major League Baseball (MLB) and National Football League (NFL) (DiMascio 2007). These players pay income taxes in nearly every state they play in, with additional taxes levied by major cities. This first became a trend in the 1980's when governments with cash flow issues looked to "cash in" on visiting athletes (Difrischia 2000). Athletes are the ideal group for governments to target for additional income tax revenue because teams' schedules are published, and it is easy to track the time that they spend in the state or city (Fratto 2007). These municipalities can then use that information to tax the players based the number of days the player spends in the city or state taken as a percentage of total days worked. Some states instead use a method of apportionment in which they divide the player's salary by the number of games played, and then determine the player's tax liability based on the number of games played in the state (Schmutter, Lazaar 2004).

Most professional athletes receive large salaries from the team in addition to large revenue streams from sponsorships making them a good source of tax revenue to any state. However, this is far from true about all of the team members that these taxes affect. It is not just the athletes who are bearing the burden of these taxes, but also trainers and coaches who travel with the team, and who often receive far less salary than the star athletes (DiMascio 2007).

What started as a simple way for a city or state to collect more income tax revenue has turned into an administrative burden for many of these same cities and states. This is because states that enforce income taxes on non-resident athletes must grant tax credits for income taxes that their resident athletes paid in other states. Though many states have rules stating that non-residents will not be taxed unless they are in the state for more than 12 days, athletes are specifically exempt from this grace period. If these states did not treat athletes differently (by taxing athletes who are in the state less than 12 days) then the home state would not have to give these credits to their athletes, because their athletes would not have been taxed by the other states. This illustrates the disadvantage that is placed on the home state by many states implementing the taxation of non-resident athletes (Fratto 2007).

Several athletes have taken a stand against this complicated tax treatment. In 2011, retired NFL player Joseph Henchman testified in a hearing before Congress, asking them to intervene in this as a matter of interstate commerce (Henchman 2011). Another former NFL player, Jeff Saturday, challenged the city of Cleveland for charging him income tax for a game in which he did not attend due to an injury (Niquette 2014). In 1992, a twelve-state task force of the Federation of Tax Administrators (FTA) and representatives of all four major sports players associations failed to agree on an equitable agreement (Difrschia 2000). Despite the fact that they could not come to an agreement, the FTA however still recommended the Uniform Apportionment Formula in an attempt to make the filing of these taxes easier.

The purpose of this paper is to investigate how athletes are taxed and provide evidence on the costs and benefits to states of taxing athletes under one of the two

apportionment methods commonly used by the state. This will be done by measuring the costs and benefits by estimating the taxes collected, assuming taxation of only resident athletes versus taxes collected assuming taxation of resident and non-resident athletes.

REVIEW OF LITERATURE

Taxation of Non Resident Athletes

Beginnings of the “Jock Tax”

Prior to the 1990's, it was customary for athletes to only file two state tax returns. One in the state in which they were a resident, and the other in the state in which their franchise played (Pogroszewski 2009). While states had begun pursuing highly paid entertainers for tax revenue, they had long left athletes alone (Diffrischia 2000). The subject gained large notability when California taxed Michael Jordan and the Chicago Bulls after they beat the Los Angeles Lakers in the 1991 NBA Championship. Illinois then instituted “Michael Jordan’s Revenge” which specifically taxed nonresident athletes, but only from states that taxed Chicago’s athletes (Niquette 2014).

Around this same time, the city of Philadelphia started enforcing its city tax on non-resident athletes in an attempt to collect taxes from athletes dating back to 1986. They had the right to retroactively tax since Philadelphia’s “Business Privilege” tax had been passed in 1985. The city’s tax office mailed out over twenty thousand notices to athletes who had participated in sporting events in the city (Ringle 1995). Philadelphia is still one of the most stringent enforcers of non-resident athletes taxes today (Diffrischia 2000).

Currently twenty-one states and eight cities that host major sports teams tax visiting players. Not only are these taxes affecting the big name players, but also the coaches, trainers, and others who accompany the team (Niquette 2014). The average trainer in the NBA makes around \$51,000 a year. This is in large contrast to some of the highest paid athletes such as Lebron James who made \$19.3 million in salary alone in

2014 (Forbes, 2014). With tax returns being filed in many states, the cost of filing all of these returns can run into the low five figures (Ferguson 2012).

How the Non-Resident State Tax is Calculated

While the exact method for determining the amount of tax owed to each state is different, there are two main methods used by states: the duty days and games played methods (Adams 1999). In recent years, the duty day's method has become the preferred method in most states (Niquette 2014).

Income Included

Non-resident athletes apportion their income using one of the two methods listed above. In order to determine the dollar amount to use in the apportionment calculation, athletes must again look at each specific state's rules for calculating taxable income.(Stern 2009). Overall, states and cities tax based on personal service income which has generally been limited to wages, performance bonuses, and deferred compensation (Ekmekjian 1994).

Duty Days Method

The duty days method calculates the percentage of income allocated to the state by taking the number of days that the athlete spends working within the state as a percentage of the total days worked. Each state defines what a "duty day" is differently. Some include pre- and post-season games, some include All Star events and games, and some only include the regular season games (Adams 1999). The athletes favor this approach since the duty days method more accurately allocates their income to states throughout the season. The duty days method takes into account practice days and other

events, most of which happen in the state of the franchise. Practice days and conditioning programs specified as required in the athlete's contract and performed at the facility of the franchise may be included as duty days (Pogroszewski 2009). This is the reason that many MLB teams hold their spring training in Florida, a state with no income tax. Holding the training there allows athletes to reduce their tax burden by increasing the number of duty days in a state with no income tax. Using the duty days method reduces the athletes overall tax burden to other states (Niquette 2014). This is because the duty days method allows athletes a much larger denominator by allowing them to include more days within their own state, therefore reducing the fraction of taxes owed to other states.

Games Played Method

The games played method calculates the percentage of income to allocate to each state by taking the number of games played in the state or city, and dividing it by the number of total games played within the taxable year (Krasney 1995). This method is applied differently across states with some including post-season and All Star games. The games played method causes a smaller overall burden on the state because it is easier to administer. This method creates a larger tax burden for most players in their non-resident states as compared to the duty days method (Adams 1999).

Comparison of Two Methods

To illustrate the difference in burdens that can be created by the two methods, consider the average NFL salary of \$1.9 million a year (Schwartz 2013). The average NFL team will play 16 games over a 17 week season. Assume for simplicity that the team

travels to its away games early to conduct two days of practice before each away game, and has two mandatory training days in its home practice facility each week. If the team played a game in Michigan, the athletes would be subject to a 3.4% tax rate (DiMascio 2007). Using the games played method, the athlete would be subject to a \$4,037.50 tax for the three days that they spent in the state. Conversely, using the duty days approach, the athlete would only be subject to \$2,850.00 in income tax to the state of Michigan. That is a \$1,187.50 difference in tax burden to only one state.

	Games Played	Duty Days
Michigan	1	3
Total	16	68
Income to Allocate	\$ 1,900,000	\$ 1,900,000
Michigan Taxable Income	\$ 118,750	\$ 83,824
Michigan Tax Rate	3.4%	3.4%
Tax Due to Michigan	\$ 4,038	\$ 2,850

Tennessee- The Exception

The only state that taxes non-resident athletes and does not use either the games played or duty days method is Tennessee. Tennessee has a “Professional Privilege Tax” that only applies to athletes in the NHL and NBA (Pogroszewski and Smoker 2013). This Tennessee specific tax charges athletes a flat per game rate. This specific “Professional Privilege Tax” does not go towards funding the state budget, but rather goes back to helping support the privately-owned stadiums (Pilon 2013). This tax results in significant tax burden for lower-income athletes and people who travel with the team.

Not only does this tax disadvantage the players, it poses a risk for the state of Tennessee. Many believe that the tax is not fairly apportioned under the commerce clause, making it a constitutional issue. Since Tennessee is the only state to assess a flat

tax, this makes the state especially susceptible to litigation since Tennessee would not have the support of the other states. Were the tax to be ruled unconstitutional, Tennessee would be at serious risk for secondary lawsuits from groups like the NHL Player's Association and the NBA Player's Association, whose players would be entitled to refunds for all the unconstitutional taxes paid in prior years (Pogroszewski and Smoker 2013).

Is it Equitable to Treat Athletes Differently?

Nexus with Tax-payer and Income

In order for a tax to be fair, there must be nexus between the state and the taxpayer's income. Nexus is a means of connection. The courts have defined nexus with the taxpayer in different ways at different times. For purposes of sales and use tax, in *Quill Corporation vs. North Dakota*, the US Supreme Court stated the taxpayer had to have physical presence in order for there to be sufficient nexus to tax that income. However, The Court's ruling also suggested that the standard may be different for taxes other than sales and use taxes. This suggests that the presence of income generating activities is sufficient nexus for the state to have taxing authority over income taxes. Thus nexus with the taxed income refers to the states' ability to track the source of the income back to the state (Pogroszewski and Smoker 2013).

DiMascio argued in 2013 that states did not have nexus with income because an athlete's paycheck in no way depends on the teams specific travel schedule. He makes two arguments, first, the athlete's income does not change even if the team's schedule

moves to a different state. Further, the athlete's salary stays the same even if they are on the bench the whole game, and when they are injured and cannot travel to the game. Even if the team plays to an absolutely empty stadium on the road, the athlete's salary will stay the same. His second argument is that teams generate their revenue primarily from home game ticket sales, merchandising, and broadcast rights. DiMascio (2013) goes on to explain, "Because these revenues pay the salaries of the team's athletes, the athletes' income is earned through economic transactions in his team's home state, not in the other states in which he performs."

Impact on Interstate Commerce

While many of the highly paid athletes such as LeBron James or J.J. Watt may be able to easily pay the taxes that states charge them, not all athletes are at the top of the payroll. Many of the lower paid athletes will lose money playing in certain states, especially in Tennessee. When Bate Wolters played in Tennessee with his team, the Milwaukee Bucks, the backup point guard lost about \$1000 after having to pay the state's \$2500 flat per game tax. Research on the subject has shown that more than a third of hockey players lose money while playing in Tennessee, and about 20% of NBA players lose money, or just break even in the state (Pilon 2013). In any other industry, taxing resources that come in from other states would be a direct violation of the interstate commerce clause.

One of the tests used to determine the fairness of a tax among states is the internal consistency test, which focuses on the potential effect that one state's tax might place on interstate commerce. This test examines a state tax measure, and then examines what would happen if that tax was instituted by all 50 states. This analysis aims to determine if

the tax measure would result in larger cumulative taxes than if the tax stayed purely within one state (Pogroszewski 2009).

In looking specifically at the issue of taxation of non-resident athletes, we would then examine the tax burden placed on athletes who are taxed in states across the nation, versus a hypothetical professional athlete who is only taxed within one state. Take J.J. Watt who plays for the Houston Texans for example. Watt makes around \$10 million a year. Were Watt to only be taxed in the state of Texas, which has no income tax, he would not have to pay any income tax. In contrast, by participating in games across the country, and paying income taxes to all of those states, his state tax burden is increased. This example illustrates that any athlete who plays in states with a higher tax rate than their own is at a disadvantage. Following the consistency test, this puts interstate commerce at a disadvantage due to the fact that players have more incentive to play in lower tax states than higher tax states.

A perfect illustration of this interstate commerce clause's effect on taxation comes from the state of Washington, which does not have a personal income tax. A state senator who was tired of watching his athlete's disposable income flow out of the state created a proposal to tax the income of non-resident athletes on the basis of their income earned in the state of Washington in response to other state's taxation of Washington athletes. This proposal however never passed because it came in conflict with the interstate commerce clause, since it does not promote trade and cooperation among the states (DiMascio 2007). Imposing a tax only on residents of other states creates a barrier to other U.S. citizens who conduct business in the state of Washington. Imposing a tax on only visiting athletes would do just that. This is what the interstate commerce clause specifically

prohibits. The senator from Washington argued that it was unfair that Washington, which bases a large part of its budget on a sales tax, cannot recuperate the income the state loses from some of its highest paid individuals having a diminished disposable income, and therefore decreased consumption (DiMascio 2007).

Athletes from states with no income tax end up paying the largest share of non-resident athlete taxes since their home state cannot offer them tax credits (Salamas 1997). Currently there are nine states in this situation although not all of them have a professional team. These states are Alaska, Florida, Nevada, New Hampshire, Tennessee, Texas, South Dakota, Washington, and Wyoming (MacDonald 2013).

Targeting

Many states specifically target athletes whether explicitly mentioned in the state's tax code or not. Athletes are easy to target because they have high, published incomes and a specific, published, and easy to track travel schedule (Appleby 2011). Due to the fact that their league dictates what their schedule will be, athletes have no choice in which states they work (DiMascio 2007). Ohio even has a law that provides that non-residents who work in the city for twelve or fewer days a year do not have to pay Ohio state income tax. However, many states specifically exempt athletes and entertainers from this grace period. Thus, some states treat athletes differently than investment bankers, executives, and attorneys even though all of these professionals have similar lifetime earnings to athletes. To make matters worse, athletes' careers are short in duration, marked by a few, very well paid years. This means that they pay more in income taxes throughout their life since the short time span of higher earnings place them in the highest tax bracket (Salmas 1997). As an example, the average NFL player's

lifetime earnings are \$6.7 million, made over a 3.5 year career (Schwartz 2013). In comparison, a surgeon's lifetime earnings are often around \$8.4 million made over 30 years (Beattie 2009).

Lack of Representation

An athlete's tax burden is not currently a cause that garners great public attention. This is a major disadvantage for athletes because they cannot rally support in the states in which they do not reside to get voters to support a change in this taxing arena. To make matters worse, the athletes themselves do not get to vote in all the states they are taxed in since they are non-residents (Difrischia 2000).

The only coordinated effort to minimize the confusion that athletes face in the payment of these taxes came in 1992 when the Federation of Tax Administration (FTA), an organization of state tax officials, put together a task force made up of representatives from all the major players associations and twelve states who came together to discuss the issues that professional athletes face in determining and paying their tax burden (Pogroszewski 2009).

The representatives from major league sports and the players association recommended the Home State Apportionment Method. Under this method, all of the player's income would be allocated to the state where they play their home games. This would allow most athletes to file two tax returns, one in the state in which they play, and the other in the state in which they live (Ekmekjian 1994).

The second suggestion was the Uniform Apportionment Formula. This option forces states to adopt one standard for allocation and enforcement rules. This would

significantly decrease the compliance burdens created by the many different methods that were present at the time (Ekmekjian 1994).

The FTA also considered two other options: the Composite Return System and a Centralized Filing System. Under these methods, athletes would file one state return, and then it would be the job of that state to allocate tax payment to the other states based on a predetermined formula. While athletes would enjoy the reduced compliance burden, the states were not willing to accept this idea because it created more work and less income for them (Ekmekjian 1994).

In the end, the major league athletes recommended the Home State Apportionment Method, however the FTA recommended adoption of a Uniform Apportionment Formula. While the FTA's meeting did have an impact in making most states shift to the duty days method, it was unsuccessful in getting all states to adopt the same apportionment scheme to avoid double taxation (Ekmekjian 1994).

Administrative and Compliance Burden

It is not only the increased amount of taxes that many athletes pay, but also the increased costs and burden they face in calculating the taxes and filing multiple returns that raises questions about the fairness of non-resident athletes taxes (MacDonald 2013). Athletes must hire firms to help them file their returns since these athletes have to file returns in sometimes over 38 states, plus localities (Schmutter and Lazaar 2004). Understanding the intricacies of all the different state returns is difficult even for tax professionals as twelve of the states that enforce a non-resident athlete tax do not even mention "professional athlete" or "duty days method" in their tax code, forcing

accountants to use prior years knowledge, or other unofficial publications to determine the athlete's tax bills (Pogroszewski 2009). Additionally, accountants must pay particular attention to athlete's travel schedules throughout the year. Though most states today use the duty days method, all states have different requirements about what is included in the numerator and denominator, meaning accountants must do separate calculations for each state and locality (MacDonald 2013.).

Deductions

As Kornhauser (2010) points out, a common criticism of tax systems today are the various deductions and ways to exploit weak points in the tax code that seem contradictory to the tax's purposes. One of the ways to increase taxable income from athletes without adding any additional administrative burden to the athletes is a reduction in the deductions these athletes can claim. Currently athletes, similar to all working Americans, can deduct anything that is considered a "regular business expense" not reimbursed by their employer (Fratto 2007).

In the world of athletics, this includes everything from the cost of your CPA, to moving expenses when a team trades an athlete or that athlete transfers to another team as a free agent. One of the deductions that has come under fire recently is the deduction that athletes can take for any fines from the team, league or commissioner. These are fines that athletes pay for misbehaving in some way. The argument for allowing fines to be deducted is that these fines are regular business expenses that are accepted as the standard form of punishment among athletes. The argument against is that the fines are imposed as a form of punishment for the athletes, and therefore no benefit should be gained from them (Pogroszewski 2009).

NFL Tax Exempt Status

The NFL reported revenues of \$7.8 billion in 2010 with an operating income of more than \$1.0 billion, yet they still maintain a tax exempt nonprofit status. The NFL and NHL are both tax-exempt organizations, however the NBA and MLB are not (Ginsberg 2015). Professional sports in the United States is a \$225 billion industry, begging the question, why do these organizations qualify as tax exempt (Maul 2011)? It is actually written into Section 501(c)(6) that professional football leagues are tax exempt, making the NFL one of the 29 categories of tax exempt organizations (Schmied 2014).

The NFL makes the argument that they are no different than any trade organization, just trying to further their industry, however many persons question if this is true. The main argument of people who question this aspect of the NFL rests on the ease of membership to a normal professional or trade organization. Though there may be some boundaries such as test taking or professional experience, most professional and trade organizations are relatively easy to join. On the contrary, it is very difficult if not impossible to simply start up a football team and join the NFL. For that reason, many question if the league is actually trying to further the sport of football, or just looking out for its members (Schmied 2014).

Further scrutiny is brought to the tax exempt status of the organization by examining the position of NFL Commissioner. Current commissioner Roger Goodell oversees a vast number of organizations related to the NFL which are both non-profits and for-profits. The revenue from the for-profit entities such as NFL Enterprises LLC or NFL Productions LLC is comingled with the tax exempt income by membership dues and assessments. This close relationship, and overall oversight by the same

Commissioner is one of the many arguments for the NFL to become a taxable entity (Maul 2011).

NCAA Tax Exempt Status

Similarly to the NFL, there is a call for high-performing National Collegiate Athletic Association (NCAA) athletic programs to lose their non-profit tax exempt status. Commentators argue that high-performing NCAA football and basketball programs become more like a business every year. In contrast to the NFL however, there are many compelling arguments in favor of the NCAA keeping their tax-exempt status, as well as several key differences between the way the NFL and NCAA are operated (Smith 2010).

The first major argument is that only a handful of NCAA athletic departments actually make a profit. Because of this, and consistent with the not-for-profit nature, only a small number of athletic departments would actually be subject to this tax. Additionally, experts believe that imposing such a tax would just encourage these athletic departments to spend more each year to offset the revenue so that they would not be subject to the tax (Smith 2010).

The NCAA is easily able to distinguish its model from that of the NFL or other professional sports organizations. In contrast to other sports organizations, any institution that meets the NCAA's set criteria are able to join an NCAA conference (Colombo 2010). Additionally the NCAA's stated purpose "is to govern competition in a fair, sage, equitable and sportsmanlike manner, and to integrate intercollegiate athletics into higher education so that the educational experience of the student athlete is paramount" (Smith 2010, 2). Another major differentiator is who makes the key decisions. In professional

sports leagues, the key decisions are made by the league and its commissioner. NCAA decisions however are made by its members (Smith 2010). The NCAA has 1300 member institutions, compared to the NFL's 32, or the NBA's 30 (Colombo 2010).

Many make the argument that the high salaries of college football and basketball coaches are a sign that the NCAA or its member schools should lose their tax exempt status. The argument against this is that the law states salaries are only a problem if they are unreasonable. Reasonable is defined as being comparable to the market rate for similar work. Though it is true that not all NCAA football coaches may be paid as much as Alabama's Nick Saban who signed an 8 year, \$32 million contract, but Alabama hired Nick Saban when he was working as an NFL coach (Colombo 2010). This changes the peer group that Saban is compared to. Instead of comparing his salary to that of the average college football coach, it is instead compared to the salary of the average NFL coach, which makes his salary reasonable by the definition above.

METHODOLOGY

Research Question

In order to investigate how athletes are taxed, and provide evidence on the costs and benefits of the non-resident taxation of professional athletes, this study looks to answer the question: do states increase their overall tax revenues through the taxation of non-resident athletes.

Hypothesis

After researching the complex way in which athletes are taxed, I anticipate that states only marginally increase their tax revenues through the taxation of non-resident athletes.

Calculation of State Income Tax Collections

In order to estimate the tax collected by each of the states in which the NBA hosts games, there are several variables that need to be established. My analysis follows prior research performed by Pogroszewski in 2009. The analysis requires a measure of the salaries received from each NBA team, and the corresponding tax rates in all states they play in. The states in which games are played differ by team. This is particularly pertinent to my analysis because the taxes must be calculated on a state by state basis. In order to address this issue, we use the NBA schedule to determine which states the games were played in. It is important to note that both the 2012-2013 and 2013-2014 NBA League schedules must be used in order to get a complete picture of the games played within the year 2013.

Reciprocal agreements are another input that must be factored into this analysis. For example, Indiana residents, such as members of the Indiana Pacers, do not have to file returns in Kentucky, Michigan, Ohio, Pennsylvania, or Wisconsin. Therefore, the next input in the analysis is factoring in any of these reciprocal agreements, and their effect on both the taxes paid, and credits given by each state.

States also grant tax credits for income taxes paid to other states, so the last variable factored into the analysis is the amount that states would have to credit their residents. This entails determining which tax rate is lower, the home vs. non-resident state, as that is the rate the home state will give the resident a credit for.

ASSUMPTIONS INVOLVED

This analysis makes simplifying assumptions about both athletes and states. I assume that athletes do not change teams mid-season, so a team's payroll does not change over the year. This is a logical assumption because while trades do happen mid-season, they are typically for players of a similar pay grade. So this assumption likely does not have a significant effect on the team's overall salary. Additionally I assume that all athletes file as single taxpayers. Lastly, I assume that all games occurred during the season as scheduled with all athletes in attendance. This assumption affects the number of games played by the athlete, and the number of duty days spent in each state.

Assumptions About the Income Tax Policies

The only assumption made regarding the states' income taxing policies is in regards to the way the states apportion income. Since most states use the duty days

method, I assume that 3 days were spent at each game site, and all states use the duty days method.

RESULTS

Chart I presents the results of my analysis. The NBA payroll (P_n) column presents the total taxable income of all NBA teams that play their home games within the state listed. The resident tax rate (R_r) column is the tax rate applied to residents of the state in the top tax bracket. $P_n * R_r = R_t$ with R_t being the Resident Tax column. The Resident Credit (R_c) column is the credits that the home state will allow its citizens for state income taxes paid to other states. The Non- Resident Tax (NR_t) column includes all of the tax revenue that the state collected from non-resident athletes. The Tax Collected (C_t) column is equal to $R_t - R_c + NR_t$. The net difference column is the difference between R_t and C_t . The ratio column is C_t / R_t .

Focusing on the net difference and ratio columns, a positive difference or ratio greater than 100% indicates a benefit to the state. The results are mixed showing that some states collected more tax revenues, where-as others, such as Illinois and Oklahoma lost tax revenues due to the credits they had to give to their resident athletes. The overall increases seem arguably inconsequential. The average state gained only an additional \$766K. Similar to what Pogrowski (2009) discovered, states with high tax rates or teams with low wages benefit the most such as California and Colorado.

Chart I

Home State	NBA Payroll (P_n)	Resident Tax Rate (R_r)	Resident Tax (R_t)	Resident Credit (R_c)	Non-Resident Tax (NR_t)	Tax Collected (C_t)	Net Difference	Ratio
AZ	\$ 59,817,758	4.54%	\$ 2,715,726	\$ 1,159,151	\$ 1,481,159	\$ 3,037,734	\$ 322,007	111.86%
CA	\$ 224,039,649	13.30%	\$ 29,797,273	\$ 8,323,718	\$ 12,875,967	\$ 34,349,522	\$ 4,552,248	115.28%
CO	\$ 54,078,676	6.70%	\$ 3,623,271	\$ 1,221,057	\$ 2,476,591	\$ 4,878,805	\$ 1,255,534	134.65%
GA	\$ 58,182,724	6.00%	\$ 3,490,963	\$ 1,401,423	\$ 2,029,436	\$ 4,118,976	\$ 628,013	117.99%
IL	\$ 67,432,537	5.00%	\$ 3,371,627	\$ 1,941,523	\$ 1,482,459	\$ 2,912,563	\$ (459,063)	86.38%
IN	\$ 74,798,942	3.40%	\$ 2,543,164	\$ 955,420	\$ 1,204,968	\$ 2,792,712	\$ 249,548	109.81%
LA	\$ 70,611,951	6.00%	\$ 4,236,717	\$ 1,208,024	\$ 1,959,034	\$ 4,987,727	\$ 751,010	117.73%
MA	\$ 61,583,191	5.25%	\$ 3,233,118	\$ 1,313,600	\$ 1,826,239	\$ 3,745,757	\$ 512,640	115.86%
MI	\$ 64,265,367	4.25%	\$ 2,731,278	\$ 1,079,188	\$ 1,445,364	\$ 3,097,454	\$ 366,176	113.41%
MN	\$ 67,496,261	7.85%	\$ 5,298,456	\$ 2,191,818	\$ 2,712,784	\$ 5,819,423	\$ 520,966	109.83%
MI	\$ 64,265,367	4.25%	\$ 2,731,278	\$ 1,079,188	\$ 1,445,364	\$ 3,097,454	\$ 366,176	113.41%
NY	\$ 168,802,551	8.82%	\$ 14,888,385	\$ 4,559,404	\$ 5,735,334	\$ 16,064,315	\$ 1,175,930	107.90%
NC	\$ 65,680,052	7.75%	\$ 5,090,204	\$ 1,601,472	\$ 2,731,024	\$ 6,219,756	\$ 1,129,552	122.19%
OH	\$ 81,377,633	5.93%	\$ 4,821,625	\$ 1,640,107	\$ 2,090,917	\$ 5,272,435	\$ 450,810	109.35%
OK	\$ 78,791,633	5.25%	\$ 4,136,561	\$ 2,070,490	\$ 1,609,218	\$ 3,675,288	\$ (461,273)	88.85%
OR	\$ 72,054,464	9.90%	\$ 7,133,392	\$ 2,536,713	\$ 3,336,730	\$ 7,933,410	\$ 800,018	111.22%
PA	\$ 56,552,184	3.07%	\$ 1,736,152	\$ 677,523	\$ 1,044,671	\$ 2,103,300	\$ 367,148	121.15%
TN	\$ 74,626,032	6.00%	\$ 4,477,562	\$ 1,956,067	\$ 2,071,426	\$ 4,592,921	\$ 115,359	102.58%
TX	\$ 219,153,379	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	100.00%
UT	\$ 60,239,188	5.00%	\$ 3,011,959	\$ 1,380,139	\$ 1,711,496	\$ 3,343,317	\$ 331,357	111.00%
WI	\$ 54,983,579	7.75%	\$ 4,261,227	\$ 1,491,463	\$ 2,606,448	\$ 5,376,212	\$ 1,114,985	126.17%

Illinois is an example of a state that loses tax revenues due to the taxation of non-resident athletes. This is due to its relatively low tax rate at 5%. The low tax rate means that athletes in Illinois get a full 5% tax credit for income taxes paid in almost every state since nearly every other state's tax rate is higher. These credits cancel out Illinois tax revenues that would otherwise be generated on this income. Comparatively, California which has a 13.5% tax rate receives an additional 3-10% of income tax revenues since very few states have such a high income tax rate, and the credit is only for the income taxes paid. The following is an example of this disparity taking two athletes with the same salary, one from California, and one from Illinois. As you can see in the illustration in Chart II below, Illinois only receives enough additional tax revenue to offset the tax credits given to their residents, whereas California is able to increase their tax revenues by 10%.

Chart II

Home State	Salary	In State Tax Rate	Resident Tax Collected	Non-Resident Taxable Income	Non-Resident Tax Collected	Tax Credit From Resident State	Total Tax Collected	Change in Tax Collected	Percent Change
Illinois	\$ 1,000,000.00	5.0%	\$ 50,000.00	\$ 166,666.67	\$ 8,333.33	\$ 8,333.33	\$ 50,000.00	\$ -	0%
California	\$ 1,000,000.00	13.3%	\$ 133,000.00	\$ 166,666.67	\$ 22,166.67	\$ 8,333.33	\$ 146,833.33	\$ 13,833.33	10%

Completing this data analysis not only illustrated to me that this tax policy is not profitable for all states, but also the vast complexities of the laws and tax codes in the various cities and states in which these teams play. For example, consider the Indiana Pacers. Indiana has 5 states with reciprocal agreements, which is a relatively large number. This means the Pacers do not have to withhold income taxes for those states, which many teams forget due to the complicated nature of the withholdings. If the team does forget and withholds anyway, the athletes must then file additional forms in each state to obtain tax refunds of their withholding amounts. Additionally, even though the state of Indiana has a reciprocal agreement with the state of Pennsylvania, Indiana does not have any agreement with Pittsburgh or Philadelphia, where athletes must still pay additional city taxes.

CONCLUSION AND IMPLICATIONS FOR FURTHER STUDY

The evidence indicates two states lost money from the practice of taxing non-resident athletes, while many others saw only minimal increases in tax revenues. The 86% or 89% ratio within Illinois and Oklahoma indicate these states lost 14-11%. Using 10% as a measure of marginal benefits, Indiana, Minnesota, New York, Ohio, and Tennessee all received only marginal benefits. The ratio column only represents how much the state gains or losses based off the taxes collected, it does not take into account any administrative costs the state faces in the collection of the taxes.

The states that increased tax revenues most were ones with high tax rates or relatively low team payrolls. This information could be useful to states looking to increase their income collected through the taxation of non-residents. States who want to increase the revenues they receive from taxing athletes and all non-residents have enacted an additional tax that only applies to non-residents working in the state. States such as Maryland and California have enacted this policy, which helps to make them towards the top of the list in terms of revenue, and percentage of revenue collected. Not only are states not all seeing positive returns, but athletes are seeing a larger burden, not on the amount of taxes paid, but on the amount of time and money spent trying to file their return. This is seen in athletes filing upwards of 20 tax returns to states that would not charge income taxes to any other non-resident spending only a few days in the state (Salmas 1997). The practice poses questions about if this tax is applied fairly to athletes, and if the benefits to the states are enough to justify the burden posed.

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