The Accounting, Financial, and Taxation Aspects of Sports

Robyn Francis

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The Accounting, Financial, and Taxation Aspects of Sports

An Honors College Thesis

By

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Accountancy

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Reader: Carol Boyer
Abstract

The anticipation of sports and its urgency in society leaves companies in awe over the mass affect that sports have on society. It's a great time for everyone involved and a lot goes into account on behalf of the fans, players, and coaching staff for their hard work. Many might not be aware about the procedures that go on behind the scenes to provide the marvelous events that bring society together every day. Some of these procedures can be damaging to teams and players, such as the infamous jock tax or unstable contracts. But overall there are rules set in place to protect players rights over exploitation and abuse. Players are also free to negotiate their own contracts and are able to hire people who deal with the legal issues on their behalf. These certain protections are for every individual involved to make sure that no one get scammed out of their efforts.
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**Introduction**

In order to have athletes to succeed on and off the field or court, they must have a strong financial planning team or system as well as a trustworthy accountant that has the ability to accrue the maximum amount of income they can after taxes. Basketball and football athletes usually acquire a financial planner or a financial planning team as well as an accountant early on in their career. Acquiring a financial planning team as well as an accountant are a necessity because professional athletes come in contact with numerous financial circumstances throughout their career. Other than being on the field or court, businesses are constantly looking for new ways to connect to their audience and society in divergent ways. Sports is the perfect tool for businesses to connect with their audience. NBA and NFL athletes either partner up with businesses to increase profit or athlete produce sales for businesses close in proximity to the arena. Athletes of the NBA, National Basketball Association, make majority of their life’s income before they reach 40 years old. This is what makes financial planning for these athlete’s a key factor to their lives. In the book, “Is There Life After Football?: Surviving the NFL” by James A. Holstein, Richard S. Jones, George E. Koonce, Jr., it discusses how NFL players spend their money rapidly and it ends up causing financial distress in the future. Individuals can argue that they can handle managing their own finances. However having a financial advisor can be a huge benefit because they can take the workload off of that athlete.
“Jock Tax”

Taxation can be overwhelming for the ordinary person. This task is even more tedious for professional athletes. Athletes must have a dedicated financial planning structure and a dependable accountant that is able to accumulate the maximum amount of earnings after tax for athletes to thrive on and off the field. A competent financial system and accountant are basic for professional athletes because of the numerous financial situations during their career. Moreover, corporations are always looking for more ways to connect with their clients, and sports have proved to be the perfect avenue. The National Football League (NFL) and National Basketball Association (NBA) players usually strike some deals with other organizations to augment their earnings. Most professional athletes make majority of their life’s pay before the age of 40, which makes it essential to have financial planning done by professionals.

Jock tax is taxation imposed on non-resident athletes in any state they play. Athletes have games scheduled in different states throughout a single season. Every game accrues some income for an athlete, and that money is taxed by the state they are at the time. They are taxed on either duty days or games played. The NBA taxes athletes on duty days, which means taxes are deducted based on income tax rates for each day they play. Taxes on games played are deducted as income earned in a state, which can amount to thousands of dollars in a single day. Additionally, professional athletes are subjected to federal taxes like every other American (Williamson 4). Hence, this increases their financial strain and makes them the most taxed people in the world.
<table>
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<th>Description</th>
<th>Percent</th>
<th>Amount</th>
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<tr>
<td>Gross Pay</td>
<td>100%</td>
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</tr>
<tr>
<td>2017-18 Escrow</td>
<td>10%</td>
<td>-$3,468,255</td>
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<tr>
<td>Federal Taxes</td>
<td>33.61%</td>
<td>-$11,655,683</td>
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<tr>
<td>City/State Taxes</td>
<td>11.84%</td>
<td>-$4,105,453</td>
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<tr>
<td>Agent</td>
<td>2.75%</td>
<td>-$954,597</td>
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<tr>
<td>401K</td>
<td>0.05%</td>
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<tr>
<td>2016-17 Escrow</td>
<td>1.75%</td>
<td>+605,618</td>
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<tr>
<td>Shortfall</td>
<td>0.51%</td>
<td>+177,725</td>
</tr>
<tr>
<td>Net Pay</td>
<td>44.01%</td>
<td>=$15,263,905</td>
</tr>
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It is prudent to consider Steph Curry of the Golden State Warriors team to understand Jock taxes and the burden of taxation imposed on athletes. His gross salary for the 2017-2018 season was $34,682,550, which represents 100% of his income. Federal taxes amounted to $11,655,683, representing 33.61% of his total income. State taxes totaled up to $4,105,453, which is 11.84% of his total salary. The total percentage of taxes imposed on Curry amounts to 45.45% of his gross salary. Adding other deductions like agent fees and escrow to the taxes leaves him with $15,263,905 as his net income, which is only 44.01% of his gross salary. Therefore, it is clear that most of the athlete’s income is spent on paying taxes because the percentage of his income spent on taxes is larger than the percentage of his net income.

The NBA taxes their players by “Duty days”. Duty days means each state taxes you at their income tax rate for every day that you’re playing in their state. In the image above it provides a breakdown of a NBA player, Stephen Curry’s salary for the 2017-2018 season. Of the $34,682,550 earned, $4,105,453 was deducted for city and state taxes. Within that $4,105,453 was “jock tax” from playing in states where he did not reside. Approximately 12% of his income was deducted due to jock tax.
Another form of Jock Tax is getting taxed by amount of “games played”. When athletes play in a state that collects income tax, any money made from that game is taxed as income earned in that state, which can lead to a bill of thousands of dollars for one day spent in that state. In the diagram above it displays the breakdown of the number of games played in each state and the tax rate. Thus running Stephen Curry a total jock tax bill for out-of-state games of $945,000 for his 2018-2019 season.

The rate of taxation varies by the income tax rate of the state. Show below are the state income tax rates for the United States. Both the NBA and NFL follow by these income tax rates.
Not all states have income tax as well as sports teams within that state. Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming are all the states do not impose an income tax. The states with a sports franchises that does not administer an income tax on wages are Florida, Nevada, Tennessee, Texas, and Washington. Athletes who reside in these states can net millions more than elsewhere in America. Eight states use flat tax rates while the remaining thirty-three abide by the progressive tax rate system.

Flat Tax Rates

**Colorado**: 4.63 percent  
**Illinois**: 4.95 percent  
**Indiana**: 3.23 percent  
**Massachusetts**: 5.1 percent
Michigan: 5.10 percent

North Carolina: 5.499 percent

Pennsylvania: 3.07 percent

Utah: 5 percent

Progressive Tax Rates

Alabama: 2 to 5 percent. The highest rate applies to incomes over $3,000.

Arizona: 2.59 to 4.54 percent. The highest rate applies to incomes over $152,688.

Arkansas: .9 to 6.9 percent. The highest rate applies to incomes over $35,100.

California: 1 to 12.3 percent. The highest rate applies to incomes over $551,473.

Connecticut: 3 to 6.99 percent. The highest rate applies to incomes over $500,000.

Delaware: 0 to 6.6 percent. The highest rate applies to incomes over $60,000.

Georgia: 1 to 6 percent. The highest rate applies to incomes over $7,000.

Hawaii: 1.4 to 11 percent. The highest rate applies to incomes over $200,000.

Idaho: 1.6 to 7.4 percent. The highest rate applies to incomes over $11,043.

Iowa: .36 to 8.98 percent. The highest rate applies to incomes over $71,910.

Kansas: 3.1 to 5.7 percent. The highest rate applies to incomes over $30,000

Kentucky: 2 to 6 percent. The highest rate applies to incomes over $75,000.

Louisiana: 2 to 6 percent. The highest rate applies to incomes over $50,000.

Maine: 5.8 to 7.15 percent. The highest rate applies to incomes over $50,750.

Maryland: 2 to 5.75 percent. The highest rate applies to incomes over $250,000.

Minnesota: 5.35 to 9.85 percent. The highest rate applies to incomes over $160,020.

Mississippi: 3 to 5 percent. The highest rate applies to incomes over $10,000.
Missouri: 1.5 to 5.9 percent. The highest rate applies to incomes over $9,253.

Montana: 1 to 6.9 percent. The highest rate applies to incomes over $17,900.

Nebraska: 2.46 to 6.84 percent. The highest rate applies to incomes over $30,420.

New Jersey: 1.4 to 8.97 percent. The highest rate applies to incomes over $500,000.

New Mexico: 1.7 to 4.9 percent. The highest rate applies to incomes over $16,000.

New York: 4 to 8.82 percent. The highest rate applies to incomes over $1,077,550.

North Dakota: 1.1 to 2.9 percent. The highest rate applies to incomes over $424,950.

Ohio: 0 to 4.997 percent. The highest rate applies to incomes over $213,350.

Oklahoma: .5 to 5 percent. The highest rate applies to incomes over $7,200.

Oregon: 5 to 9.9 percent. The highest rate applies to incomes over $125,000.

Rhode Island: 3.75 to 5.99 percent. The highest rate applies to incomes over $142,150.

South Carolina: 0 to 7 percent. The highest rate applies to incomes over $14,860.

Vermont: 3.55 to 8.95 percent. The highest rate applies to incomes over $416,700.

Virginia: 2 to 5.75 percent. The highest rate applies to incomes over $17,000.

West Virginia: 3 to 6.5 percent. The highest rate applies to incomes $60,000.

Wisconsin: 4 to 7.65 percent. The highest rate applies to incomes over $252,150.

District of Columbia: 4 to 8.95 percent. The highest rate applies to incomes over $1 million.

Some sports organizations are in Ontario, Canada where there average income tax rate ranges from 15-20%.

Players in the NBA typically play at least half of the games in their season in their home arena.

Thus making their total jock tax in their state they reside the highest. Comparing 4 players in the NBA from 4 different states, there is a significant difference in their state tax bill.
The rate of taxation is different in every state. It is dependent on the income tax rate of a particular state. Tennessee, Washington, Florida, Nevada, and Texas have sports squads but do not dispense tax on income. Athletes living in these states make more money than their counterparts in other parts of the country. States such as Indiana, Utah, Michigan, Colorado, North Carolina, and Illinois employ fixed tax rates. The remaining states practice fluctuating tax rates. Consequently, athletes, through the States’ Arbitrary and Selective Enforcement of Jock Taxes, are challenging jock taxes under the Commerce Clause, Dormant Commerce Clause, Due Process Clause, Privileges and Immunities, and the Equal Protection Clause (Williamson 4). They are seeking an implementation of a uniform allotment rate by all states on non-resident
The Internal Revenue Code offers no special tax exemptions to professional athletes. An athlete's federal taxable income is calculated in the same manner as for any taxpayer: gross income - deductions = taxable income. However, determining each component that falls into this equation: gross income, “allowable deductions”, and taxable income; involves a careful tax analysis and tax planning. Gross income for professional athlete's portfolio includes wages, signing bonuses, performance bonuses, prize money, endorsements, royalties, license fees, personal appearance fees, gifts, and imputed interest on interest free loans.'

“Former National Basketball Association star Michael Jordan's gross income might include wages earned from the Chicago Bulls, performance bonuses received as part of his personal service contract with the Bulls, corporate endorsement revenues earned from contracts with Nike and Gatorade, licensing fees earned from "Jordan's Health Clubs" utilizing his name to promote business, and the fair market value of gifts received such as cars, watches, and trips to Walt Disney World.”.

Once an athlete's gross income is determined, allowable deductions are then subtracted in order to compute taxable income. Gross income is broadly described as income derived from any source. Deductions are more complex because the Internal Revenue Code must authorize the deduction. Tax deductible expenses incurred in relationship with a professional athlete's career may include fees paid to an agent, a lawyer, and an accountant as well as travel, meals, and lodging costs incurred while on the road. Deductions may also include professional dues paid to players' associations and equipment costs on items such as baseball gloves, football pads, and cleats." A statutory tax rate is then applied to the athlete's taxable income to determine the individual's tax liability. This calculation demonstrates how much of a tax burden professional athletes have to face.
Origin of Jock Tax

Non-resident taxation is not a new idea. The first decision by a court regarding these taxes was made in 1976 (Williamson 5). However, the directive was embraced by other states in the 1980s and 1990s. After winning the NBA Championship in 1991, The Chicago Cubs led by Michael Jordan received a notification from the state of California to pay taxes for the time spent playing against the Los Angeles Lakers because of the bitterness of the loss (Nolan 6). Illinois was tempted to start taxing foreign players that visit the state since its own athletes were being subjected to staggering taxes when they visited other states for games. The trend spread to other states, which taxed all visiting athletes equally in what came to be known as ‘Michael Jordan’s Revenge.’ According to Nolan, from the 1990 onwards, athletes have consistently faced jock taxes (6). Hence, Jock tax has a substantial history tied to it.

Converse to popular belief, Michael Jordan’s victory is not the reason for the creation of jock tax. Jordan was at the peak of his career and making lots of income as a member of the Chicago Bulls. The state of California decided that since some of Jordan’s income was earned within its borders, the state should get a cut of it. Illinois, the state that hosts the Chicago Bulls, was enraged that California had begun taxing Michael Jordan and the Illinois legislature responded by passing their own “jock tax” law which taxed visiting professional athletes. Illinois’ law didn't tax all professional athletes however only the players who played for a team whose home state taxed visiting athletes. Every state with income tax that hosts a team in the NBA and NFL, has upsetted a form a “jock tax” due to Illinois increasing the awareness of states assessing taxes specifically to professional athletes. However, he only led to California
implementing a law that was already in formation long before the championship games against the Lakers. Nolan reports the case whereby a case of Shaffer vs. Carter was heard in the U.S. Supreme Court. The former maintained that he was not supposed to pay taxes on revenue he obtained in Oklahoma (1). The court ruled against him and said that a state is free to impose taxes on its resident and on visitors who earn their income within the state borders. From then, taxes could be enforced on people based on the state of earning disregarding residence.

However, this tax regulation is immaterial to many people in the U.S.A. Most individuals earn their living in a single state, making the law irrelevant to them. Accordingly, tax directed to non-residents was called jock taxes because it mostly affects professional athletes who earn their living by travelling and playing in different states. As a result, jock taxes take effect every time athletes visit states beyond those they reside in to earn a living. Another case was presented before the California Supreme Court in 1983 by a San Diego player who wanted the states to adopt the games played method. According to him, the games played technique would only subject him to 56% tax on his income against the 76% of duty day approach (Overbay 218).

States are constantly searching for way to increase revenue and wealthy individuals who are forced to work in your state but unable to vote for or against your laws are easy targets. Thus causing quite a revenue stream for states. California received $171.7 million in tax revenue solely from professional athletes in 2010. Since the 1990’s efforts by several cities and states to impose a nonresident income tax on visiting professional athletes and expanded throughout the country as well as other sports leagues. “Simply stated, when the National Football League's New York Giants travel to Philadelphia to play the Philadelphia Eagles, the city of Philadelphia and the state of Pennsylvania tax the Giant players on that portion of gross income earned while
they were in Philadelphia. Similarly, when the Giants travel to California the following week to play the Los Angeles Rams, tax authorities in California also enforce their nonresident income tax regulations by collecting a tax on that portion of the Giant player's earnings allocated to the state.” The jock tax caused tax collectors from various cities and states to follow the Giants as well as other professional teams and athletes, from stadium to stadium, arena to arena, taxing the players' earnings. The concept of multiple income taxation of professional athletes of any sport is known as the jock tax.

**Are athletes the only ones who suffer from “Jock Tax”?**

Many people wonder if jock taxes apply only to professional athletes. Williamson addresses this concern by stating other people such as visiting members of staff associated with a professional sports franchise are affected by jock taxes (7). This section consists of people who travel with players on their away games, including broadcasters, coaches, equipment operators, managers, and trainers. Although these people earn considerably less than the players, they are subjected to the same law of taxation as the team members because they move from state to state and earn their income different states.

People from other professions are also subjected to jock taxes. Doctors practicing outside their states of residence are taxed on their incomes that are acquired in the states they work. Lawyers also face the same regulations as doctors when they work beyond the border of their resident states. Big corporations are also affected by jock taxes. Travis v. Yale & Towne Manufacturing Co., a non-resident company operating in New York city, is a perfect example. The company developed constitutional petitions of due interstate commerce clause
infringements, procedure breaches, equal protection contraventions, privileges and immunity violations, and the impairment of the obligations of contract claims against New York State. Under the income tax laws of the state, the business was compelled to withhold the taxes of its workers who resided in New Jersey and Connecticut (Overbay 220). The court ruled against the company based on the Shaffer and said that New York has jurisdiction to tax non–residents without violating any laws.

Individuals in the realm of basketball and football along with these athletes, take on the same jock taxes that the athletes encounter as they travel and temporarily reside in different states. Individuals like doctors, trainers, coaches etc. According to H&R Block,

“States with jock tax laws do not tax nonresident athletes at a higher tax rate; rather, jock taxes affect the amount of an athlete’s income that is subject to state or local taxes. Think of your annual salary as a pie; each state where you worked is trying to get the largest slice they can in order to charge you more in state taxes. In addition to their annual base salary, performance and signing bonuses are included in a player’s income pie if the conditions to receive the bonuses were met or partially met while performing services in that state. Before you shed too many tears for Peyton Manning and Tom Brady’s bank accounts, note that endorsement income is not subject to tax in states outside of where they live.”

Athletes try their best to lessen the pain of Jock Taxes. As stated above, endorsements cover those elusive tax deductions. Athletes still try to find ways in lowering the Jock tax they have to pay. According to Forbes,

“Many taxpayers are not sympathetic when pro athletes complain. Golfer Phil Mickelson triggered a firestorm over taxes when he said he might move after California retroactively raised tax rates to 13.3% from 10.3% for those making more than $1 million. Tiger Woods came to his defense, noting that he had also left California for Florida. Professional athletes and entertainers face a dizzying array of tax laws. Most states and countries tax them when they perform or play in their boundaries. Foreign athletes and entertainers must file U.S. income tax returns and face special withholding rules. What is considered U.S.-source can be debated but includes pay for performances, endorsements, merchandise sales, and royalty or other income closely related to the event. But when you
are a resident—as Mickelson is of California—you get taxed on everything. Most PGA Tour players live in no-tax states like Florida or Texas.”

Any person can be affected by the jock tax and it’s problematic every time they visit on a business trip. Some income will be refunded back during tax season. It is not entirely negative with jock taxes.

Many states gain staggering revenue from jock taxes. Implementing the law on non-professional athletes expands the income base for them. NBA and NFL game seasons only come at specific times, but other professions operate all year round. Therefore, imposing non-resident taxes on different employees ensures that states have access to jock taxes throughout the year (DiMascio 958). This move was first discovered by the state of Philadelphia, which upon the institutionalization of jock taxes, backtracked the revenue many years to make more money to manage the affairs of the state.

**Finance and Marketing**

A player’s financial objectives in a team are through a reasonable contract. This act makes a contract to be more involved and to have a good pay under the National Football League (NFL) or National Basketball Association (NBA) wage scheme and league guidelines. For example, Stephen Curry was the highest paid NBA player in 2018 with a $34 million annual salary. Applegate fittingly asserts that a team gets difficulties to account for sports’ goods and services since they are not included in a player’s contract (825). For instance, Lebron James, an NBA star, was invited to make advertisements with Blaze Pizza and Nike after he signed a $154 million deal with Los Angeles Lakers. Overall, a contract determines a player’s financial objectives.
“Player contracts are getting richer, more complex, and are now tailored to a specific player's or team's financial objectives. Consideration must also be given to league guidelines, most notably the National Basketball Association's salary cap.”

As of 2018, the highest paid player in the National Basketball Association is Stephen Curry. Stephen Curry currently makes $34.7 million annually. Accounting for sports franchises tends to have difficulties because they have many attributes to consider outside of the player contracts. Outside athletic contracts, players boost their income through advertisements and sneaker endorsements. For example, when perennial NBA All-Star LeBron James signed with the Los Angeles Lakers on a four-year, $154 million deal, he also upgraded his availability on certain advertisements such as Nike, Blaze Pizza (a pizza franchise he invested in), and getting in tune with the movie industry that comes with the Hollywood scene in Los Angeles, California. He has also has a production company in California. According to Black Enterprise,

“James could have stayed home and signed an even bigger deal worth around $205 million with the Cavaliers but his move to Los Angeles opens up business opportunities that ‘could propel him to even bigger global superstar status if he can return the purple-and-gold to NBA title contention.”

Maverick Carter, Lebron James’ business partner, who negotiated a $1 billion dollar plus deal with Nike for Lebron, lives and owns an office in California making it easier for Lebron to get involved and staying proactive with the person helping him grow financially. According to Black Enterprise,
“Two years ago, James’ net worth, according to *Forbes*, was $275 million, but “James has banked another $170 million, including endorsements, since then, and the stock market continues to move higher.” In total, he has made an estimated $765 million.”

Superstar Lebron James essentially tripled his net worth by joining an entirely new franchise, and starting a new legacy in Los Angeles with the help of Maverick Carter.

NFL Star Colin Kaepernick and Nike together have generated over $6 billion dollars. Kaepernick was asked to collaborate in Nike’s new ‘Just Do It’ campaign in honor of Nike’s 30th anniversary. Before the ad was released, Kaepernick was criticized for taking a knee during the national anthems at NFL games. He kneeled to support the victims, mainly people of color, of racial injustices in America that have occured over the years. Kaepernick started the following, “I am not going to stand up to show pride in a flag for a country that oppresses black people and people of color. To me, this is bigger than football and it would be selfish on my part to look the other way.” Upon his decision to support this cause gained a lot of backlash as well as support, one supporter being Nike. The “Dream Crazy” advertisement was released on Wednesday, September 5th, 2018. After the unveiling of Kaepernick’s ad Nike sales were boosted by 31% in over a matter of days, topping Nike’s 17% in sales from 2017. Even with the backlash that the ad has been receiving from people, including the President of the United States Donald Trump, the ad achieved the best sales that Nike has ever seen. Some have boycotted the brand by burning Nike brand items or stopped wearing the brand completely, but even these efforts didn’t stop Nike’s 6 billion dollar increase in value. The decision that Nike made was a big step, especially with such a controversial topic. They took a shot and that shot gave them a major increase in sales that other companies and programs are starting to advance into.
NBA and NFL fan favorites benefit individuals out of the arena while being on the field or court. Lebron James made multiple business moves and everyone in the state he’s in benefits financially. A 2017 study published by the American Enterprise Institute (AEI) quantified the effects that the 33-year-old forward had in Cleveland with the Cavaliers and his brief stint in Miami when he played for the Heat from 2011 to 2014.

“By playing in both cities, the data showed that James’ presence had a huge impact on their local economies by boosting restaurant revenues, ticket sales, and job creation. The number of eateries and bars within the mile of the stadium where he played at the time increased by 13%, with employment within those establishments increasing by 23.5%. While, on the other hand, those numbers dropped when James was not on either team.”

Not only does the athletes acquire income, but the local businesses and organizations benefit as well. Players’ good performances boost the local economy. NFL and NBA fans and business people benefit in various ways such as job creation, ticket sales, and hotel revenues when players participate in games. Revenue is generated through the selling of various products such as beer in bars and food and snacks around the arenas. Also, most players own the business organizations that perform the above tasks, hence generating additional money to their salaries. Players gain income from other activities such as endorsements of sneakers and advertisements. All in all, the excellent performances from players advance their salaries and strengthens the local economy.

Colin Kaepernick of the San Francisco 49ers, took a different approach than other NFL athletes in his career. In 2016, Kaepernick began to take knees to in honor of racial prejudices against the people in America. He was a tremendous athlete on the field. However, his beliefs and social activism is what boosted his wealth. With Kaepernick's Nike advertisement going viral across the globe, it produced a high profit margin for Nike’s corporation. Nike’s marketing team took a risk when producing this advertisement with all the controversy the Kaepernick has
brought to the field. In the long run, it turned out to be a huge benefit for the Colin Kaepernick, the NFL, and the Nike industry.

Players also face fines and financial problems. The Collective Bargaining Agreement (CBA) in sports sets fines of various violations in leagues. The crimes include missing practices, escaping a promotional event, using an abusive language to officials, and not adhering to a contract. Teams can fine players according to a league’s operations. Another challenge that players face is the management of their salaries (Applegate, 825). Additionally, most players lack useful, necessary, and professional skills to manage their funds. Bankruptcy is evident in most NBA and NFL players two years after retirement because of the mismanagement of their finances. However, money management schemes can help a retired player to have successful changeovers by effectively managing their funds. As noted above, players face fines in case of league rule violations, and most of them face bankruptcy after retiring due to mismanagement of their money.

Marketing an NBA or NFL player is a critical process to gain partnerships with the greatest teams, get potential sponsors, and secure endorsements. Therefore, a player has to endeavor to shine and become the best in every aspect of a club. This move will help improve a player’s image and brand, hence leading to success. It is essential for a player to have a marketing team that will assist nature their brand and image by selling their skills online. Lee and Jaimie state that a marketing group will seek possible sponsors to support a player and the best club to join (69). Also, displaying outstanding qualities in a game helps a marketing team to easily advertise a player to potential contracts such as television commercials. All in all, marking is an essential aspect to an NFL or NBA player in shaping their careers.
Moreover, a player’s discipline and image to the public is a vital aspect of their marketing. Most players tend to portray bad behaviors, such as not attending practices, using abusive language to respective officials, and disrespecting a fellow player. These actions lower a player’s credit score to other teams, potential sponsors, and the public. Phillips confirms that a player should also strive to avoid fines by having discipline and showing respect to their official and fellow players. These actions will help shape their careers by getting signings to great teams with better contracts such as making an appearance to significant events, being booked for speaking to a group of people, getting product endorsement deals, social media campaign, commercials in televisions, and guest appearances in public events. Collectively, a player’s discipline significantly affects their career in various ways shown above.

Lastly, a player can also score credit by being generous to society. A player can take part of his salary and give to charity organizations and help the needy or start schemes that will help people with disabilities and financial problems (Lee and Jaimie 69). Taking part in doing good to the community shapes the image of a player to the public. Therefore, most companies will strive to have a contract with the player for financial benefits and product endorsements. As seen above, players should give back to the community by participating in charity activities.

**Player Bonuses**

The structures of current player-team contracts include retirement compensations and bonuses arrangements. Players outline their incentives and demands under contract terms to teams so that the signing bonus is capitalized and amortized. Bowman, James, and Thomas report that players have to perform exceptionally, either as an individual or as a team, and attain
set requirements for them to receive incentives (500). For example, the Portland Trail Blazers player, Harkless Maurice, whom his bonus consisted of upholding 35% and above scores from the three-point position. Collectively, a player’s contract contains their demands and incentives and set requirements they must attain for them to receive a bonus.

“Player contracts today are often structured to include significant signing bonuses and deferred compensation arrangements. Most teams capitalize signing bonuses and amortize them over the contract term, but certain franchises expense bonuses when paid.” Players elaborate their needs and incentives that they feel should be on their contracts now. The incentives may include certain requirements and expectations players have to exceed in order to gain them. It may be performance based individually or team based on accomplishments. For example, Maurice Harkless of the Portland Trail Blazers had to maintain an average of 35% from three point range to earn all his bonuses. Even the NFL back in 2017 announced a “Performance-Based Pay” system where NFL players will receive extra money contingent upon their performance. The official page of NFL Communications states that:

“NFL Players will receive $134.16 million in “Performance-Based Pay” for their performance during the 2017 season, the NFL announced today. The Performance-Based Pay program is a collectively-bargained benefit that compensates all players, including rookies, based upon their playing time and salary level.

In addition to the Performance-Based Pay pool, the NFL Players Association has elected to dedicate $35.2 million in benefits (i.e., $1.1 million per club) to fund a Veteran Performance-Based Compensation Pool (the “Veteran Pool”) for players with more than one accrued season. In total, $169.36 million will be disbursed to players under the combined pools….Under the Performance-Based Pay program, a fund is created and used as a supplemental form of player compensation based on a comparison of playing time to salary. Players become eligible to receive a bonus distribution in any regular season in which they play at least one official down. In general, players with higher playtime percentages and lower salaries benefit most from the pools.”
All an NFL player has to do is play one down to become eligible, so most of the NFL athletes see some of that incentive for their efforts. Quinton Spain, Guard for the Tennessee Titans, was one of the players who received that bonus. According to ESPN.com:

“Spain, who latched on with Tennessee after going undrafted in 2015 out of West Virginia, started 14 games at guard for the Titans in 2017. Spain's 2017 base salary was $615,000, so the bonus put him over $1 million for the year. He also got engaged on New Year's Eve, so this should help pay for the wedding.”

Wes Schweitzer, another NFL guard for the Atlanta Falcons, also benefited from the program receiving a bonus of over $370,000 according to ESPN.com. ESPN.com states that:

“Another guard, this one a 2016 sixth-round pick, is getting a six-figure check. Schweitzer, who had a $540,000 base salary in 2017, went from playing no games in his rookie season to starting all 16 for a playoff team in 2017.”

Jalen Mills, NFL cornerback for the Eagles, received a bonus check of over $360K according to ESPN. According to ESPN.com:

“Full of energy, green hair and a mean swagger, Mills got a Super Bowl ring and almost $365K after starting 16 games and notching three interceptions last season. Mills, who had a $540K base salary, got a similar check ($324K) last year.”

Dak Prescott, Quarterback for the Dallas Cowboys also received a hefty bonus check from the NFL in his sophomore season. According to ESPN.com:

“Prescott's sophomore year didn't go as well as his rookie campaign, but he gets his second consecutive $300K-plus performance-based check. He's a great value for the Cowboys as a starting quarterback who had a $540K base salary in 2017.”

A bonus is regarded as a salary since it is nonrefundable. Most players think that despite not attaining the required obligations, the signing bonus should be repaid after completing a multi-year agreement. However, a bonus is considered revenue at the end of a multi-year contract. If players are not satisfied with the deal, they do not participate in any games or practices until the right deal is set in the correct manner (Bowman, James, and Thomas 510).
They are allowed to suggest and negotiate the terms of yearly bonus in their contracts, hence determining their retirement benefits. Team employees and the players always have an agreement on the taxes in a collective bargaining contract. Overall, a bonus is given as a salary and the end of a multi-year deal, and it is non-refundable since a player can negotiate its signing on a contract.

Teams get bonus income depending on the success of their season. Winning in championships and participating in the playoffs guarantees a team’s additional bonus. Therefore, it is essential for a team to have an accountant, who will strictly file tax reports by adhering to a progressive tax system and keenly supervise all the team and players’ contracts. In the United States, we follow a progressive tax rate system. This means the more revenue earned, the higher the taxation rate. Any individual a part of the general population can say professional athletes are “overpaid”. With the progressive tax rate system, this narrows down the financial differences between the rich and the poor people of the society. The luxury tax as a part of the Collective Bargaining Agreement between the players and owners in the NBA, has given players more than enough financial stability. Like the Memphis Grizzlies paying Mike Conley a 5-year 153 million contract. According to Spotrac,

“.. including $140,529,829 guaranteed, and an annual average salary of $30,521,115. In 2018-19, Conley will earn a base salary of $30,521,115, while carrying a cap hit of $30,521,115 and a dead cap value of $85,459,121.”

NBA veteran point guard, Mike Conley’s contract made him the highest paid player in the league in 2016 with an enormous amount of guaranteed money and lucrative incentives included if he meets the expectations. He has proven his loyalty and consistent performance on and off the
court for Memphis. In 2017, Stephen Curry resigned with the Golden State Warriors with the
league’s first $200 million contract. He signed a five-year max contract worth $201 million with
no options as the Warriors needed a key franchise cornerstone piece for the future. It’s one of the
first of the “supermax” contracts. According to Forbes.com:

“The supermax provision was a new addition in the most recent collective bargaining
agreement. It allows teams to offer players they drafted or traded for early in their careers
contracts worth as much as $70 million more than any other team. Players need to meet
certain criteria such as qualifying for an All-NBA team or winning the Defensive Player
of the Year Award. Curry is the first eligible NBA superstar to enter free agency with the
ability to sign a supermax deal.”

LeBron James signed a 4-Year max contract worth $154 million with a player option with the
Los Ángeles Lakers in 2018. Like most players in the NBA the contracts comes with player
bonuses. According to Fansided.com about the 2017-18 season:

“....34 total players have bonuses built into their contract. So, if it looks like these guys
are putting in extra effort in meaningless games or playing while injured, now you know
why. No one stands to make more than Jrue Holiday in bonus money in this year. In total,
Holiday could earn an extra $4.7 million should he hit all of his bonuses.”

Jrue Holiday, the New Orleans Pelicans point guard, has been key to the Pelicans success along
with Anthony Davis. The bonuses on his contract are expectations of him to help bring the
Pelicans to the next level. According to Fansided.com, Jrue Holiday’s bonuses are:

“$510K for playing in 66 games and playing 2,075 minutes. $255K for playing in 67
games and averaging 7.3 assists and 3.15 rebounds. Undisclosed bonus for making the
All-Star team. Undisclosed bonus for playing in the postseason.Undisclosed statistical
bonus. Undisclosed bonus for making All-NBA.”

Rudy Gobert last season had high expectations for a dominant season. The bonuses play a big
part in his motivation. According to Fansided, he has multiple bonuses in his contract for the
2017-18 season that add up to $2 million. Here are the detailed bonuses according to Fansided.com:

“Should Gobert make the Western Conference All-Star team as a starter or reserve (not as a replacement), Gobert will earn an extra $1 million. The Jazz forward is unlikely to win a popularity contest over Kevin Durant and Kawhi Leonard, but a strong first half could allow him to be a coaches pick as a reverse. Or maybe Utah will stuff the ballot box in Gobert’s favor. Along with an All-Star bonus, Gobert has multiple defensive bonuses. He could earn $500K for making All-Defense team, $250K for collecting a certain amount of rebounds, and $250K if he has a defensive rating of less than 100. Finally, Gobert will earn a bonus just for staying in shape.”

A lot of players have challenging bonuses especially due to their competition it’s more than unlikely for players like Kyle Lowry to get those bonuses. According to Fansided:

“Kyle Lowry could earn $200K for making the All-Star game, which seems likely in the pedestrian East, but there are some caveats to his clause. Not only does Lowry have to make the roster, but he has to appear in 65 games and play at least 25 minutes per game.”

Other bonuses in the 2017-18 season were very goal-inspired catering to the repertoire of the players. According to Fansided.com:

“Dion Waiters collects $1.1 million if he plays more than 70 games. Kelly Olynyk gets $1 million if he plays more than 1,700 minutes. Paul Millsap could earn $250K for All-Defense 1st team or $150K for All-Defense 2nd team. Evan Fournier gets $500K if the Orlando Magic win the NBA title.”

According to ESPN.com, all NBA players who make the All-Star game are to get a $100K bonus for winning in the 2018 All-Star Game. According to ESPN:

“Each player on the winning team will receive $100,000, and the losing team players will pocket $25,000, league sources said. The only modification is the winner's compensation, with a $50,000 boost from previous years. There will be a $75,000 difference between the winners' and losers' earnings, as opposed to just $25,000. Some players have bonuses in their contracts tied to All-Star appearances, but that is independent of the boost the league is rewarding the All-Star Game winners.”
NBA players would take the All Star game more seriously for years to come if the incentive stays that rate or higher. NBA players tend to not play as hard in the All Star game compared to their regular season games, to prevent any injuries that could jeopardize their possibility of competing during the playoffs.

One may think the NFL and NBA players earn a lot of money, but this is not true because their taxes are high since the progressive tax system balances financial earnings between the poor and the rich in the country. All in all, the team and players gain a bonus in the event of good performances and taxation is done to players’ salaries through a progressive tax system.

**Pros and Cons of Not Obtaining a Financial Advisor and an Accountant**

There are positive and negative advantages of having a financial advisor and an accountant. Financial advisors render financial services to individuals based on their current economic state. Like any other profession, athletes face numerous pros and cons of not obtaining a financial advisor. Firstly, the most outstanding advantage of not obtaining a financial advisor is that an athlete gets to save huge amounts of money. This aspect allows athletes to acquire maximum revenue by investing the money that would have otherwise been spent in hiring an expert. Secondly, advisors do not often have the best choice for an athlete in mind; hence, not hiring advisors offers athletes an opportunity to collaborate with other available brands in the market freely. Finally, advisors are human beings and can act unfairly because of promised incentives. Overall, avoiding to hire financial advisors provides athletes with an opportunity to save money and collaborate freely with other trademarks in the market.
Not having a financial advisor can cause the lack of stability of self-control of financial health. For example, Mike Tyson, American professional boxer, blew $300 million in career earnings on exotic luxuries consisting of jewelry, mansions, and Bengal tigers. According to worth.com, he stacked up $27 million in debt by the time he filed for bankruptcy in 2003. He wasn’t the only athlete to suffer from frivolous spending. According to worth.com,

“While Tyson is emblematic of the boom-to-bust cycle due to his flamboyance, the world of sports is crowded with cautionary tales. There’s football’s Terrell Owens (squandered earnings: $80 million), baseball’s Curt Schilling ($90 million), basketball’s Antoine Walker ($108 million) and soccer’s David James ($30 million). The list goes on and on. And bankruptcy filings don’t tell the whole story of stars’ financial woes. Plenty of others teeter on the brink. According to the George Washington University’s Global Financial Literacy Excellence Center, more than 15 percent of NFL players declare bankruptcy in retirement, but a Sports Illustrated study found that nearly 80 percent of players are broke within two years of retirement, and 60 percent of NBA players are struggling financially within five years of retirement.” (Worth)

A positive advantage on not having a financial advisor is the fact that you to get to save money from hiring one and gain the maximum revenue investing in yourself to take control and maintain financial stability. Another positive outlook is that you will not get taken advantage of in contract situations with your advisor where you’re not able to freely collaborate with other brands to elevate yourself without your advisor’s consent. Sometimes advisors do not have the best choice for you in mind. According to U.S. News:

“One of the biggest drawbacks of hiring a financial advisor is that they do not always have your best interest in mind. While some advisors are bound to make decisions that will benefit the client, it's not unusual to see conflicts of interest pop up. You can avoid some problems by using a fee-only advisor, rather than someone whose income increases from selling you specific products and services that might not be appropriate for your situation. Find out if your potential financial advisor is willing to act as a fiduciary. Fiduciaries are required by law to recommend investments in the client’s best interest, not their own. Beginning in April 2017, those who provide advice to 401(k) and IRA participants will be considered a fiduciary, due to a new Department of Labor rule. Another potential issue with financial advisors is that if you're not investing much money, even a small fee can significantly cut into your returns. If you don't have a huge portfolio and are just starting out, you may not be able to afford to hire a financial...
advisor. Learning as you go and allowing yourself to make some mistakes could be beneficial over the long term, but might hurt your short-term returns. (Abby Hayes)

Before an athlete sees the pros and cons of not obtaining a financial advisor, he/she has to see the logistics and finances behind a financial advisor. According to fee only financial advisor Carlos Dias Jr.,

“Professional athletes need to understand how an advisor is compensated and what his or her outside conflicts of interest might be. But athletes should not rely on advisors to handle everything, he says. As a cautionary tale, Dias points to the example of Ash Narayan, a financial advisor who was approved to manage assets for NFL players but has recently been accused of cheating several clients and has had his assets frozen by the Securities and Exchange Commission.”

“Is the income higher than the expenses?” “What other funding options do I have?”

These are the type of questions that arise in a conversation in between the athlete and the financial advisor. From an accounting aspect, it is to take note of the cash inflows and cash outflows. There are also basketball, baseball, football and soccer teams that are sponsored by other organizations that can help aid in funding their team’s franchise. All the professional sports leagues have multiple companies invested in them for great reason.

“When you’re making your budget, remember to assess what areas require the most money, and to cut out any unnecessary expenditures. This frees up money for other athletics programs and keeps your organization from overspending where it isn’t needed.”

Athletes can and have suffered financially by not obtaining a financial advisor early on in their career. Athletes who don’t have a financial advisor are more likely to digress from the essential opportunities to elevate their net worth. Athletes may have the freedom without that advisor but the chances of going down financially will definitely rise as they progress in their careers with incentives. Not obtaining financial expertise can make athletes suffer economically. Players without financial advisors often suffer from essential prospects to raise their net worth.
Notably, a player may have freedom without an advisor, but as they progress in their career, the chances of financial downfall increases with incentives. Financial advisors bring the necessary expertise needed in business. For example, they make athletes’ career more profitable and efficient by focusing on result oriented actions. Therefore, a lack of financial advisors contributes to the financial defeat of athletes.

Hiring financial advisors is cost saving. Athletes receive financial help by working with financial expertise. For example, advisors help sportspersons make vital financial decisions fast and from a strength position. Besides, financial expertise help athletes to avoid costly financial mistakes, hence saving them from painful and unnecessary loss. In addition, advisors help athletes to plan their finances in coordination with their income, therefore maintaining a balance between the two aspects. Thus, financial experts help athletes avoid unnecessary loss relating to poor monetary decisions.

Accounting plays numerous roles in athletes’ career life. Some of the functions these professionals play include financial accounting, management accounting, tax accounting, and internal auditing. Firstly, accountants are significant in the life of an athlete because of their technical knowhow. For example, managing athlete income entails technical details, anda simple mistake may cause large financial issues. Therefore, accountants confirm that all athletes’ financial records are free of errors and that values add up through internal auditing function.

Additionally, accountants save money and time. They strive to ensure that athletes are successful by saving. They evaluate athletes’ monthly spending and trim where necessary to allow room for savings. In addition, accountants spot and control waste and mismanagement of resources. Through tax accounting function, accountants assess through players’ finances to
unveil all credits and deductions. In sum, accountants provide athletes with enough resources and time to invest in other platforms.

In addition to the roles above, accountants offer expertise advice on the market situation. Besides balancing of financial accounting books, they offer players with expert advice on financing and pricing in the marketplace. For example, if a player intends to do an investment, an accountant provides tips on ways to proceed with the idea and generate profits. Therefore, an accountant is a vital component for sportspersons’ investment plans.

Hiring an accountant presents various disadvantages to an athlete. Firstly, accountants are not free, which implies that a player has to pay for accounting services. This step significantly slashes their budget. Similarly, an accountant is human, and this implies that they may make mistakes. If they make an error that is not quickly corrected, the mistake may cost a player huge financial loss. Consequently, hiring an accountant may drive athletes into losing touch with their financial records because they delegate all accounting duties to the concerned person.

Although accountants play significant roles in the management of players’ finances, athletes should have an active partnership with them and constantly check to ensure that all financial aspects run smoothly. For instance, hiring an external auditing accountant with conflict of interest poses threat to a player (Knechel and Salterio 12). Auditors may act unfairly when faced with incentives. Besides, the quality of auditing directly affects an athlete; hence, such services require effectiveness and efficiency, which is often hard to accomplish. Thus, hiring an accountant requires constant supervision to ensure the smooth running of accounting operations.
Amortization of Player Contracts

“The New York Times reported recently that the National Basketball Association (“NBA”) and Major League Baseball (“MLB”) are reaching out to both Congress and the Trump administration to learn more about a change that could fundamentally alter how sports franchises do business. Those businesses have long been able to make trades of player contracts tax-free, or, more precisely, tax deferred – at least until the player was ultimately sold.”

Starting with 2018, sports teams in the U.S. might encounter an increase in tax on player trades as a result of the new 2017 tax reform. The 2017 tax reform unexpectedly without intention raised the tax rates with the implementation of the new law. “The Tax Cuts and Jobs Act (“TCJA”) introduced a limitation on the use of like-kind exchanges, a provision that provides taxpayers with an opportunity to defer income tax on the unrealized gain in qualifying exchanges (“nonrecognition treatment”).” According to the revised rule, there are limitations set to “real” property. Examples of real property: land and buildings. Therefore, in player-for-player trades, professional sports teams will recognize gain and pay tax on the appreciation in value of a traded player’s contract. This means the better the player performs since signing with the team the higher the potential tax bill for the franchise. Especially if that player signed with a new team at a relatively low salary.

Trades happen quite often in the sports industry. Within the first three months of 2018, there have been several publicly prominent trades in the MLB and NFL. This includes a three-team, three-person exchange in which the MLB’s New York Yankees acquired an infielder/outfielder, Brandon Drury. Around the same time of that trade, the Kansas City Chiefs of the NFL traded quarterback Alex Smith to the Washington Redskins for a third-round pick
and cornerback Kendall Fuller. Alex Smith immediately signed a 4-year contract for $94 million.

“In an interview with a local newspaper earlier this spring, Dallas Mavericks owner Mark Cuban stated that the team will not alter its roster strategy, even if the Internal Revenue Service (“IRS”) interprets a one-word change in the sweeping legislation as potentially imposing capital gains taxes any time a team trades a player.” Cuban states that even with the new tax law it will not change his decisions. It is possible that Cuban is aware of the current increase in tax at the time of the trade and understands that it is more or less offset by amortization deductions over the life of the acquired contract.

The concept of the like-kind exchange, also known as the 1031 exchange, is a transaction or multiple transactions of abandoning an asset and acquiring another without obtaining current tax liability from the exchange of a commodity from the previous asset. Nonrecognition for a like-kind exchange is not the same for non-taxation. Except for when a player remains with his club for the balance of the contract. Regardless of the like-kind exchange, it allows for a deferral of the taxation of income or gain until a specific transaction occurs that requires the recognition of gross income at a later point in time.

“Conceptually, two types of nonrecognition provisions can be distinguished:

1. one relates to the transfer of property resulting in a “transferred property” basis – also referred to as “carryover” basis;

2. the second type is the exchange of property with substituted basis as a result.

While the definition is not always clear, like-kind exchanges under Code par. 1031 fall under the second type of deferral provisions. Under this rule, a taxpayer’s acquisition of one property in
exchange for another is afforded full or, if cash is paid in addition to a qualifying asset, partial nonrecognition of the gain or loss realized from the exchange.”

The goal is achieved through substituted basis. The property is treated as “exchanged basis property” in the hands of the taxpayer. The basis is used for the new property is determined by reference to the taxpayer’s basis in the property formerly held. The taxation is stimulated when the asset received in the exchange is ultimately sold.

Exchanges before the new tax law (pre-TCJA) came into effect in 2018, taxpayers did not recognize gain on the exchange of property held for productive use in a trade or business nor did they recognize gain for investment if that property was exchanged solely for the same type of property which was to be held either for productive use in a trade or business or for investment.

“Under pre-TCJA law, for purposes of this rule the term property comprised real property and personal property, including intangible personal property such as patents and other intellectual property such as contracts.” For this reason, to qualify for 1031 like-kind exchange treatment, the player contract would have to be classified as intangible personal property that is depreciable.

In the past, the Internal Revenue System perceived two teams that are trading players, are “trading those players’ contracts”.

“With respect to the latter, Revenue Ruling (“Rev. Rul.”) 67-37913 dealt with the proper classification and income tax treatment of the acquisition costs in excess of salary of one-year professional baseball player contracts. Because the player was effectively bound by a reserve clause to the team for a period longer than a year, the IRS concluded that the cost paid or incurred could be recovered through the depreciation allowance. Thus, the contract period during which the player is precluded from playing is considered part of the depreciation period of Code
The ruling concludes that the player contract is an intangible asset the cost of which consists of two elements:

1. amounts paid or incurred upon the purchase of the player’s contract, and
2. the bonus paid to the player for signing the player’s contract.

Similarly, in Rev. Rul. 71-137 dealing with a football player contract under which the player is bound to the team for longer than one year under a renewal option clause, the IRS considered the contract to be an intangible asset.

In agreement with the categorization of player contracts described above, the IRS took the approach that these contracts were like-kind property. On the other hand, upon exchanging contracts, teams could apply the like-kind exchange exception. Correspondingly, the trading teams did not have to recognize gain or loss for U.S. federal income tax purposes, however they do have to recognize gain or loss to the extent that cash was received.

After the new tax law came into effect (post-TCJA), the law changed the regulations of the like-kind exchange to “allow nonrecognition treatment only for exchanges of real property held for productive use in a trade or business or for investment, provided that the real property is exchanged solely for real property of like kind.” Generally, a team will have the cost of acquisition of a player equal to the tax basis in the player’s contract. It can also include amounts due to the player for future services. It is difficult to predict or assume the value of a player because that solely relies on the player’s performance. “Teams may have to adopt or develop a method of valuing player contracts for tax purposes, such as actuarial values based on player age, the average length of a professional sports career, and amounts paid to other players with similar statistics, which occurs every year.” Subsequently, teams trading players would then recognize
gain or loss on a contract when a player is traded equal to the difference of the “contract’s actuarial” or value and the team’s basis in the contract.

As a result of this new law, player trades have gotten more expensive. Consequences that this new law can lead to include:

“Fewer trades overall

Fewer player-for-player trades

more cash-for-player or player-for-draft pick deals

enhance the development of alternative trading procedures that accomplish a trade without triggering adverse tax consequences

higher amortization over the balance of the contract acquired in the taxable exchange.”

Anonymous, one of the team owners of the NBA stated that the effects of this change in tax law may not be “severe.” “While tax, undeniably, is a factor, other, perhaps stronger drivers for player trades may prevail.” This owner understands that tax is a big factor however, there may be other factors that may influence owner’s decisions in player trades.

How Does the Franchise Record Amortizing to the Player Contracts?

Sports such as basketball, soccer and football have come a long way from purely entertainment events and social gatherings to multibillion-dollar business establishments. Athletes no longer play for glory and communal honor but a profession that they undertake to earn their upkeep, improve community status and promote specific brands. Therefore, many sport franchises use such sports as NFL, NBA, and MBL to gain. It is worth noting that the past decade has seen tremendous growth in the sporting industry with more stakeholders and
numerous sources of income for players, governing bodies, governments and sports franchises. Therefore, this section critically analyses the manner in which franchises amortize player contracts, the different taxes that players contribute in their careers, and finally the groups that should fund stadiums and arena construction.

Player contracts fall under intangible assets since they are the fundamental revenue earner to franchises, governments, and governing bodies. Consequently, amortization is the process of spreading the cost of such an intangible asset over a specified period; in this case, the duration of the contract. There are two main ways that NBA, NFL, and other sports franchises amortize player contracts: player signing bonuses and transfer fees. Most teams in NBA, NFL, and soccer capitalize player signing bonuses and perform amortization over the contractual period, while others pay them out once the transfer fees reach their accounts. Some teams include terms in the documents where the players have to meet certain requirements and achievements to earn their signing bonuses progressively over time.

For instance, according to Pavlovic et al., many countries have made transfer fee capitalisation a mandatory accounting process and amortization commences once the parties complete the player transfer (20). Furthermore, the stakeholders re-evaluate the amortization plan in the case of a contract extension, and the imparity principle demands that the franchise and signing teams annually review the capitalised values. On the other hand, the capital gain is usually calculated by getting the difference between the initial fees and the figure during registration (Pavlovic et al. 20). Notably, performance-based bonuses amortization may depend on an individual achievement agreement or overall team performance. Simply put, the accounting
practice of treating players and their contracts as intangible assets enables amortization and increases an establishment’s share of the total assets in their ownership.

Franchises also amortize contracts during player trades between clubs known as player-for-player trades. Specifically, the franchise pays tax based on the value that the traded player’s contract appreciated over time. Therefore, the sports team pays more feewhere the player had exemplary performance or transferred from a team at a lower salary. Player trade-offs area typeof like-kind exchange of property, and the new tax laws have made such undertakings expensive for the franchise, and the consequences may be detrimental. Nonetheless, amortization is ordinary in the NBA and NFL, and highly depends on transfer fees, player bonuses and trade-offs.

What Other Taxes are Players Subjected to Pay when Signing?

Professional athletes pay various taxes to their resident states and those they visit in their line of duty. Jock tax is the primary tax that players owe to each country they play in, on their respective incomes. In addition to “games played” and “duty days’ based Jock tax, NBA and NFL players among others pay additional charges depending on their earnings from different aspects of their playing and entrepreneurial ventures. For instance, Foster stipulates that professional athletes in the UK pay taxes from image rights, and this happens in three ways (4). Firstly, payments that a franchise pays to a self-employed individual are a professional income liable for taxation. The NBA’s highest paid players are amongst the richest athletes in America but taxes congruent with the average professional athlete shave millions off their salary annually in a variety of ways including federal and state taxes. According to Bloomberg, Golden State
Warriors point guard, Stephen Curry has a projected yearly gross salary of $37.5 million.

According to Bloomberg BNA, federal taxes take away nearly $14 million from Curry’s salary. Bloomberg also states that Stephen Curry owes $5 million along with the jock tax bill being over $930,000. That leaves Stephen Curry with an actual net salary of $17.2 million according to Bloomberg. As stated before taxes differentiate and are contingent upon where the athlete goes.

For example, according to Bloomberg BNA, Chris Paul of the Houston Rockets has to pay no state tax prevent him from reduction, but he still has to pay the federal and jock tax bills equalling up to $14.5 million. He still leaves the table with $21.1 million dollars after the tax reduction. It definitely can be a lot different varying on the place of employment. For example, according to Bloomberg:

```
<table>
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<th>Away Games</th>
<th>Total Jock Tax Bill</th>
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<tr>
<td>Arizona</td>
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</table>

* Texas, Florida, and Tennessee don’t impose income tax on wages.
```
When taxes come into play for professional baseball players, the stipulations have the same variables but the concepts of it are different. Major League Baseball players have 162 regular season baseball games. They travel a lot and the costs in travel, in-state taxes, just adds up to the daily tax inflation. According to Bloomberg BNA, “in light of MLB’s first regular season pitch on March 29, Bloomberg Tax analyzed travel schedules for the highest-paid players in each of the MLB’s six divisions to illustrate the tax burdens at stake”:

- Mike Trout (Los Angeles Angels, American League West): $34 million salary; pays $245,143 in jock taxes.
- Clayton Kershaw (Los Angeles Dodgers, National League West): $34 million salary; pays $329,176 jock taxes
- Miguel Cabrera (Detroit Tigers, American League Central): $30 million salary; pays $583,251 in jock taxes
- Jake Arrieta (Philadelphia Phillies, National League East): $30 million salary; pays $563,454 in jock taxes
- David Price (Boston Red Sox, American League East): $30 million salary; pays $430,274 in jock taxes
- Jon Lester (Chicago Cubs, National League Central): $27.5 million salary; pays $570,230 in jock taxes
# Jock Tax Burdens in the MLB

## Mike Trout
### American League West

<table>
<thead>
<tr>
<th>State</th>
<th>Duty Days</th>
<th>Jock Tax Bill</th>
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<tbody>
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## Clayton Kershaw
### National League West

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## Miguel Cabrera
### American League Central

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Taking into account federal and state income taxes, as well as other fees, each division’s highest paid player walks away with an average of 51.3 percent of his original salary. Moreover, payments made to employees as part of duty for employment ought to undergo taxation taking into account deductions but not necessarily payments for image right, and the employer has the mandate to ensure players honor the remittances. Lastly, according to the U.K. laws, any company that receives payments for image rights automatically incurs U.K. corporation profit tax liability. Therefore, the player that owns the image rights company must pay tax relative to the class of income like salary or dividends among others.

**How do Players Negotiate Contracts**

Players negotiate contracts to protect themselves, and their team, from multiple different situations that they might face during their careers. Some of these conditions might be the following: endorsement obligations, behavioral termination rights, and trademarking/property rights. Contracts are simply used to ensure that a player and their company have a binding agreement throughout that player’s career. It also gives the player a guide, or structure, that they have to abide to during their career to keep them on the right track. These contracts are created differently for players depending on how much publicity they attain or the longevity of their careers, this includes rookies and hall of famers.

Players who are drafted out of high school or college either go to play in the NBA or in the G league which means their contracts would be created differently. When creating contracts, the status of the player is taken into account whether they are a G league player, a rookie, regular season player, or a hall of famer. This is where the use of short term and long term contracts
come into play. Long term contracts are contracts that protect a player on a team for five years or more. A long term is also an open door for creating a max contracts, but those are mainly for players who have been in the league for four seasons or more. “They also deemed to be a comprehensive contract since there will never be a need for the parties to revise or renegotiate the contract as the future unfolds”. Now short term contracts are mainly dealt with players who are just starting out and their future depends on how well they play in the present season. To put it in a better sense, short term contracts are mainly contracts that last longer than a period of casual workers, regular season players, but shorter than high level workers, hall of famers. All these different forms of contracts just depend on the status of the player.

The NBA players just created a new contract in 2018 called a two-way contract. A two-way contract is an agreement between a player and a franchise that allows them to play for the G league and in the NBA:

NBA teams may have up to two players under NBA Two-Way Contracts who will spend the bulk of the season in the NBA G League and no more than 45 days with their NBA team. Two-Way players are paid a corresponding daily amount based on the number of days they play in each league. Only players with four or fewer years of NBA service are able to sign Two-Way Contracts, which can be for either one or two seasons.(NBA G league)

Players can only keep this contract for two seasons and after those seasons the contract expires and they can either sign a new contract or become a free agent. During that time the average player salary who has a two-way contract is 234,000, which means that 83 players who had two-way contracts contributed $20 million in the overall salary. This affected the NBA positively because of their hands on effect with both leagues and the support of both platforms.
**Difference In Pay Amongst Women and Men In Sports**

The wage gap between women and men sports has been a controversial topic for a while and it continuously gains more publicity as the years go by. It is statistically proven that women earn less than men due to racial and a sexual discrimination. “The average working women only makes 80.5 cents for every dollar earned by men, a gender wage gap of 20 percent.” This statement displays that women will not receive equal pay approximately until 2059. This statistic does not even include women of color. The IWPR Status of Women in States predict that black women will not get equal pay until 2119 and hispanic women will not receive equal pay until 2224. An individual might argue that there are certain qualifications that determine the difference between men and women in terms of equal pay. These examples would include the following: emotions, physical qualities, and previous achievements of that woman. This is where women in sports come into play because these women are playing the same sport as men. Therefore, why are women getting paid less? This has raised questions on a global range and has been up for debate for a lengthy period of time.

The Women’s National Basketball Association (WNBA) has been around for 22 years. At was created on April 24th, 1996 and has increased their ratings throughout every growing year. There has also been an increase in physical viewership and merchandise, especially in the year 2018. During the WNBA’s last season, “The WNBA has seen a 36 percent increase in viewership in adults ages 18 to 49, a 29 percent jump in men in that age group and a 50 percent increase in women.” This increase is from the help of exposure from TV channels/social media sites, basketball skills training camps, and the acknowledgement of women’s basketball as an
international sport. However, even with all the exposure the league was receiving, the average women’s basketball player stills makes just 20% of an NBA player. Many WNBA players play overseas to continue to supplement their wealth after their seasons come to an end. While other women go into the international league completely because of salary and exposure. It turns out that foreign teams pay more than the WNBA, especially in highly developed countries. The average player would make around 1.5 million in a foreign country while making an average of 75,000 to the maximum 111,500 in the WNBA in the US. This leads to the increase in female athletes playing overseas to get the salary that they feel they should be granted in the US. Thus proving that women basketball players, who play the same game as men, have to go the extra mile to earn as much money as men even though men are playing the same sport.

Players who participate in the international league tend to find themselves having a better experience than playing in the WNBA in the US. As previously stated, there were women who played in the international league after their WNBA season was over. There are approximately 60 players playing professionally all around the world including these following countries: Russia, Israel, Turkey, China, South Korea, and Australia. To reiterate a prior statement, the reason players take their skills elsewhere is because of the huge wage gap between American and international salaries. Another reason WNBA player decide to play overseas, is because owners want a successful season which is easily accessible with WNBA players. To the owners money is highly negotiable making it easier for players to discuss their salaries and accommodations while playing overseas. One may say that it is easier for women to play overseas instead of in the league, but that is not always the case. There have been some occasions where players have to deal with economic/terrorism situations, low funding, communication problems, and the toll it
takes on players bodies. Briana Stewart, a WNBA player stated situations with the time changes
in the country shes plays in as a problem as well. "I does not do well with time change here
because a lot of my family and friends in the United States are awake at a certain time, and I'm
always up late talking to them," she said. These reasonings keep many players in America that
just deal with the circumstantial wages of the league.

As opposed to women receiving low salaries in the league, in today’s world the average
salary for an NBA player is around 6.4 million a year. The max may be up to 32-35 million a
year, depending on the player and the publicity they have gained throughout their career. This
estimate does not include the earnings they make off of endorsement deals, participating in
summer leagues, and playing overseas. Lebron James, one of the top players in the NBA, is
making $35.6 million currently after signing his new contract with the Los Angeles Lakers and
his net worth is $450 million. Meanwhile the reigning WNBA MVP, Nneka Ogwumike, earned
95,000 this following season. The disparity between these wages is considered extremely
shocking. NBA players make more in the league playing for one year than double the average
WNBA player makes in the league for two years. Forbes evaluated the difference in salaries
between male and female basketball players and this is what they found:

Median salaries in the WNBA are around **$71,635**, and starting salaries are $50,000,
while players in the Euro League start at $100,000. To put everything in context, the minimum
salary of a professional NBA player is $582,180, a $10,000 raise from last seasons minimum
which was **$562,493**.(Forbes)
The average NBA rookie is confirmed to make more than any woman who has been in the league for a few years or more. Even with the accessible statistics about the wages, no driving force has been taken to help proportionate the unbalance of wages between the genders.

Many individuals and/or groups state that the reason women’s sports do not receive equal pay as men’s sports because of the lack of interest in women’s sports in society today. The WNBA does not seem to hold a public interest in television and advertisements, making it harder for the league to gain attention. In contrast, the NBA is a league which is displayed globally as a common interest. Statistically, without the NBA’s endorsement deals as well as Title IX, the WNBA would not be viewed as often today. The New York Times found timely information on behalf of the NBA’s impact on the WNBA:

“This season, the $25 million the W.N.B.A. is getting from its primary broadcaster, ESPN, is a tiny fraction of the N.B.A.’s average $930 million payment from ESPN and TNT, which will rise to about $2.6 billion next season.” (NY Times)

With these findings, one can conclude that the WNBA needs to many ways to increase there attendance and viewership, which is exactly their goal. The new president of the WNBA, Lisa M. Borders, is trying to increase coverage of the league with a major social media marketing plan. Thus, with the assistance of the new president the league should have more success in the near future.

**Sports Facilities and Leases**

“U.S. team-sports leagues are monopolies. As such, they maximize their profits by reducing the supply of demand for franchises below the demand for franchises from
economically viable cities.” This results in cities competing with each other to obtain or retain teams. Compared to the sports stadiums in the 1960s, the technology used to construct stadiums today are advanced. The new stadium technology creates new economically viable cities, and makes the “imbalance between supply of and demand for sports franchises” worse. Why should cities/communities contribute to these stadiums? New stadiums provide many tangible economic benefits locally as well as alter how community members view themselves and how the community is perceived by others.

The cost of building a new stadium may cost a city up to $200 million. Additionally the labor and infrastructure expenses may even double the cost of the project. “Frequently, the stadium lease is on such concessionary terms that the city cannot even cover its incremental debt service with rent and other stadium revenues.”(Rich, 58) As a result, “the public” ends up paying for the stadium. The millions of extra revenue generated once the stadium is built is inevitably divided between player with the highest salaries and ownership profits.

This reasoning also is applied to all the professional team-sports leagues. This reasoning is enforced emphatically today towards the NFL for two reasons. The first reason being, the NFL relies less on regular ticket sales for revenue compared to other sports because each team only plays between eight to ten home games each year. Smaller cities can easily fill up the stands in a stadium of 60,000 eight times to ten times a year. The contrast ratio to basketball, “less than 25 percent of total revenues are shared among the teams, in football this proportion rises above 75 percent.” As a result, professional football has more potentially viable cities. The second reason is “NFL teams must share 100 percent of their television, licensing, and marketing revenues as well as 40 percent of their gate, NFL teams have a powerful incentive to maximize stadium
revenues, which are not shared at all.” Even though it may trouble NFL team owners, the NFL would be well served by sharing 40 percent of all stadium revenues.

“Over the past four decades, state and local governments have invested billions of public dollars in traditionally private projects, including shopping malls, theaters, casinos, hotels, as well as sports facilities, claiming that these subsidies will foster job creation, tax revenue, and downtown revitalization.” (Long 4) With that being said, given the amount of money involved and the supremacy of this type of urban development approach, there has been a surprisingly insufficient amount of critical response from the public policy community, often providing little more than a description of these efforts. A key issue from an income tax perspective is that for stadiums financed with both public and private money, franchises may be permitted to allocate their contributions to the project to specific stadium assets. Franchises want their money to go into properties that haven’t been around as long so that they can benefit on the money that the property will receive in the future. Thus why it is complicated for teams to find new arenas to play in because franchises plan out the best ways to make money off of the property.

Who Should Pay More for the Stadiums and Arenas? Taxpayers? Owners?

Sports stadiums and arenas generate funds to the city, locals, and team owners through several channels. Franchises develop guidelines to govern revenue sharing among participating teams, stadia management, players, and the community. Additionally, the sporting facilities bring about tremendous economic empowerment to the surrounding community by availing endless business opportunities and ultimately providing employment opportunities. Finally, the government earns revenue through taxes from both tangible (arenas and stadiums) and intangible
(Jock tax) assets, TV rights, and local amenities such as water and electricity. Therefore, it
evident that taxpayers, government authorities, and owners benefit from sports establishments
and, hence, the three stakeholders should pay for stadiums and arenas during construction and in
the long run for maintenance purposes.
Bibliography


- Erwin, Beate. A fundamental change of the professional sports landscape under the 2017 U.S. tax reform? Nolot. 21 June 2018. PDF.


