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IN DEPTH: SPORTS BUSINESS

Tax Games

So-called 'jock tax' is a hit on athletes' incomes

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As someone in the financial services industry would be, I was understandably curious when I came across CNN's list of the seven "strangest state tax laws."

Among these ludicrous laws is a 10-cent per pack tax on a standard deck of playing cards in Alabama, a 9 percent surcharge on any "fountain soda drink" in Chicago, and even a tax on illegal drugs in 17 states, based, of course, on the value of the drug.

But within this list I found a modern-day phenomenon that causes headaches for accountants and financial managers -- the "jock tax," which is equally as ridiculous as the taxes on both Coke and cocaine.

The jock tax, an income tax on visiting athletes in many states and municipalities, requires professional athletes pay income taxes whenever their team plays in that particular market, instead of paying taxes only in the states where the athletes reside or where their home teams are located. This means that a professional athlete, come time to fill out tax returns, will find a pile of papers as thick as "War and Peace."

In 1997, the state of Maryland claimed that my client, then-Baltimore Oriole Brady Anderson, owed $485,133 in back resident income taxes, even though he was a permanent resident of Nevada and not of Maryland. Anderson paid Maryland taxes in full as a nonresident, but the state claimed that he was a resident as a result of renting an apartment in Baltimore during the baseball season. That November, the courts ruled that Anderson did not have to pay the back taxes because he was not a permanent resident, but rather he stayed there certain days only to work.

The ruling in the case versus Anderson was made to provide justice for him and to set a precedent for laws involving the taxation of athletes in all states in which they play. However, instead of following the precedents set by previous hearings, as this country's legal system is based on, state governments continue to increase jock taxes with every passing year.

This past December, the city of Cincinnati passed a 2.1 percent earnings tax that applies only to the salaries of out-of-state professional athletes, a tax that is expected to help a $35 million city deficit. Besides the fact that the $750,000 expected to be raised in the upcoming year will not even put a dent in that city's massive deficit, the law is blatantly unfair.

Taxing visiting athletes has proved a simple way for a jurisdiction to generate substantial sums of money since players' salaries are published regularly. Government officials take advantage of the fact that players' salaries are in the public domain, insisting that high-paid athletes pay taxes for playing in their backyard.

If the jock tax continues, it could become difficult for teams in markets where the taxes are high to compete on an even playing field. The teams located in states without income taxes -- Florida, Texas, Washington, and Tennessee -- could gain an unfair advantage when signing free agents.

I am certainly sympathetic to the fiscal burdens facing many state and municipal governments; however, I believe that taxing visiting players -- solely because they are an easy target and are high-income earners -- is unjust. Why should a different tax standard apply based on profession? The jock tax singles out professional athletes and doesn't take into consideration the positive economic impact that this profession generates for local economies.

Simply put, this is tax discrimination.

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