Episodes 42- On the Taxation of Professional Athletes

This document provides resources for educators looking for ways to incorporate current events into their curriculum. Each podcast episode is approximately 20 minutes long and available on all major podcast outlets for free. This document provides opportunities for either short-answer/essay-style questions or discussion questions to delve further into topics. Email taxnerds@gmail.com for an answer key.

In this episode, we discuss the mechanics and the history of the so-called "jock tax".

Concepts covered

- State sourcing/allocation of income

Multiple choice & True False Questions

1. What is the "jock tax"?
    a. A property tax on sports stadiums and arenas.
    b. A payroll tax on coaches and athletic support staff employed by sports teams.
    c. An income tax levied on athletes who earn money outside of their home state or city.
    d. An excise tax on athlete's signing bonuses.

2. Which of the following is true about state taxation? Select all that apply.
    a. Every state and D.C. levies an individual income tax.
    b. Some states require nonresidents to file an income tax return to report any amount of money they earned in the state.
    c. Every individual taxpayer is required to file a tax return in only one state.
    d. Some states require nonresidents to file an income tax return to report the money they earned in that state only if it exceeds a threshold.

3. Which of the following best describes state reciprocity agreements?
    a. They allow individuals who live in one state and work in a neighboring state to pay tax only in the state where they live.
    b. All neighboring states are required to have reciprocity agreements.
    c. The first state reciprocity agreement was between Indiana and Illinois.
    d. Each state can have reciprocity agreements with at most two other states.

4. Which are the two methods that states can use to determine how much income an athlete earned in any single state? Select two answers.
    a. The games played method
    b. The training days method

c. The travel days method
d. The duty days method

5. Which of the following is true about the duty days formula?
   a. It apportions income based on the number of duty days spent in the state relative to all days in the calendar year.
   b. It apportions income based on the number of duty days spent in the state relative to all duty days.
   c. Duty days generally include preseason games.
   d. Duty days generally include all training activities.

6. True or False: Bonuses that athletes receive from winning a playoff or championship game are included in compensation to be apportioned among states.
   a. True
   b. False

7. Assume a team plays all of its post-season games in its home state. Which of the following is true?
   a. The amount of income apportioned to nonresident states would increase.
   b. The amount of income apportioned to nonresident states would decrease.
   c. The games-played formula cannot be used to apportion their postseason income.
   d. They must use the duty-days formula to apportion their postseason income.

8. According to estimates discussed on the podcast, how much tax did California collect from professional athletes in 2013?
   a. $109M
   b. $199M
   c. $229M
   d. $389M

9. True or False: The city of Pittsburgh currently charges a Non-Resident Sports Facility Usage Fee equal to 3% of an individual's income earned while using the city's sports venues.
   a. True
   b. False

10. True of False: According to the podcast, "jock taxes" are narrowly targeted because they impact only high-income athletes who play games in multiple states.
    a. True
    b. False

Discussion questions and activities:

Pick an athlete. Using their salary for the most recent year, attempt to determine what portion of their income would be allocated to various states assuming all states use the games-played method.

Read this analysis from the Tax Foundation. Conduct a similar analysis using a player you like.

Assume you are a sports agent or manager. Your client is negotiating with multiple teams about signing a new contract. What advice would you give them about tax considerations?

All else equal, do you think athletes playing in high-tax states should receive larger contracts to compensate them for the additional required tax payments?