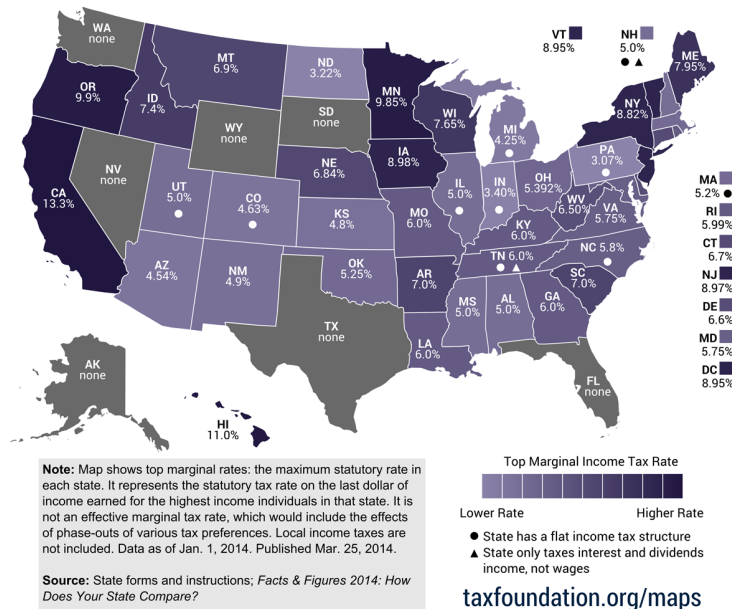


## The Jock tax



All Americans pay Federal income tax on the money that they earn each year. Some **states** charge an additional state income tax. So, all people pay Federal income tax and only some people also pay state income tax. Surely it is better, financially, to live in a state that doesn't charge state income tax. There are even some cities that charge income tax for money earned in their city. New York City and Detroit, Michigan are among the most expensive, tax-wise, cities to live in. Let's figure this out.

When a professional ball player plays a game in a city or state away from where he lives, that state is allowed to charge him income tax on money earned there. Since professional ball player's schedules are well known, the state taxing agencies have no trouble figuring out if someone's income was partially earned in their state. So, professional sports people are taxed from many different states and some cities no matter where they live. The issue is more about where they play. Sounds expensive, doesn't it?

Alaska, Florida, Nevada, South Dakota, Texas, and Washington have no state income taxes. Tennessee and New Hampshire only tax individuals on their dividend or interest earnings not their ball playing earnings in their state. So I'm thinking that all professional sports people should probably live in Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, or Washington. Let's see how it might work.

Tiger Woods and Michael Jordan live in Jupiter, Florida. Alex Rodriguez lives in Miami Beach, Florida.

I found that in 2008, Tiger Woods earned 12 million dollars from playing golf tournaments. He also earned 110 million dollars in endorsements for Nike and Buick. Tiger lives in Jupiter, Florida = no state income tax. Let's figure out very, very roughly what he paid for Federal income tax.

1. In 2008 the tax rate for the highest earners in the United States (>\$400,000) was 35%. Calculate 35% of Tiger's total salary. The amount that you calculate is only about what he would actually pay for Federal income tax. He surely has expenses that he can deduct from his income when calculating taxes and he contributes to the Tiger Woods Foundation (an organization that helps support underserved, inner-city student's educational opportunities and readiness). Charity expenses are deducted before calculating Federal Income tax payments.
2. In 1996, Tiger moved from California to Florida. In California the state income tax rate (for individuals earning > \$500,000) is presently 12.3% of total income. In addition to his Federal taxes, Tiger would have had to pay 12.3% of his income as a state tax to California. How much would his California state income tax have been for his 2008 income?

3. What would Tiger's total tax have been for his federal and state income tax if he lived in California?
4. Do you think it was a smart move for him to have relocated to Florida?

But the tax problem for professional athletes is not that simple. Team players surely find it more convenient to live in the state or city where they play. That's fine for a Dallas Cowboy. Texas has no state income tax. But, what if you played for the New York Rangers? Not only does New York State have a tax rate of 8.97% but also New York City has its own additional city tax of 3.78%. This must be a contributing factor as to why Eli Manning, New York Giant's quarterback, lives in New Jersey. Eli's salary is about 18 million dollars per year. He probably earns more from endorsements.

5. If New Jersey has the same state tax rate as New York, about how much does Manning save by living in New Jersey and not paying New York City tax for just his team salary?

When LeBron James joined the Miami Heat in 2010 he was offered about 17 million dollars a season. It is estimated that he was offered 18.5 million to play for New York. No matter where he lived he would have received payment for endorsing products like Nike, Coca-Cola, McDonald's and Samsung amounting to around 40 million more per year.

6. With these two income values (New York = 18.5 million + 40 million and Florida 17 million + 40 million in endorsements) calculate his net income minus taxes in the two states.
7. Could he have accepted even less money in Florida and still come out ahead? If so how much less?
8. Considering that California has a 12.3% tax rate, how much more do California based teams have to offer a player to exactly offset the tax rate difference in Texas and Florida? Do they need to offer exactly 12.3% more or some other percent increase? Show or explain your reasoning and test your percent increase with one real example.

Source: [http://en.wikipedia.org/wiki/Jock\\_tax](http://en.wikipedia.org/wiki/Jock_tax)  
<http://www.foxnews.com/sports/2013/01/30/federal-state-tax-hikes-could-send-athletes-migrating-to-tax-friendlier-states/>  
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