



# **TAX INFORMATION FOR THE NFL ROOKIE**

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# INCOME TAX INFORMATION FOR THE NFL ROOKIE

*Welcome to the world of professional football. The income tax rules that apply to NFL veterans also apply to you, as a rookie.*

## **How is an NFL player taxed?**

All NFL players are treated as employees by their respective teams. As an employee, there are specific income tax rules as to what expenses are deductible. These expenses are generally deducted on your tax return as employee business expenses.

### **What is deductible?**

- **Agent Fees:** Typically 3% of wages, higher for outside income (e.g., endorsement income).
- **NFL Player Dues:** Typically \$10,000 per year (may or may not apply to practice squad players).
- **Training & Gym Fees:** As a professional athlete you are allowed to deduct your gym and training fees. You are also allowed to deduct a reasonable amount of travel. This can be training in a general sense or position-specific training.
- **Chiropractic / Body Maintenance:** A reasonable amount of chiropractic & body maintenance expenses may be deducted during the season.
- **Supplements & Diet:** Training supplements and special nutrition additives may be deductible.
- **Tax Return Fees:** Income tax preparation and consulting fees are deductible.
- **Travel:** Travel which is specifically related to your football career is deductible. This includes meetings with agents, scouts, trainers and anyone directly connected to you football-wise.
- **State, City & Local Income Taxes:** NFL players typically have income taxes withheld at the federal, state, city and local level. A player may often be required to file in as many as nine states as well as at the federal level. The amounts withheld for state, city and local taxes are generally deductible.

### **What's not deductible?**

- **Clothing:** Only football-related workout clothing is deductible. Most NFL players maintain a contract with a shoe company which provides for a limited amount of clothing/shoes/etc. The value of these items is reported as income on Form 1099 by the respective shoe company. The player may then, in turn, deduct a portion of these items on his income tax return. Clothing which is suitable to be worn in outside situations (e.g., suits, casual wear, etc.) is a nondeductible personal expense.
- **Personal Effects:** Watches, jewelry, extravagant electronics, etc. are nondeductible personal expenses. A limited amount of electronic equipment may qualify for a tax deduction.
- **Vehicles:** Only a limited amount of vehicle expenses are generally allowed as a deduction (unless the player has outside endorsement income). Parking fees, tolls, etc. directly-related to football are allowed as a deduction.
- **Temporary Living:** Rents paid for temporary living arrangements are generally not deductible. Exceptions do exist, but they are typically limited to extreme circumstances (trades, injury rehab, etc.). Mortgage interest and real estate taxes, however, are almost always fully deductible.
- **Cell phones:** Cell phones may be partially deductible as a deductible football expense. They are seldom fully deductible.
- **Gifts:** Monetary and commodity gifts are not deductible, except for very minimal amounts. Gifts to friends and family are never deductible.
- **Personal Expenses:** Other items of a personal nature are not deductible. Vacations, furniture, home renovations, etc. are not allowed as an income tax deduction.

## Is this everything?

No, not even close. A number of items may or may not be deductible depending on the player's individual facts and circumstances. A team or NFL fine, for example, may have unique circumstances affecting its deductibility. Endorsement and camp income may also offer the ability to deduct expenses ordinarily not allowed as an employee deduction (endorsement income is treated as a self-employment activity). We find it important to discuss these items fully with the player to effectively minimize income taxes.

## Regular Season Pay

Most NFL teams pay regular season salaries over the 17-week season through weekly game checks. This means that each gross paycheck will be equal to one-seventeenth of the player's regular salary. Alternatively, some teams pay only every two weeks during the 17-week season.

## Other Pay

- **Signing Bonus and Guaranteed Pay:** Signing bonus and guaranteed money paychecks are often paid for in a single check.
- **Workout, Mini-Camp and Other Miscellaneous Earnings:** Workout, mini-camp, training camp and other miscellaneous payroll is usually paid weekly during the event in question.
- **Performance Bonuses:** Individual bonus amounts may be earned based upon player performance. These amounts are generally paid by the end of March.
- **Player Pool Money (Rookies):** Additional compensation may be available to rookies after their season is over, based upon performance. These additional wage amounts are paid after the end of the season.
- **Players Inc.:** Players Inc. maintains the licensing contracts for NFL trading cards, video games and selected other items. Royalty checks are paid in September or October, and are reported to the player on Form 1099.

## Income Tax Withholding

- **Social Security Tax (FICA):** Social Security tax is withheld at a rate of 6.2% on the first \$106,800 of wages paid (\$6,621 maximum).
- **Medicare:** Medicare tax is withheld at a rate of 1.45% on all wages paid.
- **Federal Income Tax:** Federal tax is withheld on all wages paid throughout the year, and can range from rates of 25-35%. Large bonus amounts in excess of \$1 million are typically withheld at the maximum rate of 35%. It is extremely important to review for proper withholding on bonus checks prior to cashing them.
- **State income tax:** State income tax is withheld depending on the location it is earned. Texas, Washington, Florida and Tennessee currently have no state income tax. Other states tax income on rates as low as 3% (Illinois) to as high as 10.3% (California). Road games require state withholding based upon two days of earnings in that particular state.
- **City and local income tax:** a number of cities and localities also require a limited amount of income tax withholding, based upon income earned in that particular location.

## NFL Retirement Plans

The NFL currently maintains an outstanding 401(k) plan for its players as well as provides an additional pension plan for retirement. After the rookie season, NFL teams will match the first \$10,000 of player 401 (k) contributions at a 2:1 rate, up to \$20,000. This means that a player contributing \$10,000 will immediately have \$30,000 in his 401 (k) account. The maximum a player may place into a 401(k) account is \$16,500. If a player maxes out at the full contribution, he will have \$35,500 in his account at an after-tax cost of only \$9,300. *Note: If 2010 is an uncapped league year, match amounts may not apply.*

## Other considerations

- **State of Residency:** In certain situations a little bit of planning can save a significant amount of state income taxes. It is therefore important that the tax implications of a new contract be considered before it is signed.
- **Investments:** Certain investments may not be a wise choice for the professional athlete. Passive loss rules and the alternative minimum tax might limit the tax benefits of a particular investment. Investment selection should consider these limitations before the investment is made.
- **Alternative Minimum Tax:** Although complex, the alternative minimum tax can be minimized with effective tax planning. The proper timing of payments for agent fees, property taxes and other items may allow the professional athlete to effectively minimize alternative minimum tax.
- **IRS Inquiries & Documentation:** The IRS has recently increased requests for supporting documentation related to professional athletes. Therefore it is more important than ever to keep receipts related to expenses incurred.

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