

# SPECIAL REPORT

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## State Income Taxation of Nonresident Professional Athletes

*“Jock Tax” Started with Michael Jordan, Quickly Spread to Non-Athletes*

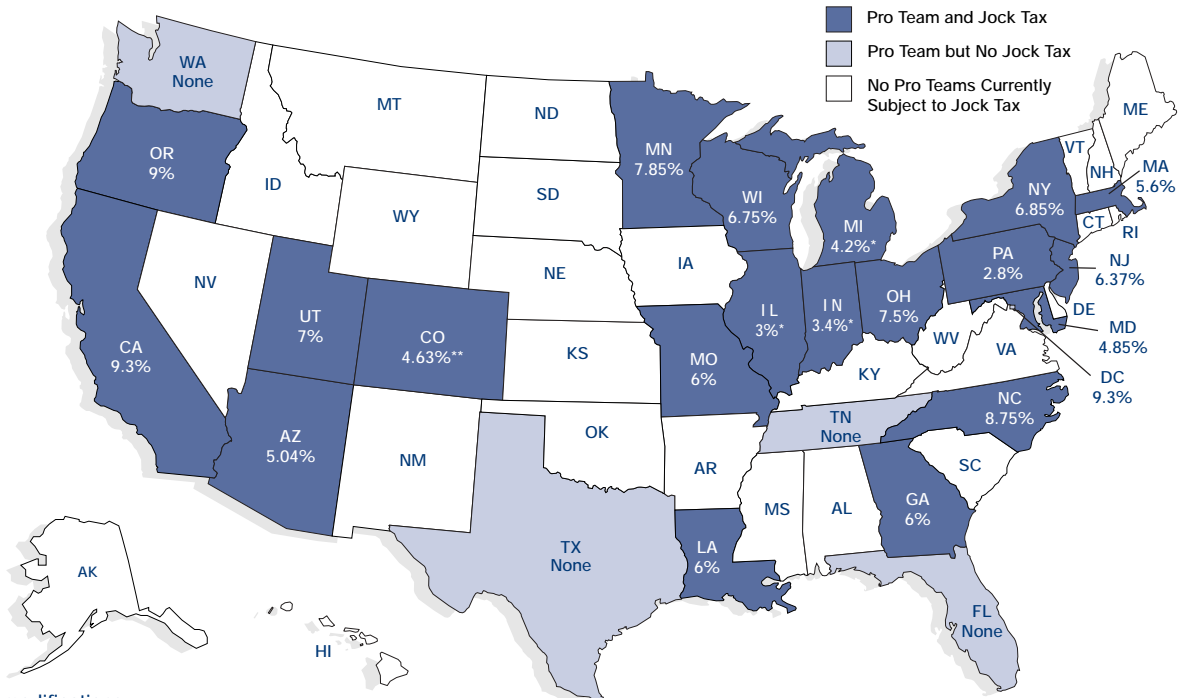
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### Introduction

When the 2002 Major League Baseball All-Star Game is played July 9 at Miller Field in Milwaukee, most people will be paying attention to the players, the game, and the surrounding festivities. But at least a few Wisconsin state tax officials will have to keep track of the players' salaries and make sure they fill out the proper individual income tax forms. Even

though the visiting players, coaches and support staff are just like any other people whose work brings them to Wisconsin, the state has followed a pernicious California tax trend by enacting a “jock tax.” It requires all visiting athletes and other team employees to pay Wisconsin income taxes for the day of the game. The tax is due whether a player sets foot on the field or not.

Figure 1  
State Adoption of Jock Taxes and Top Tax Rates on Wages and Salaries  
1991–2002



\* Tax base is federal AGI with modifications.  
\*\* Tax base is federal taxable income.  
See Table 2 for more details.

The so-called jock tax — which is really just an unusual extension of a state income tax to selected non-residents — started with Michael Jordan. After his Chicago Bulls beat the Los Angeles Lakers in the 1991 NBA Finals, California decided to extend its state income tax to Michael and the world champion Bulls. Illinois retaliated the following year by levying a jock tax of its own. Dubbed “Michael Jordan’s Revenge” in the press, Illinois’s tax applied strictly to players from states that taxed visiting athletes, which at the time was only California. Today, 20 states have some form of the jock tax, leaving only four and the District of Columbia that have a professional sports team but no jock tax. (see Figure 1).

The four leagues currently affected are the National Football League (NFL), National Basketball Association (NBA), the National Hockey League (NHL) and Major League Baseball, sparing many professional athletes. Despite the fact that many state statutes do not limit collection to these four leagues, surveys of key personnel in the industry indicate that members of the Professional Golf Association,

the Women’s National Basketball Association, the Arena Football League, and many others are not currently paying the tax. That may change, since the tax is already being collected by many states from “rock stars” and the people who travel with them.

The total take for Wisconsin on July 9 is estimated to be over \$136,000 from the players alone. Alex Rodriguez, who carries the highest salary, will pay \$8,864 himself for the privilege of playing a couple innings in the annual exhibition. Three players on the roster, Eric Gagne, Jimmy Rollins, and Shea Hillenbrand, make the league’s minimum salary of \$206,200 and therefore will each owe just \$58 to Wisconsin for their moment of glory under the lights (see Table 1).

Professional athletes are a tempting target for state lawmakers because they represent a highly concentrated pool of wealth that can be taxed with little enforcement. Like other non-residents, athletes can be taxed by states without fear of political pressure. Most importantly, professional athletes cannot take their business elsewhere: each professional sports league is a

**Table 1**  
*Salaries and Jock Taxes of Major League Baseball All-Star Game Participants 2002*

American League Players	Annual Salary	Salary Per Game	Tax Per Game	National League Players	Annual Salary	Salary Per Game	Tax Per Game
Total	\$ 172,427,210	\$ 2,168,534	\$ 63,114	Total	\$ 185,652,760	\$ 1,138,974	\$ 70,626
Garrett Anderson	\$ 5,000,000	\$ 30,675	\$ 1,812	Lance Berkman	\$ 314,455	\$ 1,929	\$ 89
Tony Bautista	4,900,000	30,061	1,773	Barry Bonds	10,619,300	65,149	4,053
Mark Buerhle	310,000	1,902	87	Luis Castilla	6,186,000	37,951	2,285
Johnny Damon	7,320,100	44,909	2,738	Adam Dunn	5,902,475	36,212	2,172
Robert Fick	1,150,000	7,055	325	Eric Gagne	206,200	1,265	58
Freddy Garcia	\$ 3,800,000	\$ 23,313	\$ 1,334	Tom Glavine	\$ 9,216,999	\$ 56,546	\$ 3,494
Nomar Garciaparra	7,474,750	45,857	2,799	Luis Gonzalez	4,983,166	30,572	1,806
Jason Giambi	10,751,857	65,962	3,034	Shawn Green	13,416,667	82,311	5,169
Eddie Guardado	1,855,800	11,385	524	Vladimir Guerrero	6,186,000	37,951	2,285
Roy Halladay	2,583,333	15,849	850	Todd Helton	5,103,450	31,310	1,854
Shea Hillenbrand	\$ 206,200	\$ 1,265	\$ 58	Jose Hernandez	\$ 3,333,333	\$ 20,450	\$ 1,148
Torri Hunter	257,750	1,581	73	Trevor Hoffman	6,600,000	40,491	2,451
Derek Jeter	12,990,600	79,697	4,999	Randy Johnson	13,763,850	84,441	5,307
Paul Konerko	3,800,000	23,313	1,334	Byung-Hyung Kim	10,653,666	65,360	4,067
Derek Lowe	2,190,875	13,441	618	Mike Lowell	515,500	3,163	145
Pedro Martinez	\$ 13,403,000	\$ 82,227	\$ 5,163	Damian Miller	\$ 2,650,000	\$ 16,258	\$ 875
A.J. Pierzynski	250,000	1,534	71	Matt Morris	4,000,000	24,540	1,414
Jorge Posada	4,175,550	25,617	1,484	Odalis Perez	7,570,322	46,444	2,837
Manny Ramirez	20,000,000	122,699	7,794	Mike Piazza	13,992,143	85,841	5,398
Mariano Rivera	9,433,650	57,875	3,581	Scott Rolen	5,670,500	34,788	2,080
Alex Rodriguez	\$ 22,682,000	\$ 139,153	\$ 8,864	Jimmy Rollins	\$ 206,200	\$ 1,265	\$ 58
Kaz Sasaki	5,227,170	32,069	1,903	Benito Santiago	515,500	3,163	145
Alfonso Soriano	649,530	3,985	183	Curt Schilling	6,701,500	41,114	2,491
Ichiro Suzuki	5,871,545	36,022	2,160	Richie Sexson	6,701,500	41,114	2,491
Mike Sweeney	8,000,000	49,080	3,009	John Smoltz	7,666,667	47,035	2,876
Miguel Tejada	\$ 3,625,000	\$ 22,239	\$ 1,264	Sammy Sosa	\$ 12,372,000	\$ 75,902	\$ 4,752
Robin Ventura	8,763,500	53,764	3,313	Junior Spivey	4,124,000	25,301	1,463
Omar Vizquel	4,500,000	27,607	1,613	Jose Vidro	2,577,500	15,813	727
Randy Winn	960,000	5,890	271	Larry Walker	12,666,667	77,710	5,923
Barry Zito	295,000	1,810	83	Mike Williams	1,237,200	7,590	349

Source: USA Today Baseball Salaries, Computations by Tax Foundation.

government-backed monopoly that decides when and where its employees will work.

Despite its appeal to state lawmakers, the jock tax is a case study of poor tax policy for many reasons. Since 1991, the jock tax has proven to be deceptive because it masquerades as a tax that only affects multi-millionaire superstars. In fact, all players, coaches, and support staff of sports teams in four professional leagues have to pay it.

Second, the jock tax is arbitrary because it targets a specific occupation. Many doctors and lawyers have comparable lifetime earnings, and some business executives have far more, but they do not have to pay state income taxes in every state where they work for a few days.

Third, those affected by the jock tax have to file numerous state income tax forms. This complexity adds to the overall compliance costs borne by taxpayers, a burden that is proportionately much greater on the employees with lower incomes.

Finally, from an economic perspective, the incidence of the jock tax is not aligned with the location of economic activity that gives rise to it, a misalignment that creates economic inefficiencies.

## The Taxation of Non-Resident Athletes

“Jock tax” is a colloquial expression referring to a state’s application of its income tax to visiting professional athletes. Twenty of the 24 states that have at least one professional sports team in the NFL, NBA, NHL or Major League Baseball within their borders have instituted a jock tax. All twenty of these states impose a jock tax by levying their regular state income tax rates on non-resident professional athletes. Texas, Florida, Tennessee, and Washington State have no individual income tax to foist on visitors, and Congress has forbidden the District of Columbia from imposing nonresident income taxes

In addition, visiting professional athletes may be responsible for city income taxes.<sup>1</sup> Colorado’s state legislature has already considered setting a special, higher rate for non-resident athletes, 6.0 percent instead of 4.63 percent, but the proposal failed. See Table 2 for more information on the income tax rates imposed on non-residents by these states.

Any day on which a preseason, regular season, or postseason game is played is considered a “duty day” for tax purposes.<sup>2</sup> Although some states have minor variations on the calculation, each state basically determines an athlete’s taxable income by dividing his annual salary by the number of duty days, and then

multiplies this per-game income by the number of duty days that the athlete spent in that state.<sup>3</sup>

For example, NBA basketball teams play approximately 10 preseason games and 82 regular season games. If a player’s annual salary is \$1 million, he can be said to earn \$10,870 per game over the 92 games of the season. Each state he travels to that has enacted a jock tax will consider his income to be \$10,870 times the number of games played in that state. For example, if he lives in Illinois and plays four games in California over the course of the season, his taxable income for the four games is \$43,478. This would result in California income taxes due of \$2,196, which is \$892 more than he would have paid if his entire income had been taxed only in Illinois.

### *Extra Taxation But Not Double Taxation*

Some reports have called the jock tax a case of double taxation. However, this is not entirely accurate because each professional athlete’s home state does provide him with a credit for out-of-state income taxes paid, but only up to the amount of tax he would have paid in the home state. Returning to the previous example, the hypothetical basketball player from Illinois who plays four games in California is able to claim a credit on his Illinois income tax return for \$1,304. This is the amount of tax that would have been due had the income taxed by California been taxed at Illinois’s rates. As a result, this player gets some relief but still owes \$892 more than if he were reporting all his income in his home state.

The higher the individual income tax rate in a professional athlete’s home state, the less extra taxes he pays. Since California’s top tax rate is higher than in any other state with a franchise, California athletes do not currently pay any extra tax, though they still have to file up to 20 state tax returns. Meanwhile, California, which passed the first jock tax, has 14 teams in the four major sports and siphons the most tax revenue from the other states.

On the other end of the spectrum, athletes paying the most extra jock taxes are those who make their homes in states that have no individual income tax, relying exclusively on other taxes for revenue, mostly sales and property taxes. The states with no income tax on wages and salaries are Alaska, Florida, Nevada, New Hampshire, South Dakota, Texas, Tennessee, Washington, and Wyoming. Athletes and other team employees who live in these states can claim no credit for jock taxes paid against their taxes at home, so every cent paid in jock taxes is extra. Naturally, that makes their tax burdens higher than other

**Table 2**  
**Individual Income Tax Rates in States with NFL, NBA, NHL or Major League Baseball Franchises**  
**As of December 31, 2001**

	Federal Deductibility	Marginal Rates and Tax Brackets for Single Filers	Standard Deduction		Personal Exemptions	
			Single (a)	Joint	Single (b)	Dependents
Arizona	No	2.87% > \$0; 3.20% > \$10K; 3.74% > \$25K; 4.72% > \$50K; 5.04% > \$150K	\$ 3,600	\$ 7,200	\$ 2,100	\$ 2,300
California	No	1.0 > \$0; 2% > \$5,748; 4% > \$13,625; 6% > \$21,503; 8% > \$29,850; 9.3% > \$37,725 (m)	2,960 (m)	5,920 (m)	79 (c)(m)	247 (c)(m)
Colorado	No	4.63% of federal taxable income.	n.a.	n.a.	n.a.	n.a.
Florida	No	None	n.a.	n.a.	n.a.	n.a.
Georgia	No	1% > \$0; 2% > \$750; 3% > \$2,250; 4% > \$3,750; 5% > \$5,250; 6% > \$7K	2,300	3,000	2,700	2,700
Illinois	No	3% of federal adjusted gross income with modification	n.a.	n.a.	\$ 2,000	\$ 2,000
Indiana	No	3.4% of federal adjusted gross income with modification	n.a.	n.a.	1,000	1,000
Louisiana	Yes	2% > \$0; 4% > \$10K; 6% > \$50K	n.a.	n.a.	4,500 (h)	1,000
Maryland	No	2% > \$0; 3% > \$1K; 4% > \$2K; 4.85% > \$3K	\$ 2,000 (i)	\$ 4,000 (i)	1,850	1,850
Massachusetts	No	5.6% or 12% > \$0 (d)	n.a.	n.a.	4,400	1,000
Michigan	No	4.2% of federal adjusted gross income with modification.	n.a.	n.a.	\$ 2,900	\$ 2,900
Minnesota	No	5.35% > \$0; 7.05% > \$18,120; 7.85% > \$59,500	\$ 4,550 (n)	\$ 7,600 (n)	2,900 (n)	2,900 (n)
Missouri	Yes	1.5% > \$0; 2% > \$1K; 2.5% > \$2K; 3% > \$3K; 3.5% > \$4K; 4% > \$5K; 4.5% > \$6K; 5% > \$7K; 5.5% > \$8K; 6% > \$9K	4,400 (n)	7,350 (n)	2,100	1,200
New Jersey	No	1.4% > \$0; 1.75% > \$10K; 2.45% > \$25K; 3.5% > \$35K; 5.525% > \$40K; 6.37% > \$75K	n.a.	n.a.	1,000	1,500
New York	No	4% > \$0; 4.5% > \$16K; 5.25% > \$22K; 5.9% > \$26K; 6.85% > \$40K	7,500	13,000	n.a.	1,000
North Carolina	No	6% > \$0; 7% > \$12,750; 7.75% > \$60K; 8.75% > \$120K	\$ 3,000	\$ 5,000	\$ 2,500 (j)	\$ 2,500 (j)
Ohio	No	0.743% > \$0; 1.486% > \$5K; 2.972% > \$10K; 3.715% > \$15K; 4.457% > \$20K; 5.201% > \$40K; 5.943% > \$80K; 6.9% > \$100K; 7.5% > \$200K (k)	n.a.	n.a.	1,150 (e)	1,150 (e)
Oregon	Yes	5% > \$0; 7% > \$2,450; 9% > \$6,100	1,800	3,000	142 (c)(m)	142 (c)(m)
Pennsylvania	No	2.8% > \$0	n.a.	n.a.	n.a.	n.a.
Tennessee	No	6% > \$0 (f)	n.a.	n.a.	1,250	n.a.
Texas	No	None	n.a.	n.a.	n.a.	n.a.
Utah	Yes	2.3% > \$0; 3.3% > \$863; 4.2% > \$1,725; 5.2% > \$2,588; 6% > \$3,450; 7% > \$4,313	\$ 4,550	\$ 7,600	\$ 2,175 (l)	\$ 2,175 (l)
Washington	No	None	n.a.	n.a.	n.a.	n.a.
Wisconsin	No	4.60% > \$0; 6.15% > \$8,060; 6.50% > \$16,130; 6.75% > \$116,130	7,440 (g)	13,410 (g)	700	700
Dist. of Col.	No	5% > \$0; 7.5% > \$10K; 9.3% > \$30K	2,000	2,000	1,370	1,370

(a) Deduction also applies to married taxpayers filing separately.

(b) Except for Delaware and Mississippi, married-joint filers receive double the single exemption. Mississippi's is \$9,500, and Delaware has a flat \$110 tax credit.

(c) Tax Credit.

(d) The 12% rate applies to short-term capital gains, long- and short-term capital gains on collectibles and pre-1996 installment sales classified as capital gain income for Massachusetts purposes. There is a \$100 or \$200 exemption for interest earned in Massachusetts banks.

(e) Taxpayers receive a \$20 tax credit per exemption in addition to the normal exemption amount.

(f) Applies to interest and dividend income only.

(g) Deduction phases out to zero for single filers at \$70,500 and joint filers at \$80,148.

(h) Standard deduction and personal exemptions are combined: \$4,500 for single and married filing separately; \$9,000 married filing jointly and head of household.

(i) The standard deduction is 15 percent of income with a minimum of \$1,500 and a cap of \$2,000 for single filers, married filing separately filers and dependent filers earning more than \$13,333. The standard deduction is capped at \$4,000 for married filing jointly filers, head of household filers and qualifying widowers earning more than \$26,667.

(j) Exemptions are based on federal standards deductions but are adjusted according to income and filing status.

(k) Under Ohio law, when the state ends its fiscal year with a significant budget surplus, that surplus is refunded to taxpayers through a temporary reduction in the income tax rates. Normal rates range from 0.743 percent for the lowest bracket to 7.5 percent for the highest bracket.

(l) Three-fourths federal exemption.

(m) Indexed for inflation. For Maine, indexation does not take effect until after January 1, 2003.

(n) Deductions and exemptions tied to Federal tax system. Federal deductions and exemptions are indexed for inflation.

Sources: "State Tax Rates and Collections," Tax Foundation Special Report, No. 110, February 2002. See [www.taxfoundation.org/statefinance.html](http://www.taxfoundation.org/statefinance.html). Based on state tax forms and instructions; Commerce Clearing House; Federation of Tax Administrators.

people in their state, regardless of income.

Three concrete examples will best illustrate the impact of the jock tax. Steve Francis of the Houston Rockets earns an annual salary of \$3.44 million, which is closer than any other basketball player to the average salary in the NBA of \$3.41 million. David Bell of the Seattle Mariners earns \$2.14 million, which is only \$60,000 less than the average salary of all professional major baseball players. Francis and Bell both lived in states without an income tax last season, so every penny that they paid in taxes because of the jock tax is over and above what comparable earners in their home states are paying (see Table 3).

Over the 2001–02 NBA season, Steve Francis paid state income taxes on 28 of the 90 games that his team, the Houston Rockets participated in, even though he lives in Texas, a state that does not tax income. Because of the jock tax, Steve Francis paid an additional \$66,948 in state income taxes over the season. In total, Francis paid taxes to 16 of the 20 states that have a jock tax. He did not have to pay taxes in Illinois because it only taxes players from states that tax players from Illinois, which Texas does not. Therefore, his game against the Bulls in Chicago was not taxed. Francis did not play a game in Maryland, Louisiana, or Missouri, and therefore did not

owe any taxes in those states. He played either one or two games in each state that taxed him, except for California where he played 8 games and paid an additional \$26,598 in taxes.

David Bell paid state income taxes based on 72 of the 172 games in which his former team, the Seattle Mariners participated. Twenty-six of those 72 games were played in California where he paid \$28,237 in jock taxes. Altogether, he paid taxes in 9 of the 20 jock tax states, and like Francis, when Bell visited Chicago for a three-game series with the White Sox, he did not pay taxes on those three games because his home state of Washington does not tax Illinois's athletes. In total, because of the jock tax, David Bell paid an additional \$60,667 in taxes last year.

NBA star Reggie Miller illustrates the case of a player whose home state has a jock tax but a relatively low tax rate on income. As a player for the Indiana Pacers, Miller makes \$12 million per year. If all of his income were taxed in his home state of Indiana, he would pay \$408,000 in state individual income taxes over the 2001-02 season. However, 35 of his 95 games (including preseason and postseason) were played in states with a jock tax. Therefore, he was taxed at a higher rate on 37 percent of his income. All together, he paid an extra \$108,497 in taxes, with an addi-

**Table 3**  
*The Complex State Income Tax Obligations of Three Professional Athletes 2001–2002*

States Imposing a Jock Tax	Steve Francis (home state: Texas) (salary: \$3,441,000)		David Bell (home state: Washington) (salary: \$2,140,000)		Reggie Miller (home state: Indiana) (salary: \$12,000,000)			
	Number of Games Played in Jock Tax States	Additional Taxes Paid	Number of Games Played in Jock Tax States	Additional Taxes Paid	Number of Games Played in Jock Tax States	Jock Taxes Paid	Amount that Indiana Would Have Collected	Additional Taxes Paid
Total	28	\$ 66,948	72	\$ 60,667	35	\$ 205,540	\$ 97,043	\$ 108,497
Arizona	2	\$ 2,951	–	–	1	\$ 5,177	\$ 3,462	\$ 1,716
California	8	26,598	26	\$ 28,237	4	45,432	13,846	31,586
Colorado	2	3,540	6	3,456	1	5,724	3,462	2,262
Georgia	1	2,104	–	–	2	14,968	8,589	6,378
Illinois (a)	–	–	–	–	3	7,418	6,702	715
Indiana	1	\$ 1,300	–	–	–	–	–	–
Louisiana	–	–	–	–	–	–	–	–
Maryland	–	–	8	\$ 4,682	–	–	–	–
Massachusetts	1	2,237	6	4,367	2	\$ 14,003	\$ 6,702	\$ 7,301
Michigan	1	1,606	5	2,613	2	10,053	6,702	3,351
Minnesota	2	\$ 5,219	6	\$ 5,076	2	\$ 5,034	\$ 3,462	\$ 1,572
Missouri	–	–	3	2,015	–	–	–	–
New Jersey	1	761	–	–	5	13,729	6,702	7,027
New York	1	1,842	6	7,060	1	24,611	10,385	14,227
North Carolina	1	2,549	–	–	3	16,163	6,702	9,460
Ohio	1	\$ 1,258	6	\$ 3,162	2	\$ 6,236	\$ 3,462	\$ 2,775
Oregon	2	6,711	–	–	1	10,955	3,462	7,494
Pennsylvania	1	1,071	–	–	2	–	–	–
Utah	2	5,232	–	–	2	17,187	6,702	10,485
Wisconsin	1	1,970	–	–	2	8,851	6,702	2,149

(a) Illinois only taxes non-residents whose home states tax residents of Illinois.

Sources: www.bskball.com, USA Today Baseball Salaries. Computations by Tax Foundation.

tional \$31,586 going to California alone. Thus, Miller's total state income tax burden was increased by 27 percent due to the jock tax.

*Why States Use the Jock Tax*

By and large, states implement a jock tax in retaliation against other states. However, the income of professional athletes is an appealing tax base to state lawmakers for three primary reasons. First, the total income of professional athletes is relatively large and is concentrated among a small population. There is a total of 3,193 athletes in the four U.S. professional sports leagues currently affected by the jock tax. Together, these professionals make just under eight billion dollars annually, an average of \$2.5 million per player. By comparison, it takes 460,700 individuals employed in the farming, fishing, and forestry industry to make nearly \$8.7 billion annually, an average of just \$18,884.<sup>4</sup> Administratively, it is easier to tax a concentrated pool of wealth than a dispersed pool because there are fewer monitoring costs.

Second, non-resident athletes are not voters, at least not in the jurisdictions levying the tax. Like all other U.S. citizens, professional athletes can register to vote in their home state only, leaving them with little or no political standing to complain about the tax. In fact, like all non-resident taxation, the jock tax would be considered by many a form of taxation without representation.

Third, from an economic perspective, professional athletes' labor supply is extremely "inelastic." Elasticity of labor supply refers to how easily a worker can decide where or when to work. A professional sports franchise, with all its employees, has very limited choice of where and when to work. If a game is on the schedule, the players on that team go to play in that venue. On the other hand, professionals in other occupations have a much more elastic labor supply. For example, business executives, who often make as much as athletes, can move their conventions and business meetings from one state to another in reaction to the current business climate, including taxes.

*Table 4  
Salary Ranges of Non-Athletic Members of  
Professional Athletic Teams  
2002*

Instructors and Coaches	\$28,000 – \$500,000+
Broadcasters and Announcers	\$22,400 – \$2,000,000
Physicians	\$112,000 – \$1,000,000+
Scouts	\$18,000 – \$100,000
Trainers	\$25,000 – \$80,000

Source: *Careers in Focus: Sports*, Ferguson Publishing Company, 1998.

Workers with a relatively inelastic supply of labor, such as professional athletes, are most appealing to high-tax states precisely because they cannot vote with their feet — they are a captive tax base that provides no resistance to the imposition or increasing of a tax. Workers with a more elastic supply of labor can move more easily to avoid high taxes. High-tax states have been looking to professional athletics as a way to capture tax collections that have been lost from other professionals with more elastic labor supplies.

California, which was first to levy the jock tax, captures the most revenue from the tax because of its numerous sports franchises and high tax rates. Seeing how California was siphoning revenue from them, the other 19 states with a professional sports team and an income tax followed quickly behind. The states with the lowest rates are merely recapturing the revenue that California and other states had been taking, while high-tax states continue to collect more revenue than they would if the states had an agreement to just tax their own residents.

*Why the Jock Tax Is Bad Tax Policy*

The jock tax is a case study in poor tax policy for several reasons. First, it must be recognized that while the ostensible targets of the jock tax are the few athletes with extraordinarily high incomes, the tax is actually levied on every single player, coach, scout or trainer traveling with the team. Starting salaries for some of these occupations range from \$18,000 for a scout to \$112,000 for a physician (see Table 4). Head coaches and top managers can have incomes over \$500,000, but most never reach this level.

Even most players, while certainly earning extremely high salaries for a few years, earn much less than the league average. Mean salaries for professional athletes range from \$2.14 million in baseball to \$3.41 million in basketball. However, median salaries range from \$900,000 in baseball to \$2.27 million in basketball. This discrepancy between mean and median incomes is due to the fact that a relatively small number of very well paid players skew the average up.

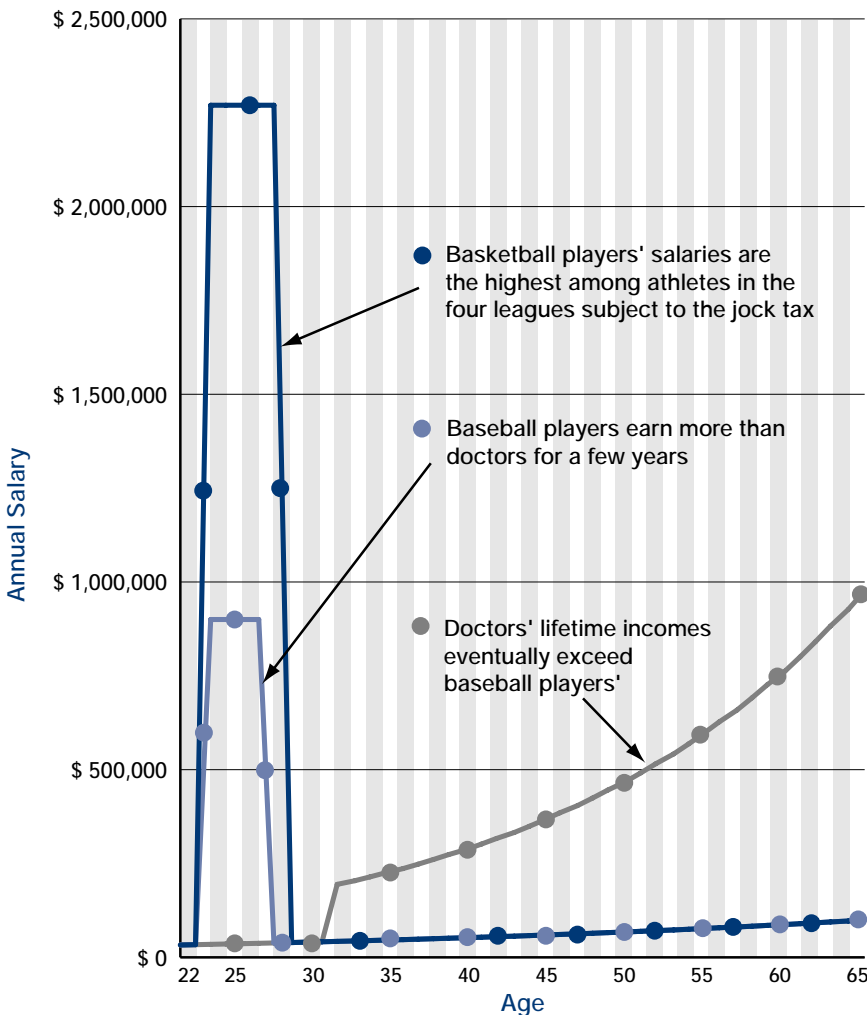
For example, 276 out of the total 408 National Basketball Association players, or 68 percent, earned less than the average salary during the 2001-02 season. The top thirty percent of players earned 69.6 percent of the total income, while the bottom thirty percent earned only five percent of the total income. This distribution of income is typical of the other three major professional sports leagues subject to the jock tax.

**Table 5**  
*Statistical Comparison of the Incomes and Taxation of Athletes and Doctors 2002*

	Major League Baseball Player	NBA Basketball Player	Doctor
Annual salary (industry average)	\$ 2,140,000	\$ 3,410,000	\$ 209,393
Number of Years Working (industry average)	4	5	35
Total Income	\$ 8,900,000	\$ 18,300,000	\$ 12,900,000
Aggregate Standard Deductions	\$31,424	\$39,898	\$ 462,356
Total income taxed at top marginal rate	\$ 8,708,575	\$ 18,060,101	\$ 1,037,643
Percentage of total income taxed at top marginal rate	97.80%	98.70%	85.60%
Total Taxes Paid	\$ 604,321	\$ 1,249,586	\$ 824,188
Lifetime Effective Tax Rate	6.79%	6.83%	6.39%

Sources: Bureau of Census, Bureau of Labor Statistics, www.bskball.com, USA Today Baseball Salaries, and State Tax Forms and Instructions. Computations by Tax Foundation.

**Figure 2**  
*Earnings of Doctors, Major League Baseball Players and NBA Basketball Players*



Sources: Bureau of Census, Bureau of Labor Statistics, www.bskball.com, and USA Today Baseball Salaries. Computations by Tax Foundation.

The jock tax is arbitrary, and therefore unfair, because it applies to only to a small group of people in specific occupations and thus treats people in similar economic situations unequally. Many professionals in other occupations, business executives, for example, make just as much per year as professional athletes and yet are not the target of an “exec tax.”

Looking at lifetime earnings, professionals in some occupations earn as much as professional athletes. The Bureau of Labor Statistics reports that the median income for a doctor in the United States is \$194,481 per year. Even if the doctor’s income increases only by inflation, he will earn \$16,914,701 over the length of his career.<sup>5</sup> The median income of the average baseball player is \$900,000 per year, and the average number of years at the major league level is four.<sup>6</sup> If in his second career the former ballplayer earns an income of \$32,945 per year, he will make a total of \$6,108,766 over the course of his lifetime. Flows of money over time are compared by calculating their net present value, and the doctor’s income has a net present value of \$4,204,489, while the baseball player’s income has a net present value of \$4,131,348, slightly less than the doctor’s.<sup>7</sup> Basketball players in the NBA earn significantly higher salaries (see Figure 2).

Another major problem with the jock tax is the administrative burden of complying with the tax. Today, up to 20 state income tax forms are filed by each athlete or traveling member of the team. Compliance costs are “fixed,” i.e., the same for everyone, so while the high-paid superstar athletes can afford to burden a personal accountant with extra forms, some of the lower-paid athletes and most of the other traveling employees of the team are unfairly burdened by the requirement to file so many returns. Previous Tax Foundation research has confirmed that the administrative burden of filing tax returns is harder on lower-income taxpayers.<sup>8</sup>

Finally, the jock tax is a case study of poor tax policy because the incidence of the tax is not effectively aligned with the economic activity that produces the income being taxed. Professional sports teams derive their revenue from various sources including ticket sales, broadcasting rights, and merchandising contracts. While there is a certain degree of revenue sharing between teams in some leagues, the vast majority of these economic activities are focused within the team’s home state.<sup>9</sup> Thus, the revenues out of which a professional athlete receives his salary are earned through economic transactions in his team’s home state, not in the

other states in which he performs.

The misalignment of the location in which an economic activity which gives rise to taxable income occurs and the location in which a tax is levied can lead to a distortion in the provision of publicly supplied goods and services. By taxing out-of-state athletes, jock tax states are essentially exporting the tax burden which supports their expenditures. In other words, the residents of jock tax states receive benefits for which they do not pay through their own taxes. At the same time, residents of the state in which the athlete resides face costs for which they do not receive proportional benefits. This imbalance will lead to the over-provision of government services in jock tax states and the under provision of public goods in non- or low-jock tax states.<sup>10</sup>

## Conclusion

The jock tax, which was started in 1991 by California state lawmakers bound and determined to benefit from Michael Jordan's popularity, has grown in size and scope. Today, 20 states have some form of the jock tax to extract revenue from taxpayers who cannot "vote with their feet" to avoid the high rates of taxation. Because some professional athletes are famously high-paid and essentially locked into playing games when and where their league's schedule dictates, they are a natural target for lawmakers in search of additional tax collections.

The jock tax sets a dangerous precedent because it violates several principles of good taxation. Most notably, it is poorly targeted. Among the four leagues whose members pay the tax, it has spread from the athletes to all the traveling employees of their teams, including the announcers, trainers, and scouts. Many of these workers make salaries comparable to the national average.

Not only do some professional athletes escape it, but other comparable earners such as doctors and business executives are not taxed. However, the tax has jumped industries from athletics to rock music entertainers, so other industries are not immune.


Administratively, a well designed tax is relatively simple for the taxpayer to comply with and for the state to administer. The jock tax is preposterously complex, requiring individuals to file up to 20 state tax returns.

Finally, from an economic perspective, the incidence of the jock tax is misaligned with the source of the economic activities that give rise to the player's salary. This creates an imbalance in the provision of public goods between states with a jock tax and

those without.

For all these reasons, state lawmakers should think twice before using the famously high salaries of professional athletes as an excuse to siphon tax revenue from non-residents.

## Notes

- <sup>1</sup> Michigan has a mutual agreement with the states of Illinois, Indiana, Kentucky, Ohio, and Wisconsin that exempts nonresidents from the income taxes imposed by each state.
- <sup>2</sup> Before Jan. 1, 2002, Massachusetts did not levy the tax on visiting athletes until the 10th game.
- <sup>3</sup> Arizona is the only state with a jock tax that does not tax out-of-state athletes in the preseason. Minnesota taxes income made in the postseason but calculates postseason duty days differently than preseason and regular season duty days. The other 12 states with a jock tax treat all games, whether pre, regular, or post-season, the same.
- <sup>4</sup> Based on the 2000 National Cross-Industry estimates of Employment and Mean Annual Wage for SOC Major Occupational Groups.
- <sup>5</sup> Lifetime income is measured on a 44-year working period from the age of 22 until retirement at 65. The baseball player plays professionally from the age of 24 until the age of 28, while the doctor practiced medicine from the age of 32 until retirement at the age of 65. The remaining years for both professions are filled in by the Bureau of Census's national average income.
- <sup>6</sup> In 2001, the average career lengths for professional athletes ranged from only 3.5 years in the NFL to 4.9 years in the NBA.
- <sup>7</sup> Net present value figures take into account a discount rate of two percent (average GDP Price Index forecast by Congressional Budget Office, the Office of Management and Budget, and the March Blue Chip).
- <sup>8</sup> Moody, J. Scott, "The Cost of Tax Compliance," Testimony Before the House Committee on Ways and Means, *Tax Foundation Special Brief*, July 2001.
- <sup>9</sup> In the NFL, teams do share receipts from low cost ticket sales, with the home team getting 60 percent of ticket sales. In baseball, the American League teams get 80 percent of home ticket sales, while home teams in the National League get 90 percent of ticket sales in their own venue. In the NBA and NHL, 100 percent of ticket receipts are kept by the home team. Receipts collected from the most expensive seats in a venue are not shared between teams.
- See William H. Baker, "Taxation and Professional Sports – A look Inside The Huddle," *Marquette Sports Law Journal*, Spring 1999, 9(2), page 297. See also Eric A. Thornton, CFA, Willamette Management Associates.
- <sup>10</sup> This analysis is complicated by the fact that states do offer tax credits for out-of-state tax payments, thus offsetting some of the revenue gain. However, the general problem of misalignment still exists. 



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