HONORS CAPSTONE

The Effects of State & Local Taxes on NBA Athletes

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ABSTRACT

This paper examines the history and current effects of nonresident income taxes that states impose. Also known as "jock taxes" these taxes primarily effect high income individuals such as professional athletes. After diving into the history of nonresident taxation and current use, I will examine a real life example of the effects that state and local taxes can have on a player in the National Basketball Association. By comparing two teams in states that offer vastly different tax treatments, you will be able to see the effect that jock taxes can have on a player's decisions and the financial consequences of those decisions. Finally, a brief analysis of the NBA's six divisions will be provided in order to determine what divisions are the most and least advantageous to play in from a tax perspective.

BACKGROUND & HISTORY

The practice of taxing nonresident individuals dates back almost to the beginning of the income tax. A seminal case in 1920 established the right of the states to tax nonresident individuals and businesses on income earned in their states. In *Shaffer v. Carter* the Supreme Court stated that states "as a necessary consequence, levy a duty of like character, and not more onerous in its effect, upon incomes accruing to non-residents from their property or business within the State, or their occupations carried on therein."[1] They also stated that "In our system of government the States have general dominion, and, saving as restricted by particular provisions of the Federal Constitution, complete dominion over all persons, property, and business transactions within their borders" and "in consequence, have the power normally pertaining to governments to resort to all reasonable forms of taxation in order to defray the governmental expenses."[2] This affirmed the States' power to tax nonresidents. The mention of the States' power to tax appears even earlier in *McCulloch v. Maryland.* In this 1819 case, Mr. Chief Justice Marshall mentions the power of states to tax all objects brought within its jurisdiction. He stated "All subjects over which the sovereign power of a State extends, are objects of taxation" and "The power of taxation, however vast in its character and searching in its extent, is necessarily limited to subjects within the jurisdiction of the State. These subjects are persons, property, and business."[3] Clearly the practice of taxing nonresidents had been established long before the emergence of jock taxes. However, this tax can be hard to track for the average American worker, but for athletes—whose schedules are public record—it is easy to know when they will be "working" in a particular state. Therefore, the enforcement of nonresident state income taxes is particularly common with respect to professional athletes.

California 1976

The concept of taxing nonresident athletes in particular appears in case law in California in 1976. *In the Matter of the Appeal of Dennis F. and Nancy Partee*, an NFL player who played on a California based team but resided in Texas during the offseason, appealed the extent to which California could tax him on his duties performed as a football player within the state.[4] Mr. Partee contended that the manner in which California "apportioned" his salary earned in California was incorrect. The method, known as "working days" is calculated by taking a player's number of working days in the State of California and dividing it by the number of total working days for the season. That number is then multiplied by the player's salary to get the amount of income earned in the State. The court cited the California Franchise Tax Board's definition of working days as follows: "all days on which the player's team practices, travels, or plays, beginning with the first practice day for the first regular season game and extending through the team's last post-season game."[5] This enforcement is important because it contains a professional athlete directly challenging the method by which a State taxes him, and the courts directly enforcing the method.

[1] Jerome R. Hellerstein & Walter Hellerstein, *State and Local Taxation,* (American Casebook Series, 1988), 358.
[2] Hellerstein & Hellerstein, *State and Local Taxation,* 359.
[3] Hellerstein & Hellerstein, *State and Local Taxation,* 360.
[4] In the Matter of the Appeal of DENNIS F. AND NANCY PARTEE, 76-SBE-098, 10/06/1976.
[5] In the Matter of the Appeal of DENNIS F. AND NANCY PARTEE, 76-SBE-098, 10/06/1976.

Emergence

The popularization and oft noted beginning of jock taxes began in the early 1990s with what was dubbed "Michael Jordan's revenge" by news organizations of the day. Following the Chicago Bulls victory over the Los Angeles Lakers in the 1991 NBA Finals, Illinois lawmakers learned that California was enforcing their previously mentioned nonresident income tax on Michael Jordan and other Bulls players. Outraged by this practice, the Illinois state legislature passed a bill that created a tax on nonresident athletes, only if the state the athlete came from had a similar tax.[6] At the time, only three states had such taxes: California, Ohio, and Wisconsin.[7] This law began a ripple effect throughout the United States, leading to numerous states adopting similar laws. Today, almost every state that has a professional sports team levies a similar tax, 22 of 26 to be exact.[8] Eight cities have also adopted similar laws as well.[9] These laws can have a substantial impact on a state's revenues. California reportedly collected $229.2 million in tax revenue from visiting professional athletes alone in 2013.[10] Considering personal income taxes are California's largest source of tax revenue,[11] enforcing this law is significant.

Calculation

Nonresident athlete taxes are calculated using an apportionment method. In most states this is done by figuring out the number of "duty days" an athlete has for a given year. Each state has their own definition, but the common essence is this: duty days are all days of a professional athlete's year from the beginning of the season (in some states this is the regular season, in others it is the preseason) through the last game in which the team competes. These days include games, practices, team meetings, and other similarly scheduled events. Also, some states note that while travel days or days within the season that do not involve a normal team activity are not duty days for their state, they are still to be utilized in the calculation of total duty days for the season. Basically, an athlete can pull out days from the numerator for a state, but he or she can't remove them from the denominator.

To illustrate how this apportionment is done, the NBA can be used as an example. There are 170 days from the beginning of the NBA regular season to the end of the regular season. If player A plays on a team that does not make the playoffs, his total number of duty days for the season is 170. If he plays 3 games in State B, and before 2 of the games he has a team meeting on the day prior, the total number of duty days spent in State B is 5. Therefore when Player A is calculating the amount of tax owed to State B, he does the following:

$$5/170 \times \text{Taxable Income} = \text{taxable income in State B}$$
$$\text{Taxable income in State B} \times \text{State B's tax rate} = \text{total tax owed to State B}$$

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6 Hugh Dellios, *Legislators Ok 'Jordan's Revenge',* (Chicago Tribune, 1991).
7 Dellios, *Legislators Ok 'Jordan's Revenge'.*
8 Michael McCann & Robert Raiola, *Ohio Supreme Court says Cleveland's 'jock tax' formula is unconstitutional,* (Sports Illustrated, 2015).
9 McCann & Raiola, *Ohio Supreme Court says Cleveland's 'jock tax' formula is unconstitutional.*
10 Mike Lowe, *Pro athletes pay a big price for their success—in taxes,* (Portland Press Herald, 2015).
11 Controller Betty T. Yee, California State Controller's Office, *Sources of State Taxes,* http://www.sco.ca.gov/state_finances_101_state_taxes.html, (2014).

The majority of states and municipalities use the above "duty days" method. However, some use a method known as the "games played" method. Under this method, the state or municipality contends that players are paid only for playing games and therefore taxes them based only upon games played in the state. For example, there are 82 regular season NBA games. If Player A plays 3 games in State B like the example above, then he calculates his tax owed to State B by doing the following:

3/82 x taxable income= taxable income in State B
Taxable income in State B x State B's tax rate= total tax owed to State B

Recently, this method was found to be unconstitutional in the city of Cleveland, Ohio,[12] forcing the city to convert to the duty days method. In the next section, the recent free agency of an NBA player and his decision to choose one team over another will be analyzed from a tax perspective. The results will show that the difference in playing for one team over another has vastly different tax consequences.

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[12] *Municipal Income Tax: Cleveland's Method of Imposing "Jock Tax" Struck Down by Ohio Supreme Court,* bdblaw.com, (2015).

JOCK TAXES: A REAL LIFE EXAMPLE

Background

During the summer of 2015, DeAndre Jordan was a free agent. Jordan, who had played his entire career up to that point with the Los Angeles Clippers, was considering signing with a new team. On July 4, it was reported that Jordan had signed with the Dallas Mavericks[13] to a four year contract worth approximately $80 million. Less than a week later, in dramatic fashion Jordan eventually returned to the Clippers signing a four year, $87.7 million dollar contract.[14] While the effects of this choice have been heavily discussed from a basketball perspective, little has been said regarding the financial ramifications of this deal from a tax angle. As you will see, the consequences from choosing a team based in Los Angeles versus a team (in a different division) based in Texas are vast. Jordan's taxes owed had he stuck with the Mavericks would have been substantially lower. Below you will see charts comparing Jordan's taxes owed to each municipality had he played with the Mavericks versus the Clippers during the 2015-2016 season, concluding with a total tax number for each scenario and subsequent discussion.

Assumptions

A number of assumptions were made in order to ensure continuity of research and practicality of results. These assumptions are:

1. Jordan is a single filing taxpayer—this is assumed due to the fact that Jordan is not married.
2. The number of "duty days" for the NBA season is 170—this is from the first day of the regular season through the last day of the regular season. While most states consider preseason days as well as postseason days, in the efforts of simplicity I have chosen to only consider the regular season. Also, while there are some off days that would not be included in the duty days' calculation, due to the fact that I do not have access to either team's official travel and practice schedules, I will be considering all calendar days from the beginning of the regular season to end. This will also lend a calculation that is closer to what would have resulted had I considered preseason and postseason days.
3. I am only considering game days as duty days spent in each nonresident state for purposes of this calculation. Once again, due to a lack of access to team travel, meeting, and practice schedules, I am not able to obtain an exact figure for the amount of duty days spent in each state. Therefore, I am using what I do know—game days—as duty days for each state. The denominator of 170 will not be adjusted.
4. His contract would have been the same with both teams—this is pretty straightforward. Jordan's salary in 2015-2016 with the Clippers is $19,689,000[15], while that amount may

[13] Marc Stein & Tim MacMahon, *DeAndre Jordan, Mavericks reach agreement on max contract,* ESPN, http://espn.go.com/nba/story/_/id/13193952/deandre-jordan-agrees-deal-dallas-mavericks, (2015).
[14] *DeAndre Jordan Signs Four-Year $87.7M Max Deal With Clippers,* RealGM, http://basketball.realgm.com/wiretap/238678/DeAndre-Jordan-Signs-Four-Year-Max-Deal-With-Clippers, (2015).
[15] HoopsHype, *Los Angeles Clippers Salaries, http://hoopshype.com/salaries/los_angeles_clippers/,* 2016.

not have been exactly the same had he signed with the Mavs, for comparison and later discussion I am assuming it would have.

5. Taxable income will be based on Jordan's full salary for 2015-2016. A high income taxpayer like Jordan would likely itemize his deductions. While some states' tax rates are based on federal taxable income or federal AGI, I believe it would be inaccurate to assume Jordan took the standard deduction as this would likely not be the case. Therefore, taxable income is assumed to be on Jordan's entire salary of $19,689,000. Other deductions and exemptions may be available to Jordan, but they will not be discussed in this paper.
6. Jordan is a resident of the state that his team under each scenario plays in, so Texas for the Mavericks and California for the Clippers.
7. Taxes for games played in Toronto, Canada are not calculated on this project. International taxes are beyond the scope of this project and therefore will not be considered. However, it is important to note that Jordan would owe taxes to Canada for his duty days spent in Toronto.
8. For Georgia, Oklahoma, and Washington, D.C., the duty days method is employed despite no specific reference to jurisdictional tax code outlining an apportionment method for nonresident athletes. Through research in other projects similar to this as well as articles discussing this topic, it is clear that these jurisdictions do tax nonresident athletes. In the interest of continuity, I have employed the duty days method for these jurisdictions.[16]

[16] Georgia allows an "alternative" method of calculating nonresident income tax if it is agreed upon by the taxpayer and the Georgia Revenue Commissioner. It is reasonable to assume that the duty days method would be granted.

State & Local Taxes: Mavericks

TAXES OWED TO OTHER STATES & CITIES: MAVERICKS

City	State	Games	Net Income Allocation	Taxes Owed to State	Taxes Owed to City
Los Angeles	California	4			$ -
Sacramento	California	2	$ 926,541	$ 113,965	$ -
Oakland	California	2			$ -
Memphis	Tennessee	2	$ -	$ 5,000	$ -
New Orleans	Louisiana	2	$ 231,635	$ 13,898	$ -
Portland	Oregon	2	$ 231,635	$ 22,932	$ -
New York	New York	2	$ 231,635	$ 15,867	$ -
Minneapolis	Minnesota	2	$ 231,635	$ 22,816	$ -
Oklahoma City	Oklahoma	2	$ 231,635	$ 11,582	$ -
Denver	Colorado	2	$ 231,635	$ 10,725	$ -
Phoenix	Arizona	1	$ 115,818	$ 4,911	$ -
Miami	Florida	1	$ -	$ -	$ -
Orlando	Florida	1	$ -	$ -	$ -
Atlanta	Georgia	1	$ 115,818	$ 6,949	$ -
Chicago	Illinois	1	$ 115,818	$ -	$ -
Indianapolis	Indiana	1	$ 115,818	$ 3,822	$ -
Boston	Massachusetts	1	$ 115,818	$ 5,907	$ -
Detroit	Michigan	1	$ 240,110	$ 10,205	$ 2,881
Toronto	N/A	1	$ -	$ -	$ -
Charlotte	North Carolina	1	$ 115,818	$ 6,660	$ -
Cleveland	Ohio	1	$ 115,818	$ 5,324	$ 2,316
Philadelphia	Pennsylvania	1	$ 240,110	$ 7,371	$ 8,363
Salt Lake City	Utah	1	$ 115,818	$ 5,791	$ -
Milwaukee	Wisconsin	1	$ 115,818	$ 7,262	$ -
Washington D.C.		1	$ 115,818	$ -	$ 9,845
TOTAL TAXES OWED TO OTHER STATES & CITIES				$ 280,985	$ 23,405
TOTAL TAXES OWED TO RESIDENT STATE: TEXAS					
Dallas	Texas	41			$ -
Houston	Texas	2		$ -	$ -
San Antonio	Texas	2			$ -
TOTAL TAX OWED				**$ 304,390**	

Jordan's 2015-2016 Salary
$19,689,000
Duty Days
170
Games Played
82

The table[17] above illustrates Jordan's approximate taxes owed had he played with the Dallas Mavericks for the 2015-2016 NBA regular season. The Mavericks play in the Southwest Division of the Western Conference. This division is advantageous to play in from a tax perspective because it has three teams (including the Mavericks) from Texas, a state that does not have an income tax. The other two teams are the Memphis Grizzlies, and the New Orleans Pelicans. Tennessee has a unique jock tax in that they tax a flat rate of $2,500 per games played in their state. While this practice likely produces a lower tax burden for high income players than

[17] Note: the highlighted cells indicate jurisdictions where Jordan was not taxed at the highest rate. The tax owed to Illinois is $0 because Illinois' jock tax is retaliatory, and Texas does not have an income tax.

under the other methods, it is extremely difficult for low earning players. However, this tax will cease to have effect on NBA players after June 1 of this year.[18] Lastly, New Orleans uses the common duty days method. The result of Jordan playing on the Mavs is only getting taxed on 4 games played in his division. That is an incredibly advantageous result for any player in the NBA, especially one with a maximum contract like Jordan.

As mentioned above, Jordan would still be playing in the Western Conference, and therefore would play 8 games in California. California has the highest individual income tax rates in the country. However, because Jordan only plays 8 games in the state, he falls into the second highest tax bracket, 12.3%, whereas with the Clippers, Jordan falls into the highest bracket, 13.3%. Another item of note is the lack of tax paid to Illinois. Illinois' jock tax is retaliatory, meaning that if the state a player resides in levies a tax against Illinois residents, then Illinois levies a tax against players from that state (save for the states with which Illinois has a reciprocity agreement). Because Texas does not levy an income tax, Illinois does not tax professional athletes who reside in Texas. Therefore, Jordan would not be taxed on his duty days in Chicago.

Jordan's total taxes owed to other states had he played with the Dallas Mavericks would have been approximately $280,985. His total taxes owed to other cities under this scenario would have been $23,405. His total taxes owed to other jurisdictions would have been $304,390. Consequently, this is Jordan's total state tax owed due to the fact that Texas does not levy a personal income tax. It is interesting to note that this amount is higher than the amount owed to other states with Jordan playing for the Clippers. This should be taken with a grain of salt because $113,965 of that amount is due to California which is Jordan's resident state with the Clippers. Overall, Jordan would only be taxed at the state level for 33 (34 including the District of Columbia) of his 82 games if he had played for the Mavericks. That is less than 50% of his total games for the season and an even lower amount when you consider the fact that many of these states use the duty days method.

[18] Mary Pilon, *Tennessee Votes to Eliminate Special Tax for Professional Athletes,* (New York Times, 2014).

State & Local Taxes: Clippers

TAXES OWED TO OTHER STATES & CITIES: CLIPPERS

City	State	Games	Net Income Allocation	Taxes Owed to State	Taxes Owed to City
Dallas	Texas	2	$ -	$ -	$ -
Houston	Texas	2	$ -	$ -	$ -
San Antonio	Texas	2	$ -	$ -	$ -
Phoenix	Arizona	2	$ 231,635	$ -	$ -
Portland	Oregon	2	$ 231,635	$ 22,932	$ -
Minneapolis	Minnesota	2	$ 231,635	$ 22,816	$ -
Salt Lake City	Utah	2	$ 231,635	$ 11,582	$ -
New Orleans	Louisiana	2	$ 231,635	$ 13,898	$ -
Oklahoma City	Oklahoma	2	$ 231,635	$ 11,582	$ -
New York	New York	2	$ 231,635	$ 15,867	$ -
Memphis	Tennessee	1	$ -	$ 2,500	$ -
Denver	Colorado	1	$ 115,818	$ 5,362	$ -
Milwaukee	Wisconsin	1	$ 115,818	$ 7,262	$ -
Chicago	Illinois	1	$ 115,818	$ 4,343	$ -
Detroit	Michigan	1	$ 240,110	$ 10,205	$ 2,881
Washington D.C.		1	$ 115,818	$ -	$ 9,845
Charlotte	North Carolina	1	$ 115,818	$ 6,660	$ -
Cleveland	Ohio	1	$ 115,818	$ 5,324	$ 2,316
Toronto	N/A	1	$ -	$ -	$ -
Indianapolis	Indiana	1	$ 115,818	$ 3,822	$ -
Atlanta	Georgia	1	$ 115,818	$ 6,949	$ -
Orlando	Florida	1	$ -	$ -	$ -
Miami	Florida	1	$ -	$ -	$ -
Philadelphia	Pennsylvania	1	$ 240,110	$ 7,371	$ 8,363
Boston	Massachussetts	1	$ 115,818	$ 5,907	$ -
TOTAL TAXES OWED TO OTHER STATES & CITIES				$ 164,381	$ 23,405

Jordan's 2015-2016 Salary
$19,689,000
Duty Days
170
Games Played
82

TAXES OWED TO RESIDENT STATE: CALIFORNIA

City	State	Games	Net Income Allocation	Taxes Owed to State	Taxes Owed to City
Los Angeles	California	43			$ -
Sacramento	California	2	$ 19,689,000	$ 2,618,637	$ -
Oakland	California	2			$ -

Total tax	$ 2,806,423
Less: Credits for taxes paid to other states	$ (135,128)
TOTAL TAXES OWED	**$ 2,671,295**

In stark contrast is Jordan's approximate taxes owed while playing with the Clippers for the 2015-2016 season. As mentioned above, California levies the highest individual income taxes of any state in the U.S. Jordan's $19,689,000 salary places him in the top bracket, 13.30%. This leads to a California income tax owed of approximately $2,618,637. Combining this with the amount of taxes owed to other jurisdictions, Jordan's total approximate tax bill comes out to $2,806,423, nine times what he would have owed had he played with the Mavericks.

California offers a credit for taxes paid to other states.[19] This credit is offered for taxes paid in the following states: Colorado, Georgia, Illinois, Louisiana, Massachusetts, Michigan, Minnesota, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Utah and Wisconsin. Therefore, the California tax of $2,618,637 would be offset by a credit of $135,128 to $2,483,509. This would bring the total net taxes owed to all jurisdictions to $2,671,295.

A couple of interesting notes from both scenarios was the taxation by cities. It is interesting that both states that employ the games played method (Pennsylvania and Michigan) have cities that also levy a nonresident income tax (Philadelphia and Detroit). Not only are visiting players hurt by the lower denominator from the method, they are hit again by getting taxed at the city level. Finally, an important note is the city of Cleveland's method of taxation. Due to recent litigation[20], Cleveland has been forced to change from the previously used games played method to the duty days method. Overall, only three cities in the NBA (four including D.C.) levy a nonresident income tax.

Results

The calculations above demonstrate what a vast difference a professional athlete's resident state can make. While one may argue that comparing the state with the highest income tax to a state with no income tax is an extreme example, this is a very real scenario that many players face. There are five teams in the NBA located in states that do not levy an income tax.[21] While tax consequences are certainly not the only or most important factor in an athlete's signing decision, they should definitely be considered. If all things are equal, differences in tax treatments of not only the state of the potential team, but of the states in that team's division should be factored in to determine what team to choose. While teams located in advantageous tax jurisdictions (like Texas or Florida) will certainly cite these tax benefits as reasons to sign with them, teams in otherwise tougher tax areas may end up avoiding to mention this consequence. This is when it is especially crucial that agents and financial advisors alike inform their clients of these consequences as they go through the free agency process. While other parties may be involved in fighting the very practice of jock taxes, for now the most a player can do is be aware of these practices in order to make informed decisions throughout his career.

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[19] California Form 540 Schedule S, https://www.ftb.ca.gov/forms/2015/15_540s.pdf, (2015).
[20] Hillenmeyer v. Cleveland Bd. of Rev., Slip Opinion No. 2015-Ohio-1623
[21] In Texas: Dallas Mavericks, San Antonio Spurs, Houston Rockets. In Florida: Miami Heat, Orlando Magic.

DIVISIONS ANALYSIS

This section is centered around one question: if you could choose any division to play in in the NBA, what division should you choose from a tax perspective? There are six divisions in the NBA, each containing five teams. I evaluated the divisions on four criteria: (1) do the states in the division tax income? (2) if yes, do they offer a credit for taxes paid to other states? (3) method of apportionment and (4) does the city tax nonresidents? It should be pretty clear by this point that any professional athlete would prefer a division that has the fewest states that tax income. If that is not an option, the next "best" tax treatments to look for are states that offer residents credits for taxes paid to other states and states that use the duty days method instead of the games played method. Finally, players should look to avoid divisions where not only the states have jock taxes, but the cities they play in as well. Below are my rankings[22], along with explanations, of divisions a player would most prefer to play in from a tax perspective to least.[23]

[22] Note: references to "see table" are referring to tax tables on page 17.
[23] Note: any mention of "players" is assuming players playing in the respective division described, not all players in the league.

DIVISION	TEAM	STATE	CITY	STATE TAX RATE	CITY TAX RATE	CREDIT	NOTES
Atlantic							
	Celtics	Massachusetts	Boston	5.1%	N/A	Y	Duty days method
	Raptors	Canada	Toronto	N/A	N/A	N/A	
	Knicks	New York	New York	Progressive rate, see table	N/A	Y	Duty days method
	Nets	New York	New York	Progressive rate, see table	N/A	Y	Duty days method
	Sixers	Pennsylvania	Philadelphia	3.07%	3.4828%	Y	Games played method, reciprocal agreements w/ Ohio, Indiana.
Central							
	Bulls	Illinois	Chicago	3.75% of federal taxable income	N/A	Y	Duty days method, retaliatory thereofore will only apply if resident state taxes nonresident athletes. Reciprocity agreements w/Iowa, Michigan, Wisconsin.
	Cavs	Ohio	Cleveland	Progressive rate, see table	2.0%	Y	Duty days method, interesting that 20 day rule does not apply to athletes or entertainers. Rates used are 2015 rates. Reciprocal agreements w/ Indiana, Michigan, Pennsylvania.
	Pistons	Michigan	Detroit	4.25% of federal AGI w/ modification	1.2%	Y	Games played method. Reciprocal agreements w/ Illinois, Indiana, Minnesota, Ohio, Wisconsin.
	Pacers	Indiana	Indianapolis	3.3% of federal taxable income	N/A	Y	Duty days method. Reciprocity agreements w/ Michigan, Ohio, Pennsylvania, Wisconsin.
	Bucks	Wisconsin	Milwaukee	Progressive rate, see table	N/A	Y	Duty days method, reciprocal agreements w/ Illinois, Indiana, Michigan.
Southest							
	Heat	Florida	Miami	N/A	N/A	N/A	No Income tax
	Magic	Florida	Orlando	N/A	N/A	N/A	No Income tax
	Hornets	North Carolina	Charlotte	5.75%	N/A	Y	Duty days method, team must withhold portion on income at highest tax rate. Player not required to file return.
	Hawks	Georgia	Atlanta	Progressive rate, see table	N/A	Y	While there appears to be no specific formula for Georgia, a formula can be agreed upon by petitioning the Georgia Commissioner of Revenue. Assume a duty days method has been granted
	Wizards	N/A	District of Columbia	N/A	Progressive rate, see table	Y	Duty days method
Northwest							
	Thunder	Oklahoma	Oklahoma City	Progressive rate, see table	N/A	Y	No specific instructions on professional athlete apportionment
	Jazz	Utah	Salt Lake City	5%	N/A	Y	Duty days method
	Nuggets	Colorado	Denver	4.63% of federal taxable income	N/A	Y	Duty days method. Travel days including a game, practice, team event, etc. are considered duty days in the state.
	Timberwolves	Minnesota	Minneapolis	Progressive rate, see table	N/A	Y (But not to other cities or counties)	Duty days method. Reciprocal agreement w/ Michigan.
	Blazers	Oregon	Portland	Progressive rate, see table	N/A	Y	Duty days method
Pacific							
	Lakers	California	Los Angeles	13.30%	N/A	Y	Duty days method
	Clippers	California	Los Angeles	13.30%	N/A	Y	Duty days method
	Kings	California	Sacramento	13.30%	N/A	Y	Duty days method
	Warriors	California	Oakland	13.30%	N/A	Y	Duty days method
	Suns	Arizona	Phoenix	Progressive rate, see table	N/A	Y	Duty days method, they do not include preseason. Reciprocity agreements w/ California, D.C., Indiana, Oregon.
Southwest							
	Mavs	Texas	Dallas	N/A	N/A	N/A	No income tax
	Spurs	Texas	San Antonio	N/A	N/A	N/A	no income tax
	Rockets	Texas	Houston	N/A	N/A	N/A	no income tax
	Grizzlies	Tennessee	Memphis	$2500 per game for nonresidents, 6% for residents.	N/A	N	Jock tax will be repealed on 6/1/16, already repealed for NHL
	Pelicans	Louisiana	New Orleans	Progressive rate, see table	N/A	Y	Duty days method

Southwest

This division contains the most teams (3) that play in a state that does not have an income tax (Texas). Right away this makes this the most attractive division. In addition to this, while Tennessee has a unique jock tax that is favorable to some (high earning players) and unfavorable to others (minimum contract players), it will cease to have effect on NBA players beginning on June 1 of this year.[24] Therefore, if a player signed with the fifth team in this division, the New Orleans Pelicans, they would not have to pay taxes on any of their road games in interdivision play (two at each team, so eight). This is extremely preferable from a financial perspective. It is important to note that Tennessee does have a 6% resident tax rate but does offer a credit for taxes paid to other states. As for the Pelicans, Louisiana has a progressive state income tax rate of 2%, 4%, and 6%. Most players in this division and in the Western Conference will end up in that 6% range because they will play at least two games there. Overall, that 6% top rate is pretty low compared to other states with a progressive rate, once again lending to the advantage that this division offers. Louisiana offers a credit for taxes paid to other states as well.[25] None of the cities in this division tax the income of visiting or resident players, making the financial case for this division extremely strong.

Southeast

The next "best" division is the Southeast. Two teams in this division play in a state (Florida) that does not have an income tax. Georgia and Washington D.C. have progressive state taxes. Georgia's brackets are extremely small, therefore just about every player will fall into their highest rate of 6%. Washington D.C. has a pretty wide gap between their 4th, 5th, and 6th (highest) brackets. Most players will fall into the 4th bracket (8.5%) unless they play a considerable number of playoff and preseason games there, at which point they would fall into the 5th bracket (8.75%). The final state in this division—North Carolina—has a 5.75% flat rate. Both Georgia and North Carolina as well as Washington D.C. offer resident credits for taxes paid to other states. A player on one of the non-Florida teams would not be taxed on 4 of his conference games every season, as well as his 3 visits to Texas for inter-conference play. He would be taxed on 4 of his other interdivision road games but would receive credits for those taxes paid on his resident state return. Overall, this division satisfies some of the top preferences (no income taxes) and in the other cases, satisfies all of the secondary preferences (duty days method, credit for out of state taxes, no city taxes) as well as rates that are not too harmful to a player's bottom line.

Central

The Central Division has perhaps the most complicated tax practices to consider. Every single state in this division has a reciprocity agreement with at least two other states in the division. A

[24] Mary Pilon, *Tennessee Votes to Eliminate Special Tax for Professional Athletes,* (New York Times, 2014).
[25] It is important to note that Louisiana, along with every other state that offers a credit for taxes paid to nonresident states, limits the amount of credit to the amount that would have been payable had that income been taxed in the resident state. Basically, if Resident State has a rate of 5% and Nonresident State has a rate of 10%, taxpayer can only take a credit up to the 5% that would have been taxed in Resident State.

reciprocity or reciprocal agreement held by a state allows residents of certain outside states to be exempt from paying income tax in their state. The state with the most reciprocity agreements in the entire league is Michigan, whose Pistons happen to play in the Central Division. Michigan has reciprocal agreements with every other state in the division and Minnesota. Therefore, a player on the Pistons does not have to pay taxes for 8 of his interdivision road games and his road game in Minnesota. Adding in the 3 games in Texas, as well as at least 2 games in Florida each year, Pistons players are exempt from income tax for at least 14 of their games each season. This is extremely beneficial. The states that Michigan has reciprocal agreements with are the next most beneficial because Michigan employs two unfavorable practices: the games-played method and a city tax. Detroit has a tax on nonresidents of 1.2%, and Michigan has a rate of 4.25%. While neither of these rates are particularly high, when you factor in that they are using a denominator of 82 (for regular season) instead of 170, you can see the dramatic effects that can have on a player's taxes owed. Luckily, a player for any of the other four teams in this division does not have to pay taxes in Michigan because Michigan currently retains reciprocal agreements with their states. From there, Ohio and Illinois players have to pay taxes to the most states in this division (3). This makes the Central Division another attractive option if a player is not able to retain a contract in one of the first two divisions. One unfortunate note is that Cleveland does have a city tax, and Ohio only has reciprocal agreements with two states from this division. Overall however, I think this division is a favorable spot to be in from a tax perspective, especially compared to at least two of the divisions below them.

Northwest

The Northwest Division is the beginning of a bottom tier of divisions that are altogether not favorable to players. This division is the best of the three for two reasons: (1) all of the states employ the duty days method and (2) three states have relatively low rates. Colorado has the lowest rate at 4.63%, followed by Utah at 5%. Oklahoma has a progressive rate but the brackets are so low that just about every player will fall into the top rate of 5%. These rates are overall pretty favorable. Unfortunately, that is where the favorability stops as the next two states (Oregon and Minnesota) have progressive rates with high top brackets. Minnesota's top two brackets, which almost every player in the division will fall into, are 7.85% & 9.85%. Oregon's rates are even higher. Their top two are 9% and 9.9%. No matter who they play for and what tax bracket they fall into for Minnesota and Oregon, a player in this division will be footing a pretty hefty tax bill. All states in this division do permit a credit for taxes paid to other states. One advantage that Minnesota presents is that Michigan retains a reciprocity agreement with them exempting Minnesota players from paying taxes in their state. This helps Minnesota players avoid at least one state that has two sets of taxes as well as the unfavorable games-played method.

Atlantic

The Atlantic Division presents a number of disadvantages. The most identifiable disadvantage is that Pennsylvania employs the games-played method. On top of that, Philadelphia employs a city tax on nonresidents that is even higher than their state rate, again apportioned using the games-played method. While the rates are at least below 4% (3.07% state and 3.4828% city), it is still extremely unfavorable to visiting players. From there, prospects hardly improve. New York has a progressive rate where most players will fall into the 6.65%, 6.85%, or 8.82% (highest) brackets. There are two teams in New York, which means 4 division games in this state, thus dramatically increasing the chances that a player falls into one of those top rates. Massachusetts has a pretty average rate of 5.1%, and they along with New York at least employ the duty days method. Finally, while international taxes are beyond the scope of this paper, I did want to note that taxes will be owed by players in this division to Canada. Therefore, not only will players be paying taxes on every game they play in this division, they will likely be paying them at high rates along with an unfavorable method to both a city and state for two games.

Pacific

As you might have guessed from the previous section, the division containing the four California teams is the least favorable from a tax perspective. While residents of California do not have to pay taxes to the one out of state team (Arizona) due to a reciprocity agreement, at least 6 of their road games will be played in California, plus their 41 home games and any practices, shootarounds, team meetings, and other team activities held at their facilities. The results are players falling into tax brackets that are the highest in the country. A minimum contract in the NBA is $525,093.[26] Assuming this player gets no bonuses or any other forms of compensation, he would just narrowly avoid the second highest rate of 12.3%. He would still fall into the 11.3% bracket, which is higher than any other state in the league. The highest bracket is 13.3%, and begins at taxable income of $1,000,000. Among the 4 teams in California, 43 players made $1,000,000 or more in 2015-2016.[27] Considering there are 12 active players on each roster, that is nearly 90% of all the players in the state falling into the highest income tax bracket. This alone makes the Pacific Division the most unfavorable to play in from a tax perspective. While there are plenty of reasons to want to play here, tax treatment is certainly not one of them.

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[26] HoopsHype, *What's the minimum NBA Salary?*, http://hoopshype.com/2015/10/12/whats-the-minimum-nba-salary/, *(2015)*.
[27] ESPN, http://espn.go.com/nba/salaries/_/page/9/seasontype/3.

STATE INCOME TAX RATES USED[28]

	Single Filer		
State	***Rates***		***Brackets***
Ariz.	2.59%	>	$0
	2.88%	>	$10,000
	3.36%	>	$25,000
	4.24%	>	$50,000
	4.54%	>	$150,000
Calif.	1.00%	>	$0
	2.00%	>	$7,850
	4.00%	>	$18,610
	6.00%	>	$29,372
	8.00%	>	$40,773
	9.30%	>	$51,530
	10.30%	>	$263,222
	11.30%	>	$315,866
	12.30%	>	$526,443
	13.30%	>	$1,000,000
Colo.	4.63% of federal taxable income		
Fla.	none		
Ga.	1.00%	>	$0
	2.00%	>	$750
	3.00%	>	$2,250
	4.00%	>	$3,750
	5.00%	>	$5,250
	6.00%	>	$7,000
Ill.	3.75% of federal taxable income		
Ind.	3.3% of federal taxable income		
La.	2.00%	>	$0
	4.00%	>	$12,500
	6.00%	>	$50,000
Mass.	5.10%	>	$0
Mich.	4.25% of federal AGI with modification		
Minn.	5.35%	>	$0
	7.05%	>	$25,180
	7.85%	>	$82,740
	9.85%	>	$155,650
N.Y.	4.00%	>	$0
	4.50%	>	$8,450
	5.25%	>	$11,650
	5.90%	>	$13,850
	6.45%	>	$21,300
	6.65%	>	$80,150
	6.85%	>	$214,000
	8.82%	>	$1,070,350
N.C.	5.75%	>	$0

	Single Filer		
State	***Rates***		***Brackets***
Ohio	0.495%	>	$0
	0.990%	>	$5,200
	1.980%	>	$10,400
	2.476%	>	$15,650
	2.969%	>	$20,900
	3.465%	>	$41,700
	3.960%	>	$83,350
	4.597%	>	$104,250
	4.997%	>	$208,500
Okla.	0.50%	>	$0
	1.00%	>	$1,000
	2.00%	>	$2,500
	3.00%	>	$3,750
	4.00%	>	$4,900
	5.00%	>	$7,200
Ore.	5.00%	>	$0
	7.00%	>	$3,350
	9.00%	>	$8,400
	9.90%	>	$125,000
Pa.	3.07%	>	$0
Tenn.	6.00%	>	$0
Tex.	none		
Utah	5.00%	>	$0
Wis.	4.00%	>	$0
	5.84%	>	$11,150
	6.27%	>	$22,230
	7.65%	>	$244,750
D.C.	4.00%	>	$0
	6.00%	>	$10,000
	6.50%	>	$40,000
	8.50%	>	$60,000
	8.75%	>	$350,000
	8.95%	>	$1,000,000

[28] Nicole Kaeding, *State Individual Income Tax Rates and Brackets for 2016,* The Tax Foundation, http://taxfoundation.org/article/state-individual-income-tax-rates-and-brackets-2016, (2016).

SUMMARY

Taxation of nonresidents at the state level is not an uncommon practice, however we have seen throughout this research that its most popular target and largest effect is on high income individuals like professional athletes. Players in all professional leagues need to be aware of these laws when they enter the league. It can even be argued that a college athlete debating whether or not to leave school early for the draft should be made aware of this practice before he decides to declare. It is also important to note that players are not the only ones on the team who are taxed this way, so too are the coaches, trainers, and any staff who travel with the team. Many of these staff members do not have near the salary level that the players and coaches do, yet they are still subject to these laws. It is important that everyone in professional sports organizations—not just the players—understands the tax implications of their profession. This may sound like something only the player's financial advisor and tax preparer should have to worry about, and in the big picture they are the only ones who have to worry about the details, but this is the athlete's salary, not the financial advisor or tax preparer. The athlete needs to be aware of how his decisions affect his income. A simple decision such as choosing to sign with the Clippers instead of the Mavericks can lead to tremendous tax consequences. DeAndre Jordan's take-home pay after this season with the Clippers will be considerably smaller than his take-home pay had he signed with the Mavericks. Ironically, even from a basketball standpoint, signing with the Clippers was no better than signing with the Mavs, as they were both eliminated in the first round of the playoffs.

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