

Larry's Tax Law

## **Do Olympians Owe Taxes on the Value of Their Medals?**

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### **I Won the Gold Medal in Sochi. Awesome! Do I Owe Taxes on the Value of My Prize?**

As a general rule, in accordance with IRC § 61, the value of any prize or award a taxpayer receives is subject to taxation. IRC §§ 74 and 117 provide limited exceptions to this general rule.

IRC § 74 specifically excludes from the income of the recipient certain employee achievement awards and certain prizes or awards transferred to charitable organizations prior to receipt. IRC § 117 specifically excludes from the income of the recipient “qualified scholarship” proceeds. These exceptions are subject to rigid qualifications.

The value of prizes and awards which do not come within the parameters of these limited exceptions are subject to taxation. Consequently, as we know, the winning ticketholder of the lottery is taxed on his or her winnings. The recipient of the Nobel Prize is subject to taxation on the cash prize he or she receives. Likewise, the value of the ring received by each of the members of the Seattle Seahawks this year for winning the Super Bowl is subject to taxation. Also, the value of the rings received by each member of the Miami Heat for winning the NBA championship in 2012 and 2013 is subject to taxation.

The logic behind taxing prizes and awards makes perfect sense. The recipient received something of value from the contest sponsor. Consequently, the recipient should pay tax on the value of the prize or award. The exceptions to the general rule are well thought out and are supported by public policy. For example, public policy dictates excluding from taxation “qualified scholarship” proceeds, certain employee achievement awards (limited in value), and certain prizes or awards which the recipient donates to charity.

Senator John Thune, from South Dakota, would like to expand the limited exceptions to this general rule. Senator Thune is the ranking member of the United States Committee on Commerce, Science and Transportation (“Commerce Committee”). The Commerce Committee oversees the U.S. Olympic Committee. Senator Thune is also a member of the United States Senate Finance Committee (the committee which writes tax laws).

On February 12, 2014, Senator Thune introduced legislation (SB 2026) that would expand the prize and award exceptions to medals and the cash prizes awarded to participants in the “Olympic Games” or the “Paralympic Games.” The bill appears to have strong bipartisan

support, including support of Senator Charles Schumer and Senator Kirsten Gillibrand.

Senator Thune's attempt to exempt Olympic athletes from taxation relative to medals and cash prizes is not the first legislative proposal we have seen of this nature. Representative Blake Farenthold introduced similar legislation this month in Congress (i.e., the Tax Exemptions for American Medalists Act—HB 3987). Senator Thune's proposed bill, however, is a little broader in application than Representative Farenthold's proposed bill in that it specifically extends to medals or cash prizes received by both Olympians and Paralympians.

President Barack Obama is very familiar with the tax treatment of prizes and awards. In 2009, when he was the recipient of the Nobel Prize, he avoided paying tax on the prize money because he assigned the money to a charity prior to the award presentation.

President Obama likely supports Senator Thune's proposed legislation. In 2012, Senator Marco Rubio and Congressman Aaron Schock introduced similar legislation. At that time, the President expressed strong support. Despite that support, however, the 2012 legislation failed to become law.

Most commentators believe Senator Thune's proposal will become law. He has been a strong advocate of the bill as exemplified by his recent statement in support: "Winning an Olympic medal should be a source of great pride for our athletes and the federal government should celebrate their achievement rather than tax their success."

Is Senator Thune's legislative proposal opening up a can of worms? Should Olympic athletes be treated differently than the members of a championship NBA team, members of a Super Bowl team, members of a World Series championship team, medal winners of the FIS World Skiing Championship, medal winners of the World Figure Skating Championship, or recipients of the Nobel Prize? Prior to the Tax Reform Act of 1986, many prizes and awards were exempt from taxation as long as no significant services were involved. Should the Code revert back to pre-1986 law on this subject? Shouldn't the Code treat all prize and award recipients the same? In the case of athletes, should cash prizes be excluded from taxation? Olympic medalists receive a cash prize, along with a medal. The cash prize is currently \$25,000 for each gold medal, \$15,000 for each silver medal, and \$10,000 for each bronze medal.

Despite these questions, I suspect the proposed legislation will become law. Senator Thune's timing is superb. We are in the midst of the winter Olympics and our Olympians are ever present on our minds. Stay tuned!