

Daily Tax Report: State

NBA Finals is a Tale of Two Tax Opposites

By Sam McQuillan

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- Lakers will owe nearly half their playoff bonus to IRS
 - Heat will continue to avoid state taxes on earnings
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This year's NBA finals features a storied champion against an unlikely Cinderella, but the off-court tax contrasts between the West's top-seeded Los Angeles Lakers and the East's fifth-seeded Miami Heat are just as glaring.

Should they win their 17th championship as the heavy favorites, the Lakers would pay the country's highest state tax rate on the reported \$5.56 million champion's purse .

The Miami Heat, the biggest long shot to make the finals since 2002, would pay federal income tax on their earnings like the Lakers, but would be spared the state equivalent. That's because Florida has no state income tax and all its games will be in the state under the NBA's pandemic setup at Disney World.

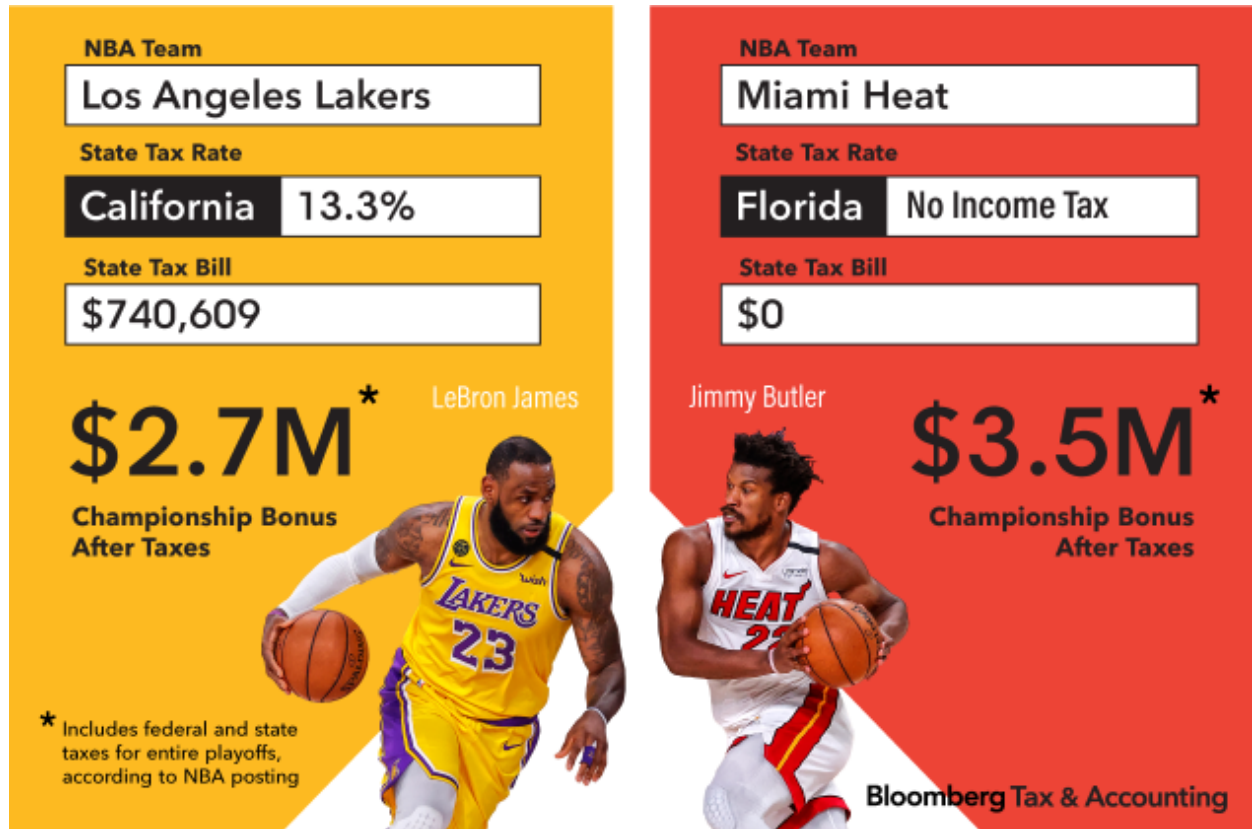
"It is a strange year to do this as the teams will not be playing a regular schedule in different cities," said Jeffrey Steinberg, a partner at Crowe Soberman LLP, an audit and advisory firm in Toronto.

Teams that make the playoffs are compensated with bonuses for each round they advance, and prize money should they win the championship.

This year the NBA champion wins \$5.56 million for the entire playoffs—excluding certain bonuses—while the runner-up gets \$4.17 million, according to a posting on the NBA website. Teams get to decide how to split that up, but if its divvied evenly between, for example a 15-player roster, each player would net at least \$371,233 before taxes.

Team take home pay after taxes:

- Lakers: \$2,767,544
- Heat: \$3,508,153



The Lakers, should they win, would pay a combined \$740,609 in state taxes to California, on top of a minimum of the \$2,060,343 either team will also owe the federal government. California has the highest state income tax rate in the U.S.—imposing a 13.3% levy on its highest earners.

The Miami Heat have actually been avoiding state taxes on their playoff bonuses and regular season pay for the past three months, thanks to the Covid-19 pandemic.

Traditionally even athletes based in non-income tax states like Florida owed taxes to other states for games played in those states. These “jock taxes”, which apply full rates to visiting team’s athletes based on the number of “duty days” they spend there, can net states up to several hundred thousand dollars annually for just one player, according to Ryan Losi, executive vice president at Piascik, a Virginia-based accounting firm.

With coronavirus prompting the NBA to play out the remainder of its season locked down at Disney World near Orlando since late July, the Heat aren’t even allowed to spend time in other states, much less get taxed for it.

But while the Lakers have been playing all their games in tax-free Florida, just the same, they still owe California.

“The big thing with the bubble is that now all these taxes—instead of getting split up among the states where the players play—all get sourced to one location,” said Tim Noonan, a tax attorney at Hodgson Russ in New York City.

To avoid double taxation, states usually allow their own players to write-off the jock taxes they’re paying in other states. But since Florida doesn’t have an income tax, California gets to tax its players at the state’s full 13.3% rate, said Noonan.

That means California will still make about \$740,609 off the NBA finals should the Lakers win without hosting any games. Should the Heat win, only the federal government will get a cut of players’ checks.

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