Unfair Play: Tax Application in Professional Sports

Brenna Nolan

Winter 2016

Thesis submitted in partial completion of Senior Honors Capstone requirements for the DePaul University Honors Program

Diane Kuhlmann, Accounting Department

Lamont Black, Finance Department

Abstract

Taxes are a complicated issue for any individual, but professional athletes are subject to specific taxes that play a significant role in sports organizations. The study performed strives to establish ways players of the National Football League could use tax situations to their advantage, most specifically by choosing to play for teams in states that produce low income tax liabilities. The biggest aspect to consider during calculations is jock taxes which require athletes to pay each state to play within its borders. Once the tax advantages are determined, suggestions are made to modify the current tools utilized to create parity between teams.

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Introduction

On November 2012, the state of California voted to increase its highest marginal tax rate to 13.3 percent, a significant change from the previous rate near 10 percent (Banescu, 2013). High earners in the Golden State saw their effective rates jump by almost twenty percent. One of the residents who spoke about the hike was Phil Mickelson, a professional golfer who started his weekend at the 2013 Farmers Insurance Open in San Diego with an unusual statement: "Well, it's been an interesting offseason, and I'm going to have to make some drastic changes" (Bohannan, 2013). Mickelson was not speaking of drastic changes in his golf swing or putting style. Instead, he expressed concern over the recent tax rate changes. He continued, "There are going to be some drastic changes for me because I happen to be in that zone that has been targeted both federally and by the state, and it doesn't work for me right now."[2]. The golfer suggested that his effective tax rate was now over sixty percent which had led him to consider moving to Florida where state income taxes are nonexistent. Taxes have always been a political focal point as ideas of reform are consistently proposed. However, athletes seldom speak out on such issues given their prominent position in society. The fact that Mickelson willingly voiced his displeasure signifies the prevalence of tax concerns, especially in the professional sports environment.

While many do not associate professional sports organizations with complicated tax issues, the correlation certainly exists. In fact, the intricacies of tax regulations that can often be overlooked include several specificities targeting high earning, travelling individuals such as athletes, musicians, and other performers. By examining unique taxes that apply only to these visible, high profile individuals, one can determine how such they can minimize their tax liabilities. This study strives to explore the tax rules in order to determine the implications on professional athletes specifically. The primary focus will be so-called 'jock taxes' which permit

athletes to be taxed by any state they visit while participating in games outside their teams' locations. Depending on a team's schedule, a player could be paying taxes to more than twelve different states.

The four major professional sports leagues in the United States are the National Football League (NFL), Major League Baseball (MLB), the National Basketball Association (NBA), and the National Hockey League (NHL). Each organization has its own characteristics that alter the tax situation for its members. The study performed seeks to determine the most advantageous team to be a member of within the NFL in order to optimize one's salary through reduced tax liabilities. The NFL offers the most consistent atmosphere for comparability out of the four leagues because of its domestic nature. The NHL has seven Canadian franchises which complicate the tax liabilities its athletes face due to foreign tax credits. Similarly, the majority of NHL's players are international athletes instead of United States citizens, further complicating their tax situation. The NBA and MLB are not ideal leagues to study due to the lack of a hard salary cap, a ceiling set to prevent teams from spending an unlimited amount on players' salaries. Without a salary cap, teams can offer contracts with higher value in order to compensate for a state's tax rate. In the NFL, a team may not spend over a set amount on salaries due to the cap. This establishes a disadvantage for teams in high tax regions, such as the Californian franchises, and creates an opportunity to determine ideal tax locations. In order to reach accurate conclusions, the study takes into consideration jock taxes, reciprocal agreements, and tax credits before determining the athletes' total tax liabilities. By its end, the study will identify the teams in the NFL benefiting the most by regional tax rates, and make recommendations for addressing the discrepancies between teams.

Jock Taxes

In order to proceed in analyzing the ideal locations for NFL athletes to play, one must first explore how athletes became a target for state tax departments and how such taxes are applied today. Then, the appropriate methodology can be used to conclude which teams hold a competitive advantage in attracting players due to location and tax rates.

History

After winning the National Basketball Association (NBA) Championship in 1991, Michael Jordan and his Chicago Bulls teammates received notice from the state of California that they owed the state taxes from their time spent playing the Los Angeles Lakers in the championship final. Bitter over the loss, California legislators decided to levy state income taxes on the visiting athletes' salaries. Illinois was upset its athletes were being unfairly targeted due to their success, so it began its own retaliatory tax on athletes visiting its state. Referred to as 'Michael Jordan's Revenge', the tax sparked the trend of opposing team players being regularly taxed by states they visit. While Illinois only taxed those athletes coming from states who taxed the Chicago Bulls, a true retaliation tax, other states did not discriminate and opted to seek taxes from any visiting player. Philadelphia, for example, realized it could raise revenue for its struggling city and sent out over 20,000 tax notices in 1992 regarding income earned as far back as 1986 (Nehring, 2014). From the early 1990s onward, professional athletes would consistently face tax liabilities in a variety of states.

Contrary to popular belief however, Michael Jordan's success did not lead to the creation of the special athlete tax. He simply caused California to enforce a tax law that has been in its code well before Jordan's championships. On March 1, 1920, the U.S. Supreme Court ruled on the presented case of *Shaffer v. Carter*, in which New York resident Shaffer argued his income earned in Oklahoma could not be taxed by Oklahoma. The Court disagreed, deeming it clear

"that just as a state may impose general income taxes upon its own citizens and residents whose persons are subject to its control, it may…levy a duty of like character…upon incomes accruing to nonresidents" (Shaffer v. Carter, 1920). From this point forward, one's income could be taxed by the state in which it was earned, regardless of residence. This is an irrelevant tax regulation to most individuals as they earn all their income in a single state. For this reason, the tax applied to nonresidents is more commonly known as the 'jock tax' given its particular application to professional athletes who make careers out of traveling across the country to participate in sporting events. The 'jock tax' consequently takes effect each time the athlete visits a state outside of his residence to earn income.

The most controversial issue regarding the jock tax is calculating the amount of income subject to it. How much annual salary is earned in each state? An apportionment method has been utilized since the tax's inception to determine the percent of income taxable by the visited state. Below is the equation most commonly used to reach the taxable income amount, though the process of determining the equation's inputs has continually evolved overtime:

$$\text{Income earned in State X} = \frac{\text{Working Days in State X}}{\text{Total Working Days}} \times \text{Annual Income}$$

The two available methods to determine the fraction aspect of the equation are the 'games played' technique and the 'duty days' technique.

The 'games played' method is the most straightforward with the numerator representing the number of games the athlete plays while visiting the state divided by the total number of games in the season. For a professional football player, one sixteenth of his annual income would be taxable per away game. Meanwhile, a professional baseball player must allocate his salary over 162 total games. On the other hand, the 'duty day' method requires a more complicated

analysis. Athletes are taxed based on the number of duty days they complete within the state divided by the number of duty days in a season. Where games played can easily be determined, defining a "duty day" has sparked much debate because of the term's vague nature. On a whole, any day in which an athlete "earns his salary" is incorporated into the equation. There have been several court cases which have led to the current determination of when an athlete is or is not earning his salary and whether the given day should or should not be included when apportioning income according to the 'duty day' method.

In a California Supreme Court Case (*Partee v. San Diego Chargers Football Co., 1983)*, a San Diego Charger player who lived in Texas tried to use the games played method while the state argued the 'duty day' approach was most appropriate. The argument for proper apportionment exists because of the difference in results. Using the games played method, only 57% of Partee's income would be subject to California's income tax whereas the 'duty day' approach jumps it to 76% of Partee's income (Porgroszewski, 2009). The main cause of the discrepancy is the inclusion of practice days in the 'duty day' approach. Partee did not believe he was paid for practicing, but rather, compensated only for actual games, hence the 'games played' method. The Supreme Court of California ultimately sided with the state, citing the language in Partee's contract as its justification. The court concluded that since practice attendance was mandated in the contract, compensation applied to these days. As a result, the court stated, "professional football players are paid for practices and necessary travel, as well as playing the games" (*Partee v. San Diego*, 1983). The consequence of the decision was the 'duty day' method being deemed more applicable to professional athletes apportioning their salaries for tax reasons. The court also set a precedent for using athletes' contractual obligations as a measure of what should be included in apportionment.

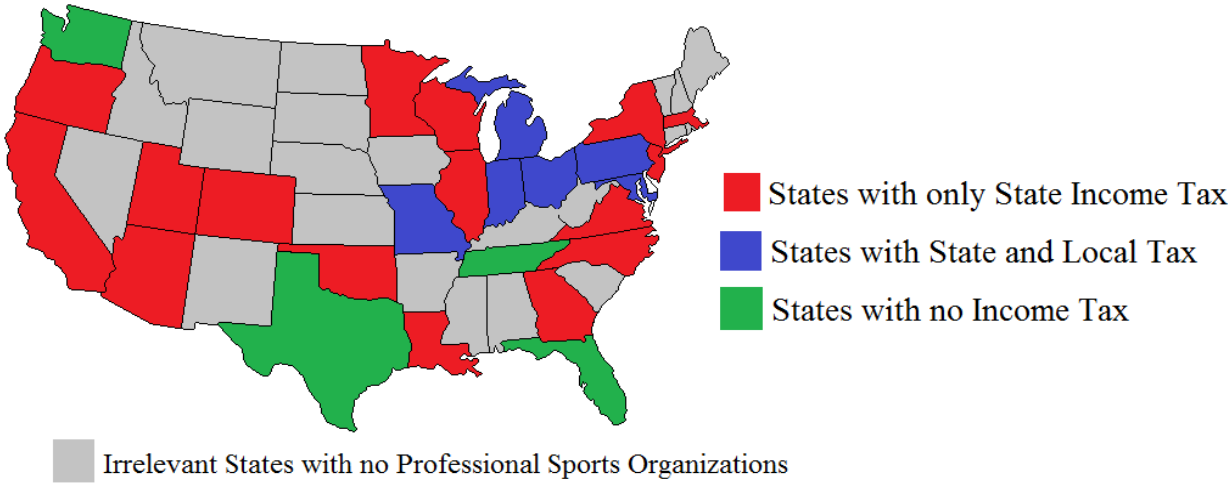
Following *In re Partee*, the next question presented to the courts centered on what was to be considered part of a season. This determination is important because the denominator of the apportionment equation is total duty days in a season. Depending on the court's opinion on a season's start date, the total duty days could differ by up to sixty days. In a later California Court of Appeals case (*Wilson v. Franchise Tax Board*, 1993), it was established that the length of a season was limited. Wilson, a professional football player, claimed his total working days extended through the entire year because he used the offseason to physically and mentally prepare for the next season. The California Court of Appeals disagreed and did not permit offseason training to be apportioned, because it was merely in the athlete's best interest to train compared to being a requirement by contract (Wilson v. Franchise Tax Board, 1993). Instead, a season begins the first day an athlete participates in a mandated team function, most typically the beginning of training camps. The conclusion of the season will vary by athlete depending on a team's success. Those who make it to the postseason will have more total duty days than an organization that misses the playoffs.

Through the collection of court cases, states have approached a more uniform formula for apportioning income subject to the 'jock tax'. Returning to the original equation above, the annual income is the amount agreed upon between an organization and the athlete as a salary. This aspect does not differ from a non-sport professional. The factor that adjusts the annual income will include a numerator composed of the number of days an athlete spends performing mandated work activities in an opposing state. This will incorporate game days, practices, walkthroughs, or even coaches' meetings that a player must attend due to contractual obligations. The corresponding denominator will be the number of days an athlete is required to participate in team events in all states. On most occasions, this will be the first day of training camp through

the team's final game day. The resulting ratio is applied to the annual income to determine how much salary is taxed by the visited state. This process must be completed for every state an athlete travels to throughout the season. With twenty four states hosting a professional sports organization, the number of tax returns a player must file grows quickly. In fact, "NFL players typically file in 10 to 12 jurisdictions. NBA is somewhere between 16 and 20. MLB is somewhere between 20 and 26, and the NHL is between 14 and 16" (MacDonald, 2012).

Application

Having established the origins and developments of the jock tax, the next step is examining its application across the various states. One can categorize each team into three distinct groups based on the tax regulations in its state. The first are those teams in states without an income tax. This group includes the organizations residing in Florida, Texas, Tennessee, and Washington. When athletes visit teams within these states, the jock tax is irrelevant, and thereby, an athlete's total tax liability is unaffected. The next group contains those teams located in an area subject to both a state income tax as well as a local income tax. The most notable examples are those teams in any Ohio city such as Cleveland or Cincinnati which charge an approximate two percent local tax on top of Ohio's 5.4% state rate. Other cities that follow this pattern include Kansas City and St. Louis in Missouri; Philadelphia and Pittsburgh in Pennsylvania; Detroit, Michigan; Baltimore, Maryland; and Indianapolis, Indiana. Visiting these cities can prove costly for athletes as any taxable income apportioned to the state is similarly apportioned to the city. Organizations that are not a part of the previous two groups make up the third category; those located in an area with a state income tax but no local tax. This is the largest group with at least half of any sports leagues' teams meeting its description.



In a single season, an athlete will visit opposing teams from all three categories, complicating the nature of his tax liability. However, it offers an opportunity to reduce the extent of one's jock taxes through choice of team, the subject of the study being performed. To find the ideal team to play for in the NFL, based on the goal of minimizing the athlete's tax liability, there are two areas that needed to be taken into consideration before properly calculating the liabilities: reciprocal agreements and tax credits. Having noticed the extensive tax process their athletes were enduring, multiple states have entered into reciprocal agreements where the two relevant legislatures have an agreement to not tax each other's athletes when they visit the opposing state (Bing, Ekmekjian, and Wilkerson, 2015). Most often, the states utilizing reciprocal agreements are close in region. In fact, the majority of agreements are between states sharing borders or states with similar rates. The table below shows the agreements existing with states hosting a professional sports team. The states in column 1 will not tax nonresidents living in column 2 states for income earned within its borders (Morena, 2015).

1	2
AZ	CA, DC, IN, OR, VA
CA	None
CO	None
DC	MD, VA
GA	None
IL	MI, WI
IN	MI, OH, PA, WI
LA	None
MD	DC, PA, VA
MA	None
MI	IL, IN, MN, OH, WI
MN	MI
MO	None
NJ	PA
NY	None
NC	None
OH	IN, MI, PA
OK	None
OR	None
PA	IN, MD, NJ, OH, VA
UT	None
VA	DC, MD, PA
WI	IL, IN, MI

Michigan and Pennsylvania lead the way with five reciprocal agreements each. Other notable states include Ohio and Wisconsin with three and Illinois with two. It is important to note that such reciprocity only removes the state income taxes. It does not address potential local taxes. For instance, though Pennsylvania and Ohio have a reciprocity agreement, athletes can still be taxed by the local cities, whether it be Pittsburgh or Cleveland, for time spent in the city for an event. Local taxes still apply because of the inconsistencies in cities who have such taxes. While almost every state has an income tax, only about ten relevant cities charge a local tax. As a result, those cities are reluctant to offer reciprocity knowing their own athletes will not benefit in most scenarios.

For states that do not engage in reciprocity agreements, offering credits for taxes paid to other states is an alternative tool. In fact, it is common practice for states to grant their residents credit for income taxes paid to nonresident states. Of course, there are limitations to tax credits provided. The credit is limited to the lessor of taxes paid to the nonresident state or amount that would have been paid to the resident state for the same amount of income (Pogroszewski, 2009). In other words, the credit will be the apportioned income multiplied by the lower tax rate of the two states. The resident state will tax the entirety of an athlete's salary, while the nonresident state taxes only the apportioned amount. Without the tax credits, the athletes are subject to double taxation. With them, the athletes' tax liabilities are greatly reduced. Unlike the reciprocity agreements though, local taxes are considered when providing tax credits, a recent change following the U.S. Supreme Court Case *Wynne v. Comptroller of Treasury of Maryland* in 2015.

In this Maryland case, Wynne earned income in thirty-nine states through his ownership in a national healthcare service S corporation. As a resident of Maryland, Wynne paid state taxes and a local tax to Baltimore. The state permitted taxes paid to the thirty-nine other jurisdictions to be credited toward its state tax. However, it did not allow these credits to reduce the local Baltimore tax. Wynne challenged the practice based on the concept of double taxation, and the United States Supreme Court concluded, "That Maryland's tax scheme was unconstitutional insofar as it denied the Wynne's a credit against the 'county' tax for income taxes they paid to other States" (Wynne v. Comptroller of Maryland, 2015). Double taxation continues to be an illegal practice, and the court considers the absence of credits at the local level an advocate of such behavior. As a ruling from the Supreme Court, all state must now recognize "income taxes imposed by the other states, and income taxes imposed by local units of governments of the other states" (Wynne v. Comptroller of Maryland, 2015). In terms of jock taxes, this ruling makes a

significant impact as it reduces the total tax liabilities of the athletes, especially those players who frequently visit states with local taxes such as Pennsylvania and Ohio. In calculating the tax liabilities, this court ruling must be considered as it will alter the study's results in favor of the athletes.

Taking the 2015 Detroit Lions as an example, the team's players accumulate $80,790 in jock taxes per $10 million earned in salary. However, this is before one considers the application of reciprocity and tax credits. First, the taxes paid to Illinois, Wisconsin, and Minnesota are removed due to existing reciprocity. Then, one must reduce the liability to account for credits provided by the visited states like Louisiana and Missouri. After adjusting for these tax reductions, the Broncos only end up paying $7,353 in jock taxes. This is over a 90% tax savings because reciprocity and credits exist, further emphasizing their importance in athletes' liabilities.

Methodology

With the goal of determining the most advantageous team in the NFL, the study used a fictional player signing a contract with an approximate value of $10 million annually. Such an amount assures the player would fall into the highest tax bracket in each state. Due to the complexity of the tax code, certain simplifications were made in order to address the core issue at the center of the research. First, only income taxes were used throughout the process, and federal taxes were assumed to be equal regardless of location. Using the highest bracket rate of 39.6% and taking into account FICA taxes for Medicare and Social Security, the player in question started with a federal tax liability just below $4 million (Wallace, 2015). This amount would apply to each team in order to measure only the effect of state, local, and jock taxes throughout the study. Any difference in total liabilities can be attributed to the differences on the state level. Tax rates from 2015 were used for calculations of all liabilities. Similarly, all

reciprocal agreements and tax credits described previously were taken into consideration in order to reach the most accurate conclusions.

The first step of calculations was determining how much income was apportioned to a state when it was visited by the athlete. Based on the outcomes of recent court cases, the 'duty day' method was used as it has been confirmed as the most appropriate technique. In a league like the NFL, games are played weekly, and therefore, more days are attributed to a nonresident state as teams tend to travel a few days before the game. This differs from the traveling tendencies in a league like the MLB with a much larger amount of games.

Once an income amount per game was calculated, the study found the jock tax liabilities the player would have if he played for each franchise in the NFL. The 2015 schedule was used to establish what states and cities the athlete would be visiting as a way to match the tax rates. After computing the jock taxes expected for each team, the necessary tax credits were applied to reach a net jock tax. To assess the credits, it was assumed the athlete would live in the city in which the team resided year round. The study produced effective tax rates for the athlete once jock taxes, reciprocity, and credits were taken into consideration, and it allowed for an analysis of which team minimized the total tax liability.

NFL Specifications

To fully understand the differences each team faces in regards to taxes, however, it is important to first analyze how the NFL is organized. Different measures put in place by the league such as conferences and divisions complicate the tax situation by dictating a certain portion of states visited. The National Football League (NFL) was established in 1920, and it has grown to include thirty two franchises located across the country. "The league's thirty two teams are split into two conferences—the American Football Conference (AFC) and the National Football Conference (NFC). The sixteen teams in each conference are split into the East, North,

South, and West divisions; each division has four teams" (*National Football League*, 2015). The groupings are shown below and are mostly dictated by geography though some outliers exist. For instance, the Miami Dolphins in the AFC East and the St. Louis Rams in the NFC West.

AFC North	AFC South	AFC East	AFC West
Baltimore Ravens	Houston Texans	Buffalo Bills	Denver Broncos
Cincinnati Bengals	Indianapolis Colts	Miami Dolphins	Kansas City Chiefs
Cleveland Browns	Jacksonville Jaguars	New England Patriots	Oakland Raiders
Pittsburgh Steelers	Tennessee Titans	New York Jets	San Diego Chargers

NFC North	NFC South	NFC East	NFC West
Chicago Bears	Atlanta Falcons	Dallas Cowboys	Arizona Cardinals
Detroit Lions	Carolina Panthers	New York Giants	San Francisco 49ers
Green Bay Packers	New Orleans Saints	Philadelphia Eagles	Seattle Seahawks
Minnesota Vikings	Tampa Bay Buccaneers	Washington Redskins	St. Louis Rams

Each team plays sixteen games over the course of seventeen weeks, eight home and eight away. To create the 256 game schedule, four NFL executives and 136 computers work to find a balance between the required games. According to the formula used, each of the sixteen teams will play a home and away game against its three division opponents, four teams from another division within its conference on a rotating three-year cycle, four teams from a division in the other conference on a rotating four-year cycle, and two intra-conference games based on the prior year's standings (Trapasso, 2013). With these scheduling requirements, a team is guaranteed at least three road games in the same locations each year. When considering jock taxes, a player can avoid certain states by choosing to play in a division that only visits the area every four years. For instance, if a player wants to minimize his exposure to the higher Minnesota state tax, he would prefer playing for an AFC team.

After the schedules are set, the teams start their season preparations and tax considerations become more prevalent. The NFL season begins with training camps at the end of July and continues until early February. However, more than half of the teams will miss the

playoffs and be finished by early January. Given the wide range of possible schedules with differing start and end dates, determining the total number of duty days in a season is challenging. Some states claim the total is near 180 while others argue for a much higher total near 215. Within this study, it was assumed that the 2015 season included 200 duty days for the proposed player. Such an amount suggests a moderately successful season without a deep playoff run. Given that only twelve teams will reach the postseason, it was more accurate to use a conservative approach. As far as duty days spent in the visited state, four days were delegated to each away game. For a Sunday game, teams will travel on Thursday or Friday and will leave to return on Sunday night or early Monday morning. Each athlete should average at least four days in the opposing state throughout the season. Using the apportionment formula, the total amount of income taxable by the visited state is $200,000:

$$\frac{4}{200} \text{ x } \$10{,}000{,}000 = \$200{,}000$$

In order to start reaching an effective rate, total jock taxes were determined. The St. Louis Rams results are shown throughout as a representation of the calculations performed. Each visited state will take a portion of the $200,000 taxable income for the time spent in its state. After these figures are summed to reach the total jock taxes owed, reciprocity and tax credits were included to adjust total jock taxes to the net jock tax amount. Below is how the total jock taxes and total tax credits were found.

To Calculate Total Jock Tax:				To Calculate Net Jock Tax:		
ex. St. Louis Rams				ex. St. Louis Rams		
Away Opponent 1:	Arizona			Normal St. Louis Tax:		
	=$200,000 x 3.83%	$ 7,660			=$200,000 x 5.47%	$ 10,940
Away Opponent 2:	San Francisco				=$200,000 x 1.00%	$ 2,000
	=$200,000 x 7.81%	$ 15,626				$ 12,940
Away Opponent 3:	Seattle			-Missouri has no Reciprocity Agreements		
	=No State Taxes	$ -		-Tax credits:		
Away Opponent 4:	Green Bay			Lessor of:	Arizona vs. St. Louis	
	=$200,000 x 6.09%	$ 12,180			$ 7,660 $ 12,940	
Away Opponent 5:	Minneapolis				San Fran vs. St. Louis	
	=$200,000 x 7.19%	$ 14,380			$ 15,626 $ 12,940	
Away Opponent 6:	Washington				Green Bay vs. St. Louis	
	=$200,000 x 5.50%	$ 11,000			$ 12,180 $ 12,940	
Away Opponent 7:	Baltimore				Minneapolis vs. St. Louis	
State:	=$200,000 x 4.84%	$ 9,680			$ 14,380 $ 12,940	
Local:	=$200,000 x 3.11%	$ 6,220			Washington vs. St. Louis	
		$ 15,900			$ 11,000 $ 12,940	
Away Opponent 8:	Cincinnati				Baltimore vs. St. Louis	
State:	=$200,000 x 4.02%	$ 8,040			$ 15,900 $ 12,940	
Local:	=$200,000 x 2.19%	$ 4,380			Cincinnati vs. St. Louis	
		$ 12,420			$ 12,420 $ 12,940	
	Total Jock Taxes:	**$ 89,166**			Total Tax Credits	$ 82,080

The final step is to reduce total jock taxes by total tax credits in order to determine the net jock tax amount. This figure is added to the differing state and local tax liability of each state to determine the total tax liability the athlete will owe after the 2015 season. For easier comparison, this result was converted into an effective tax rate by dividing the total liability by the annual salary of $10 million. Once this process was completed for the thirty-two teams in the NFL, the results were compared.

Results

For a broader consideration, divisional rates were calculated by averaging the four individual team rates. The results showed certain divisions are far more affected by jock taxes than others, with the rates calculated shown below.

AFC North	7.06%	AFC South	1.68%	AFC East	5.87%	AFC West	9.53%
BAL	8.93%	HOU	0.58%	BUF	8.62%	DEN	4.90%
CIN	7.69%	IND	5.13%	MIA	0.74%	KC	7.09%
CLE	7.50%	JAX	0.53%	NE	5.23%	OAK	13.06%
PIT	4.12%	TEN	0.49%	NYJ	8.88%	SD	13.06%

NFC North	6.89%	NFC South	4.12%	NFC East	5.59%	NFC West	6.48%
CHI	3.32%	ATL	6.03%	DAL	0.66%	AZ	4.86%
DET	6.72%	CAR	5.80%	NYG	8.91%	SF	13.06%
GB	7.71%	NO	3.87%	PHI	6.99%	SEA	0.91%
MIN	9.82%	TB	0.77%	WAS	5.78%	STL	7.06%

Without question, the NFL division with the greatest tax benefits is the AFC South, consisting of the Indianapolis Colts, Houston Texans, Jacksonville Jaguars, and Tennessee Titans. The average effective state and local tax rate of the four teams, including jock taxes, is a mere 1.68%. The low rate is attributable to the fact that three of the four teams in the division are located in states with no income tax. As a result, the players on these teams are only liable for jock taxes. Further aiding this division is the fact that each team is guaranteed to play at least two of its away games in a tax free state, three for Indianapolis since it is assured to play in Houston, Tennessee, and Jacksonville. In 2015, each team also has an additional conference game at a Florida-based location due to the rotational schedule, meaning half of Indianapolis' away games are void of jock taxes and three out of eight away games for Houston, Tennessee, and Jacksonville are as well. The lack of income subject to taxes leads to the lowest effective tax rate of all the divisions.

On the opposite end of the spectrum is the AFC West composed of the Denver Broncos, San Diego Chargers, Oakland Raiders, and Kansas City Chiefs. The average effective state and local tax rate for the division is 9.53%. That is nearly eight percent higher than the AFC South, further exemplifying how team choice drastically changes a player's tax liability. The presence of two California-based teams directly led to the AFC West's high rate. With a 13.3% marginal state rate, California is easily the most expensive state in which to reside in regards to taxes. However, in consideration of jock taxes, players on Californian teams will only be liable when playing the Baltimore Ravens. Baltimore, with its state and local tax, is the only location with a higher effective tax rate than California in respect to the apportioned income amount. If the Oakland Raiders or San Diego Chargers do not play in Baltimore, their jock taxes will be zero following the application of reciprocity and credits; they will be left paying the original 13.06%

effective tax rate. Furthermore, Kansas City is one of the cities that levies a local tax of one percent on top of Missouri's six percent state rate, also contributing to the high division total. The Denver Broncos, the fourth team in the division, reside in a state with a relatively low income tax of 4.60%, but the effective rate jumps to 5% with jock taxes included. On a whole, the California influence causes the AFC West to have the highest division tax rate among all eight NFL divisions.

After the AFC South and AFC West, the remaining six divisions all face comparable effective tax rates ranging from 4.12% to 7.06%. These divisions do not see extremely high or low rates due to their combination of teams. For instance, in the AFC East, the New York Jets, who actually play in East, Rutherford, New Jersey, and Buffalo Bills are in two states with high income tax rates of 8.97% and 8.82% respectively. Players on these teams have tax liabilities that rival those of the AFC West. However, the other two teams in the division are the Miami Dolphins and New England Patriots. The Dolphins are in a tax free state while the Patriots face a relatively low rate in Foxboro, Massachusetts. The result is an average effective rate of only 5.50% despite two teams paying a much higher rate. Having noticed this effect, teams were subsequently examined independent of their divisions.

As previously mentioned, any team residing in the state of California is at a significant disadvantage when it comes to taxes. Electing to be a part of the Oakland Raiders, San Diego Chargers, or San Francisco 49ers will maximize a player's tax liability. After performing the necessary calculations, it was determined that the San Diego Chargers face the highest tax liability in 2015. Typically, the three Californian franchises will have equal tax liabilities given their low sensitivity to jock taxes. However, in 2015, the Chargers will play in Baltimore, Maryland which causes an additional $253 in jock taxes. Though a minor amount, it still

distinguishes the San Diego franchise from its Californian counterparts who are tied for the second highest tax liabilities in the NFL. The three teams typically rotate for highest liability, with the Oakland Raiders taking the top spot in 2016 due to their expected visit to Baltimore. Other franchises that landed at the top of the list for high 2015 taxes are the Minnesota Vikings, Baltimore Ravens, and the two New Jersey-based teams, the New York Giants and New York Jets.

At the bottom of the tax rankings are the seven teams located in states with no income taxes. The effective tax rates of these teams is the percentage of income paid as jock taxes, meaning all differentiations are attributable to schedules. The teams that visit states with higher rates will consequently have higher rates themselves. Returning to the AFC South discussion, it is no surprise that the three most beneficial teams are the Houston Texans, Jacksonville Jaguars, and Tennessee Titans, with rates separated by only 0.05%. As mentioned, close to half of their away games are in other tax-free states, leading to very little tax liabilities. Ultimately, in 2015, the Titans are the franchise with the most advantageous tax situation. Players on the Nashville-based team have an effective tax rate of only 0.49%, meaning only $49,000 of the player's $10 million salary is lost to non-federal taxes. As a comparison, the same player would pay over $1.3 million of his salary to non-federal taxes if he played for the San Diego Chargers.

The other tax-free states outside of the AFC South teams have effective rates ranging from 0.66% to 0.91%. The lowest rate of a team from a state with an income tax is 3.32% for the Chicago Bear athletes. Choosing one of the seven tax-free franchises translates into a minimum of three percent tax savings. In relation to a $10 million contract, three percent creates a significant difference. The complete results are shown in Appendix 1.

Implications

Apart from an athlete facing tax obstacles, the teams confront an unfair playing field when recruiting players. Free agency is a large aspect of every professional sports league as it is the one period of time when an athlete has the power to choose the organization for which he plays. Many factors can influence the decision such as team competitiveness, option limitations, family matters, or money. The financial aspect of choosing a team typically plays the largest role with most situations evolving into a bidding war between organizations. To prevent wealthier teams in high profile markets from attracting the best players as a result of their ability to offer higher contracts, salary caps were introduced across the four professional sports leagues. Salary caps set a maximum amount teams can spend collectively on player salaries. A hard salary cap is an absolute maximum that prohibits surpassing the set amount. A soft salary cap allows additional spending, but it charges a 'luxury tax' to the surplus. The main goal of the caps is to introduce parity among the teams by eliminating the advantages of being in a wealthy market.

Unfortunately, after one considers the different tax consequences for each team, the salary cap creates anything but equality among the leagues. The NFL uses a hard salary cap with the hope of ensuring a level financial playing field. However, the study revealed how a player's salary will have a different true value depending on location. "It's a fact that teams aren't shy about when negotiating with free agents…Teams like the Dolphins, Cowboys, and Jaguars, Seahawks—they'll flaunt the fact that they have no state tax. Then a team like the Raiders…have to overpay some players" (Davenport, 2015). Ideally, the San Diego Chargers would be able to overcome California's high tax rates by offering a player a contract with the same value as the $10 million contract from the Tennessee Titans; a calculation is shown below:

To Calculate Equal Salaries:	
*Ignoring Federal Taxes:	
Tennessee Titans' $10 million salary:	
=$10,000,000	
San Diego Chargers' $10 million salary:	
=$10,000,000 x (1-13.07%) =	$ 8,693,000
To have equal Salary in San Diego:	
= 'Annual Salary' x (1-13.07%) = $10,000,000	
=Annual Salary needs to be $11,503,509	

In the case of this study, the Chargers would need to offer the player a contract worth approximately $11.5 million in order for the after-tax value to equate that of the Titans' contract worth $10 million. Despite the need to propose this higher deal in order to attract players, the Chargers are still limited to the same salary cap as the Titans. It simply is not possible to maintain a roster with the same caliber of players if the team must offer higher salaries to its athletes while conforming to the same ceiling. At some point, the quality of players would diminish as a result of affordability.

To overcome the valuation differences, the NFL needs to implement a salary cap that fluctuates based on location. California based teams should not be put at a disadvantage financially simply because of location. It defeats the purpose of a salary cap if certain teams benefit from its limitations. Unfortunately, the league is doing quite the opposite. Rather than trying to reduce the number of teams being harmed by the high California tax rate, the NFL is relocating more teams to the state. In 2016, the St. Louis Rams will officially become the Los Angeles Rams, a move that will completely alter the tax landscape in the NFL. Los Angeles players alone will see their effective tax rate increase from 7.06% to 13.06%. Teams in the NFC West will now make at least two visits to California yearly. The domino effect of the move will quickly become evident, and it will show how the NFL has disregarded player taxes when it

comes to decision making. The Los Angeles Rams will soon face the same free agency struggles that the other Californian franchises face each year.

The study "Home Ice Tax Disadvantage? How personal income taxes impact NHL players, teams, and the salary cap" performed by the Canadian Taxpayers Federation (CTF) and Americans for Tax Reform (ATR) explored the effects taxes had on free agency in the National Hockey League (NHL), a professional sports league similar in nature to the NFL with a hard salary cap applying to all thirty teams. The main difference between leagues, as mentioned earlier, is the NHL's international presence due to seven franchises being located in Canada. This complicates the different liabilities a player faces given different federal taxes across the northern border. Still, the conclusions discussed in the report remain transferable to the NFL's situation once one removes the Canadian influence. The research discovered that during the 2013 free agency period in the NHL, 57% of players chose to join a team where their tax liabilities would be lower than their previous team. It is important to note that the NHL study ignored jock taxes; if included, this percentage could grow even higher. The biggest beneficiary was Benoit Pouliot who saved over $575,000 in taxes by leaving New York in favor of the Edmonton Oilers. As far as domestic moves, Anton Stralman saved nearly $549,000 when he signed with the Tampa Bay Lightning instead of his previous team, the New York Rangers (Bowes, 2014). Not surprisingly, even in the NHL players on the California-based teams continued to be the most disadvantaged athletes.

Another point to note from the NHL report is the lack of consistency in salary cap application. The study determined the 'true cap' each team faced after tax considerations by taking the league cap of $64.3 million for the 2013-14 season and removing the taxes a team must pay to the state. The result was a true salary cap range of $29.6 million to $39.6 million.[16]

The $10 million difference can translate into being able to afford a top player. The same methodology was applied to the NFL, and a similar result yielded a $20 million gap. Again, the tool introduced in order to create parity has done the opposite. The salary caps create another obstacle for teams to overcome in attracting top talent. The concept is sincere, but the figure should be readjusted annually to best reflect state-specific conditions. In doing this, players can remove taxes as a necessary consideration during free agency.

Conclusion

After a thorough analysis of the relevance of taxes in the professional sports environment, it becomes evident that certain regulations are specifically designed to impact high earning individuals, such as athletes. The most notable is the application of a 'jock tax' when athletes visit nonresident states to participate in league-related activities. The study calculated the impact of the jock taxes for a fictional player deciding for which team to play. Tax credits granted by the resident state as well as reciprocity agreements were considered in order to produce accurate results. It became clear that playing in a state with no income taxes created a significant benefit, and could lead to a tax savings of more than 13%. Conversely, athletes residing in California face the worst conditions due to the state applying the highest tax rate in the country.

California teams can try to overcome the salary deficit, but they can only offer so much. Many will try to promote the ability to earn more income outside of the team-provided salary through the countless endorsement and promotional deals one could find in California versus a smaller city like Tampa Bay, but the very top athletes know they will be able to sign such deals no matter their residence. If the team is not a top competitor in the league, it will continue to be difficult for athletes to find the motivation to choose a team in a highly taxed state.

Consequently, the study proves on a whole that taxes play a significant role in professional sports organizations. There is a false sense that contracts provided by each team

have equal monetary worth if the face value is the same. Using this assumption, free agency will continue to be an unfair process despite the efforts by the NFL and other leagues to implement techniques to prevent such advantages. It is the responsibility of the league offices to address this misconception and adjust their salary cap appropriately. Until such action is taken, jock taxes will continue to play a role in the decision making process of professional athletes, and teams in states with high taxes will continue to lose valuable players due to tax implications.

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Appendix 1

Team	Total Jock Tax**	Net Jock Tax**	Total SALT**	Total Tax Liability**	ETR**	True Salary Cap††
San Diego Chargers	$ 92,974	$ 253	$ 1,306,512	$ 5,227,809	13.07%	$ 124,316,878
Oakland Raiders	$ 81,237	$ -	$ 1,306,259	$ 5,227,556	13.06%	$ 124,320,496
San Francisco 49ers	$ 74,494	$ -	$ 1,306,259	$ 5,227,556	13.06%	$ 124,320,496
Minnesota Vikings	$ 91,285	$ 2,402	$ 982,181	$ 4,903,478	9.82%	$ 128,954,812
Baltimore Ravens	$ 84,995	$ -	$ 892,882	$ 4,814,179	8.93%	$ 130,231,787
NY Giants†	$ 58,257	$ 9,724	$ 891,204	$ 4,812,501	8.91%	$ 130,255,783
NY Jets†	$ 48,109	$ 6,942	$ 888,422	$ 4,809,719	8.88%	$ 130,295,565
Buffalo Bills	$ 58,631	$ 2,403	$ 861,752	$ 4,783,049	8.62%	$ 130,676,946
Green Bay Packers	$ 93,059	$ 9,251	$ 770,516	$ 4,691,813	7.71%	$ 131,981,621
Cincinnati Bengals	$ 92,658	$ 13,904	$ 769,429	$ 4,690,726	7.69%	$ 131,997,165
Cleveland Browns	$ 84,567	$ 13,597	$ 750,032	$ 4,671,329	7.50%	$ 132,274,542
Kansas City Chiefs	$ 95,691	$ 9,920	$ 708,883	$ 4,630,180	7.09%	$ 132,862,973
St. Louis Rams	$ 89,166	$ 7,086	$ 706,086	$ 4,627,463	7.06%	$ 132,902,970
Philadelphia Eagles	$ 78,120	$ -	$ 699,400	$ 4,620,697	6.99%	$ 132,998,580
Detroit Lions	$ 80,790	$ 7,353	$ 672,166	$ 4,593,463	6.72%	$ 133,388,026
Atlanta Falcons	$ 43,851	$ 2,856	$ 602,521	$ 4,523,818	6.03%	$ 134,383,950
Carolina Panthers	$ 28,680	$ 509	$ 580,065	$ 4,501,362	5.80%	$ 134,705,071
Washington Redskins*	$ 73,988	$ 3,788	$ 578,295	$ 4,499,592	5.78%	$ 134,730,382
New England Patriots	$ 52,534	$ 2,785	$ 522,552	$ 4,443,849	5.23%	$ 135,527,506
Indianapolis Colts	$ 47,235	$ 11,131	$ 513,079	$ 4,434,376	5.13%	$ 135,662,970
Denver Broncos	$ 97,645	$ 26,825	$ 489,825	$ 4,411,122	4.90%	$ 135,995,503
Arizona Cardinals	$ 85,965	$ 33,819	$ 486,430	$ 4,407,727	4.86%	$ 136,044,051
Pittsburgh Steelers	$ 92,250	$ 5,186	$ 412,186	$ 4,333,483	4.12%	$ 137,105,740
New Orleans Saints	$ 65,495	$ 26,441	$ 387,231	$ 4,308,528	3.87%	$ 137,462,597
Chicago Bears	$ 81,394	$ 32,085	$ 332,085	$ 4,253,382	3.32%	$ 138,251,185
Seattle Seahawks	$ 91,405	$ 91,405	$ 91,405	$ 4,012,702	0.91%	$ 141,692,909
Tampa Bay Buccaneers	$ 77,276	$ 77,276	$ 77,276	$ 3,998,573	0.77%	$ 141,894,953
Miami Dolphins	$ 73,622	$ 73,622	$ 73,622	$ 3,994,919	0.74%	$ 141,947,205
Dallas Cowboys	$ 66,480	$ 66,480	$ 66,480	$ 3,987,777	0.66%	$ 142,049,336
Houston Texans	$ 57,546	$ 57,546	$ 57,546	$ 3,978,843	0.58%	$ 142,177,092
Jacksonville Jaguars	$ 53,103	$ 53,103	$ 53,103	$ 3,974,400	0.53%	$ 142,240,627
Tennessee Titans	$ 49,251	$ 49,251	$ 49,251	$ 3,970,548	0.49%	$ 142,295,711

† The New York Giants and New York Jets play in East Rutherford, New Jersey. Therefore, the appropriate New Jersey tax rates were utilized.

*The Washington Redskins play in Landover, Maryland, but practice in Ashburn, Virginia. The two states agreed to give Ashburn, Virginia primary tax rights, and Maryland will not tax the players for games played. Thereby, the appropriate Virginia tax rates were utilized.

**Sample Calculations are shown in subsequent Appendix 4

††Sample Calculations are shown in subsequent Appendix 5

Appendix 2

Marginal State and Local Tax Rates

State	Rate		City	Rate
Arizona	4.54%		Ashburn, VA	0.00%
California	13.30%		Atlanta, GA	0.00%
Colorado	4.63%		Baltimore, MD	3.20%
Florida	0.00%		Buffalo, NY	0.00%
Georgia	6.00%		Charlotte, NC	0.00%
Illinois	3.75%		Chicago, IL	0.00%
Indiana	3.30%		Cincinnati, OH	2.19%
Louisiana	6.00%		Cleveland, OH	2.00%
Maryland	5.75%		Dallas, TX	0.00%
Massachusetts	5.15%		Denver, CO	0.00%
Michigan	4.25%		Detroit, MI	2.50%
Minnesota	9.85%		East Rutherford, NJ	0.00%
Missouri	6.00%		Foxboro, MA	0.00%
New Jersey	8.97%		Glendale, AZ	0.00%
New York	8.82%		Green Bay, WI	0.00%
North Carolina	5.75%		Houston, TX	0.00%
Ohio	5.39%		Indianapolis, IN	1.77%
Pennsylvania	3.07%		Jacksonville, FL	0.00%
Tennessee	0.00%		Kansas City, MO	1.00%
Texas	0.00%		Miami, FL	0.00%
Virginia	5.75%		Minneapolis, MN	0.00%
Washington	0.00%		Nashville, TN	0.00%
Wisconsin	7.65%		New Orleans, LA	0.00%
			Oakland, CA	0.00%
			Philadelphia, PA	0.00%
			Pittsburgh, PA	3.98%
			San Diego, CA	3.00%
			San Francisco, CA	0.00%
			Seattle, WA	0.00%
			St. Louis, MO	0.00%
			Tampa Bay, FL	1.00%

Appendix 3

Team	1	2	3	4	5	6	7	8
Arizona Cardinals (AZ)	STL	SF	SEA	CHI	DET	PHI	CLE	PIT
Atlanta Falcons (ATL)	CAR	NO	TB	DAL	YG	SF	JAX	TEN
Baltimore Ravens (BAL)	CIN	CLE	PIT	DEN	OAK	MIA	AZ	SF
Buffalo Bills (BUF)	MIA	NE	NYJ	JAX	TEN	KC	PHI	WAS
Carolina Panthers (CAR)	ATL	NO	TB	DAL	NYG	SEA	JAX	TEN
Chicago Bears (CHI)	DET	GB	MIN	STL	SEA	TB	KC	SD
Cincinnati Bengals (CIN)	BAL	CLE	PIT	DEN	OAK	BUF	AZ	SF
Cleveland Browns (CLE)	BAL	CIN	PIT	KC	SD	NYJ	STL	SEA
Dallas Cowboys (DAL)	NYG	PHI	WAS	NO	TB	GB	BUF	MIA
Denver Broncos (DEN)	KC	OAK	SD	CLE	PIT	IND	CHI	DET
Detroit Lions (DET)	CHI	GB	IN	STL	SEA	NO	KC	SD
Green Bay Packers (GB)	CHI	DET	MIN	AZ	SF	CAR	DEN	OAK
Houston Texans (HOU)	IND	JAX	TEN	BUF	MIA	CIN	ATL	CAR
Indianapolis Colts (IND)	HOU	JAX	TEN	BUF	MIA	PIT	ATL	CAR
Jacksonville Jaguars (JAX)	HOU	IND	TEN	NE	NYJ	BAL	NO	TB
Kansas City Chiefs (KC)	DEN	OAK	SD	BAL	CIN	HOU	GB	MIN
Miami Dolphins (MIA)	BUF	NE	NYJ	JAX	TEN	SD	PHI	WAS
Minnesota Vikings (MIN)	CHI	DET	GB	AZ	SF	ATL	DEN	OAK
New England Patriots (NE)	BUF	MIA	NYJ	HOU	IND	DEN	DAL	NYG
New Orleans Saints (NO)	ATL	CAR	TB	PHI	WAS	AZ	HOU	IND
NY Giants (NYG)	DAL	PHI	WAS	NO	TB	MIN	BUF	MIA
NY Jets (NYJ)	BUF	MIA	NE	HOU	IND	OAK	DAL	NYG
Oakland Raiders (OAK)	DEN	KC	SD	CLE	PIT	TEN	CHI	DET
Philadelphia Eagles (PHI)	DAL	NYG	WAS	ATL	CAR	DET	NE	NYJ
Pittsburgh Steelers (PIT)	BAL	CIN	CLE	KC	SD	NE	STL	SEA
San Diego Chargers (SD)	DEN	KC	OAK	BAL	CIN	JAX	GB	MIN
San Francisco 49ers (SF)	AZ	STL	SEA	CHI	DET	NYG	CLE	PIT
Seattle Seahawks (SEA)	AZ	SF	STL	GB	MIN	DAL	BAL	CIN
St. Louis Rams (STL)	AZ	SF	SEA	GB	MIN	WAS	BAL	CIN
Tampa Bay Buccaneers (TB)	ATL	CAR	NO	PHI	WAS	STL	HOU	IND
Tennessee Titans (TEN)	HOU	IND	JAX	NE	NYJ	BAL	NO	TB
Washington Redskins (WAS)	DAL	NYG	PHI	ATL	CAR	CHI	NE	NYJ

Appendix 4

To Calculate Total Jock Tax:				**To Calculate Net Jock Tax:**			
ex. St. Louis Rams				ex. St. Louis Rams			
Away Opponent 1:	Arizona			Normal St. Louis Tax:			
	=$200,000 x 3.83%	$	7,660		=$200,000 x 5.47%		$ 10,940
Away Opponent 2:	San Francisco				=$200,000 x 1.00%		$ 2,000
	=$200,000 x 7.81%	$	15,626				$ 12,940
Away Opponent 3:	Seattle			-Missouri has no Reciprocity Agreements			
	=No State Taxes	$	-	-Tax credits:			
Away Opponent 4:	Green Bay			Lessor of:	Arizona vs. St. Louis		
	=$200,000 x 6.09%	$	12,180		$ 7,660	$ 12,940	
Away Opponent 5:	Minneapolis				San Fran vs. St. Louis		
	=$200,000 x 7.19%	$	14,380		$ 15,626	$ 12,940	
Away Opponent 6:	Washington				Green Bay vs. St. Louis		
	=$200,000 x 5.50%	$	11,000		$ 12,180	$ 12,940	
Away Opponent 7:	Baltimore				Minneapolis vs. St. Louis		
State:	=$200,000 x 4.84%	$	9,680		$ 14,380	$ 12,940	
Local:	=$200,000 x 3.11%	$	6,220		Washington vs. St. Louis		
		$	15,900		$ 11,000	$ 12,940	
Away Opponent 8:	Cincinnati				Baltimore vs. St. Louis		
State:	=$200,000 x 4.02%	$	8,040		$ 15,900	$ 12,940	
Local:	=$200,000 x 2.19%	$	4,380		Cincinnati vs. St. Louis		
		$	12,420		$ 12,420	$ 12,940	
	Total Jock Taxes:	**$**	**89,166**		Total Tax Credits		$ 82,080
					Total Jock Taxes:		$ 89,166
					Less: Total Tax Credits		$ (82,080)
					Net Jock Tax		**$ 7,086**

To Calculate Total Tax Liability, excluding Federal:				To find Effective Tax Rate:	
ex. St. Louis Rams				ex. St. Louis Rams	
				= Total Tax Liability	=$706,086
1) Find State and Local Tax (SALT)				Annual Salary	$10,000,000
=$10,000,000 x 5.99%	$	599,000	State		
=$10,000,000 x 1.0%	$	100,000	Local	**Effective Rate =**	**7.06%**
	$	699,000	SALT		
2) Add Net Jock Tax					
=$699,000 (SALT) + $7,086 (Net Jock)					
	Total Tax Liability		**$706,086**		

Appendix 5

To Calculate True Salary Cap:			
ex. St. Louis Rams			
2015 NFL Salary Cap		$	143,000,000
St. Louis Effective Rate			7.06%
True Salary Cap		=143,000,000 x (1-7.06%)	
	True Cap =	**$**	**132,904,200**
	Spending Loss to Taxes = $10,095,800		

To Calculate Equal Salaries:			
*Ignoring Federal Taxes:			
Tennessee Titans' $10 million salary:			
=$10,000,000			
San Diego Chargers' $10 million salary:			
=$10,000,000 x (1-13.07%) =		$	8,693,000
To have equal Salary in San Diego:			
= 'Annual Salary' x (1-13.07%) = $10,000,000			
=Annual Salary needs to be $11,503,509			