Income tax deductions no professional athlete should overlook

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Welcome to April, a hot month for basketball, baseball, the NFL draft … and taxes. Many professional athletes feel the sting of taxes come April 15. Just as a foul ball, shooting over par or throwing an interception can cost a professional athlete and their teams dearly, so too can fumbling their taxes.

Professional athletes face unique challenges. Generally, they come into new wealth quickly, and their short playing careers last on average three to five years. They are among the richest of American taxpayers. The NBA rewards its players with the highest average earnings in global sports — an average of $4.79 million per year. The MLBPA estimates a $3 million average annual salary for its ball players. And the NFL gives its players an average basic salary of around $1 million annually.

But taxes hang over them like a dark cloud.

Whether they are rookies or veteran players, having a tax minimization strategy is critical for athletes. A trusted tax adviser who understands the unique financial needs of professional athletes can help them to manage and understand what expenses they can deduct, so they can take full and proper advantage of the tax code.

Overlooking a few key deductions — league dues, the prior year's state tax payments, and travel and housing expenses — can lead to a hefty tax bill.

Here are some tax deductions that athletes should be aware of, and take advantage of, in 2011 and beyond:

State of residency: Every athlete should review his or her facts and situation, as well as contract, to determine in which state they need to claim residency. Claiming residency in a lower taxing state, such as Florida, can save money.

Sports agent fees: The agent is often the reason an athlete gets paid. Agent fees can be high, but they are deductible.

Massages: Athletes should review their medical history. If an athlete's injuries or health require massage therapy, they may be able to deduct massages.

Athletic equipment, workout gear and massages are all among items that can be claimed as tax deductions by professional athletes.

After all, this is part of their business.

Fines: Some leagues, including the NFL, contribute their fines to charity. This makes them tax deductible. So if an NFL player gets fined for nailing a wide receiver with his helmet, he can deduct the fees associated with this fine.

Athletic equipment: Footballs, basketballs, golf clubs, tennis rackets and other gear are the tools athletes need for their careers.

Workout equipment: Weight machines, dumbbells and yoga classes are all part of athletes' muscle and strength development, which keeps them playing.

Rent: Any rent paid toward temporary housing during an athlete's playing season, in which he or she is under contract, is tax deductible.

Travel: When an athlete hops on an airplane, flies to the game, eats a few meals and then flies back home, it's all tax deductible.

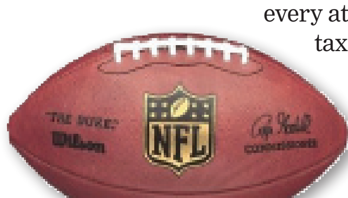
Rookie expenses: Rookies have activities and items they are expected to perform that require expenses. With the NFL, rookies are generally expected as a normal business procedure to take their practice teams out to eat (i.e., like the offensive linemen, or the running backs, or the linebackers, or the defensive linemen, etc.). This can be deductible.

To the average American taxpayer, these deductions may seem unusual. But for a professional athlete, these tax deductions are critical. Regardless of an athlete's annual salary — from millions to several thousand — deductions can lower their tax bracket and can save them plenty.

Word to the wise: Don't try this at home. Players associations, such as the NFL Players Association, encourage athletes to consult with certified public accountants who are experienced in understanding the tax needs of professional athletes. Through its registered financial adviser program, the NFLPA keeps a list of approved advisers, of which just a handful are CPAs.

Working with a qualified CPA, athletes can learn to properly track and document their expenses. In many cases, these deductions, when documented correctly, can lower tax rates from 35 percent to the alternative minimum tax rate of 28 percent. This saves athletes on average 7 percent of their taxable income, tens of thousands of dollars in some cases.

With the 2011 tax filing deadline looming next week, every athlete should have a tax strategy in place. And athletes still have some options for those 2011 returns. Even if an athlete has filed for 2011, if there are overlooked deductions, he or she still can contact a tax adviser to claim these expenses and amend the returns.



Those who have not yet filed for 2011 and want to consider additional deductions can pay the estimated minimum due for 2011 and extend their 2011 return. This will give them the additional time needed to work with their adviser to identify and claim these deductions. ■

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