WELLS FARGO Advisors

Guidance for Professional Athletes: Turning Years into Decades

As a professional athlete — or a college but soon-to-be-professional athlete with one or more Name, Image, and Likeness (NIL) deals — you've achieved a place in your chosen field aspired to by millions but reached by few. This is not by chance, but through the countless hours of hard work and sacrifice that led you to incredible life-changing financial opportunities. But those opportunities are not without risk, as the length of your career is likely to be measured in years rather than decades. And without proper financial guidance and planning, the end of your athletic career could be followed by serious financial difficulties. As advisors to athletes, we believe that you are the CEO of a business in which the core asset is you. And as CEO, you should be surrounded by a competent team of tax, legal, and financial advisors dedicated to your long-term success. While every athlete's legal, tax, and financial picture is different, here are some of the topics we commonly review with our athletes.

1. Setting and keeping financial goals

You didn't get where you are today without planning – nutrition planning, exercise schedules, and practice routines have likely been a part of your life since you can remember. As a professional athlete, we believe making time for a new plan is crucial for your long-term success. The duration of your career is likely to be short, with the average across the National Basketball Association, (NBA), National Football League (NFL), Major League Baseball (MLB), and the National Hockey League (NHL) hovering around 5 years.[1] The tenure is similar for female professional athletes in the National Women's Soccer League (NWSL) and the Women's National Basketball Association (WNBA). And the consequence of failing to plan can be severe. Prior research found that nearly 80% of NFL players were experiencing financial stress or facing bankruptcy after retirement, roughly 40% of UK professional footballers went bankrupt by five years after retirement, and MLB players file for bankruptcy at four times that of their non-athlete counterparts.[2] We work to help you avoid these outcomes by partnering with you to identify and set clear short-term and long-term financial goals. Perhaps short-term you want to purchase a home, or financially support the people who have helped get you to this level. We can help you understand how these short-term goals work (or conflict) with your long-term goals. In other words, we can break down how what you do today will impact you tomorrow and all the days after. Whether you want to start a business, move into a new career, or ride off into a tropical sunset after you retire, we analyze how your spending and investment decisions today impact your chances of success tomorrow.

1. https://bleacherreport.com/articles/1109952-nfl-mlb-nhl-mls-nba-which-leagues-and-players-make-the-most-money
2. https://moneysmartathlete.com/economic-environment/why-athletes-declare-bankruptcy-after-retirement/; https://www.wyattresearch.com/markets/five-reasons-professional-athletes-go-broke/

2. Understanding and reducing taxation

For many athletes, income tax bills are a shock to the system. With federal rates of 37% at the top income bracket and some state rates in excess of 10%, you might find yourself paying nearly half of what you make to various tax authorities. Failing to comply with the many tax requirements placed on you can result in severe penalties. But there are decisions you can make now and in the future that may help reduce these tax obligations, and your advisory team and tax professionals can help guide you through these decisions.

- **Athlete-specific deductions may not help you much now**

  Before the Tax Cuts and Jobs Act passed on December 20, 2017, many athletes reduced their tax payments through the use of deductions related to their career. The cost of agent and professional fees, training expenses, and equipment for example, could be significant and deductible. After the passage of this Act, many of these deductions are limited or no longer valid (at least until 2026 when the Act is set to sunset).[3] While some athletes and their tax advisors have devised and implemented strategies that may allow for some of these deductions through the use of legal entities like S-Corporations, the benefits of these strategies should be weighed in light of the potential for increased IRS scrutiny.

- **Where you live matters**

  With income tax rates in the 50 states ranging from 0% in states like Nevada, Florida, and Texas to 14.4% in California, where you choose to live, or "domicile," can be a million dollar decision. While there are significant tax complications inherent to the life of a professional athlete (e.g., paying pro-rata taxes in states you visit for games), your choice of domicile can make a significant difference in your overall tax situation. With some contracts in the tens and possibly hundreds of millions of dollars, seven-figure taxation savings can be realized through the right selection of a domicile. While the money you earn day-to-day playing for a team is likely to be taxed as

3. https://www.thetaxadviser.com/newsletters/2019/apr/tax-consequences-professional-athletes-2018.html

income in the state in which you play, other payments may not. For example, signing bonuses for athletes are generally taxed by the state of the athlete's residence at the time the bonus is received. So even if you are to play for a team located in a high-tax state, by domiciling in a no-or-low tax state you could save significantly on taxes for the signing bonuses. The language of your contract and the specific state in which you are to play weigh heavily on this analysis and should be overseen by a tax professional.

- **Don't underestimate the "Jock Tax"**

  While choosing a state to live in for domicile purposes can seem complicated, it may pale in comparison to what many refer to as the "Jock Tax." After Illinois discovered that California had taxed the income of the Chicago Bulls during their defeat of the Los Angeles Lakers in the 1991 NBA Finals, Illinois passed a law to treat visiting athletes similarly (affectionately dubbed "Jordan's Revenge").[4] From there, similar laws promulgated across states that impose income taxes, and now we have a multi-jurisdictional "Jock Tax." As an athlete, you are likely to travel and work in multiple state and local tax jurisdictions, many of which will want their fair share of your hard-earned income. Recent reporting found that each NFL player is responsible for 8-12 returns each season, 16-20 for an NBA player, and a whopping 20-25 for an MLB player.[5] You may find yourself responsible for filing a dozen or more tax returns each year, with varying payment and filing deadlines. Tackling this challenge should be done with the guidance of qualified tax professionals.

3. Understanding your income sources

Professional athletes can receive significant earnings from their salaries and bonuses, but for some athletes, this is only one part of a larger picture. This can also include traditionally "amateur" athletes like well-known Olympic figures who have various endorsement deals in place. Understanding the amount and duration of various income sources for professional athletes plays a significant role in shaping a successful plan. Your total annual compensation will include

4. https://www.npr.org/2023/06/13/1182001338/how-the-jock-tax-eats-away-at-the-incomes-of-non-resident-athletes-and-entertain
5. https://www.cnbc.com/2021/01/11/state-tax-departments-set-their-sights-on-pro-athletes-earnings-.html

your salary, certainly, but may also include: (1) post-season winnings and performance bonuses, (2) endorsements and sponsorships, (3) licensing and royalties, and (4) your investments and passive income. Just as you may find yourself filing dozens of tax returns across the United States, you may also find yourself receiving dozens of 1099s, W-2s, and K-1s each year because of your "non-athletic" activities and investments. Each income stream may be treated differently for federal and state income tax purposes, and each may have different rules governing your activities or actions.

Your advisory team should help you understand the nature and requirements of these income streams, from vesting to performance conditions to taxation consequences.

4. Using insurance and asset protection strategies to preserve assets

- **Property insurance**

  Property and casualty insurance (homeowners, automobile, aircraft, boat, and umbrella policies) are an integral part of protecting against possible liability claims if unforeseen circumstances occur. It is not unlikely that you will acquire significant assets, such as a residence, that may go unwatched or unused for significant periods of time (if you choose to domicile in a state different from that state in which you play). And it is also not unlikely your new-found wealth will go unnoticed. Protecting your assets from the risks of nature and society alike with property insurance can reduce the costs associated with recovery and rebuilding if the worst should occur.

- **Personalized athlete insurance**

  While your abilities are your greatest asset for financial success, they are also your largest risk. With a career span likely measured in years, the shortening of your career by even one season due to injury or disability can alter your financial horizon significantly. The thoughtful and specifically tailored use of insurance policies can help mitigate the risks you may encounter during your career. You may choose to purchase a personal injury insurance policy that guarantees a set income level for several years (usually akin to your current earnings) in the event you suffer a career-ending injury. Some athletes insure their performance and success-based bonuses against an unforeseen poor team performance through contractual bonus insurance. And with the potential increased need for medical care throughout your athletic career, you may also choose to purchase medical and catastrophic care insurance beyond what your team or league provides.

- **Life insurance**

  Many athletes will find themselves as either the sole provider or the highest income earner in their families and are concerned about the continuing well-being of their families in the event they should pass prematurely. Whether it is providing for a surviving spouse, children, or even extended family members, life insurance can offer you peace of mind in the event you should pass away unexpectedly. Life insurance policies can vary significantly between type and provider, and your advisory team should be there to help you understand the cost and benefits of any insurance proposal.

- **Marital agreements**

  The divorce rate for professional athletes is estimated to be between 60% and 80%, a rate far more than the general population.[6] So it should come as no surprise that planning for a possible end to a marriage is important. Athletes who are considering marriage should consult with a family law attorney to ensure they understand the ramifications of a potential divorce or separation on their current and future assets. While the concept of a pre-marital agreement can be jarring for some, the reality is that every marriage is governed by such an agreement. Either the state in which you marry sets the rules under its default laws, or the spouse's contract for a different arrangement. Understanding and satisfying the rules and requirements of either the default agreement (i.e., state laws) or your specific agreement (i.e., a pre-marital agreement) can be crucial to preserving wealth in the event of a divorce.

6. https://www.justia.com/sports-law/divorce-and-family-law-issues-for-professional-athletes/

- **Using asset protection strategies**

  Athletes often become public figures, and this increased publicity and exposure can bring greater risks. What you do, what you say, and what you endorse all comes with heightened scrutiny. Some athletes who have concern about risks to their assets may also consider the use of specialized asset protection strategies and structures to protect themselves from future liability. From Domestic Asset Protection Trusts to the creation of limited liability companies, there are myriad ways in which you can protect yourself and your business enterprises from risk and creditors. Because each asset protection strategy is dependent on several factors (your personal and career situation, your state of residence, your age, etc.), it is imperative to have tax and legal counsel guide you in these areas.

5. Leaving a legacy

Even if it is early in your career or the growth of your family, you may be considering how you'll be remembered and how those you love will benefit from your efforts over the years. We work with athletes to help them plan this legacy, from estate planning to business succession and charitable goals.

For estate planning, you should have your testamentary affairs in order with a Will and/or Revocable Living Trust (depending on your domicile) directing how you would like your assets to be distributed. Along with these documents, you should also have supporting documents that direct how financial and medical decisions will be made if you are incapacitated, and who you would like to act as the guardian of your children. While these documents are important for all our clients, your role as an athlete may require some sophistication by your attorney. Your name, image, and likeness rights have value and may continue to have value beyond your passing. Given that the name, image, and likeness rights of deceased celebrities could have earned those celebrities' families millions of dollars, special care should be given to the preservation and distribution of those rights.[7]

7. https://www.forbes.com/sites/steveolenski/2017/06/12/the-branding-of-dead-celebrities/?sh=3f6ccc036d80

In addition, if your plan has been successful, you may have significant assets that may be subject to estate tax at your passing (currently approximately 40% for assets above $13.61 million). By using irrevocable trusts, wealth transfer planning, and/or charitable giving, you can reduce the tax burden facing your family.

Remember

You, your family, and your ultimate legacy are your most important business enterprise. The Wells Fargo Sports & Entertainment Group is available to discuss your financial goals — both short and long-term — and how we can help optimize your wealth as you create it. To get started, please contact us at: **https://sportsentertainment.wfa.com/**