

Athletes mired in tax trouble

Nobody, not even highly-paid athletes, is immune from tax trouble. But we can learn some lessons from their tax mistakes.

By Kay Bell | *Written originally for and last published by Bankrate.com on March 14, 2017*



Professional athletes get not only our cheers, jeers and adulation; they get a lot of money. And sometimes all those millions mean added and unwanted attention from tax collectors. The multimillion-dollar salaries, not to mention the side income from product endorsements and personal appearances, make pro athletes very large tax targets.

Then there's the travel. Athletes play in several different states, most of which have income taxes, as do some of the cities in which teams are located. Some sports are international, meaning the athletes must be wary of the tax rules in foreign countries.

With all those different locales and tax laws, the chances for costly missteps multiply.

“It's the enforcement side that has picked up over the last 2 decades,” says Ryan L. Losi, a CPA and executive vice president of Piascik Certified Public Accountants. The Glen Allen, Virginia-based accounting firm represents more than 100 professional athletes.

“Tax departments are better equipped at not only going after the athletes, but also at having more reasons to do so,” says Losi. “Athlete compensation has skyrocketed.”

So it's no surprise that athletes sometimes find themselves in trouble with tax authorities. Here in the following pages are 6 types of tax trouble that ensnared some athletes and which, on a much smaller scale, could happen to any of us.

Avoid filing mistakes



Lawrence Taylor: Al Bello/Getty Images

We all make mistakes. Former New York Giants linebacker Lawrence Taylor admitted to one on his 1990 federal tax return filing.

Under an agreement with prosecutors, the NFL Hall of Famer pleaded guilty in 2000 to shorting the IRS \$48,000. In addition to being ordered to pay the back taxes plus a \$10,000 fine, Taylor was sentenced to 3 months of house arrest, 5 years of probation and 500 hours of community service.

While the amount of taxes in Taylor's case is much more than most of us might ever owe, the NFL star's tax trouble offers valuable lessons for everyone.

First, tax wheels turn slowly. While the statute of limitations for looking at old returns generally is 3 years in cases of filing errors, once the audit process starts, it can drag out for a while.

Second, playing catch-up with the IRS is as difficult as trying to sack an agile quarterback. It also can be very costly. In addition to the taxes owed, you must add penalties and interest that accrue from the original filing deadline.

Finally, double-check your entries and don't overlook any tax statements, such as W-2 and 1099 forms. The IRS gets copies of these and knows when you don't include the information.

Get good advice



Helio Castroneves: Brian Lawdermilk/Getty Images

One way to avoid filing mistakes is to get advice from a tax professional. Just make sure it's accurate advice.

IndyCar star Helio Castroneves faced 6 charges of evading taxes on more than \$5.5 million of income. Federal prosecutors charged the 2-time Indianapolis 500 winner and “Dancing with the Stars” champ with hiding the money in offshore accounts between 1999 and 2004. Castroneves’ defense was that the sponsorship deal in question and the deferred income account set up in the Netherlands was established by his tax attorney according to U.S. tax laws.

The Miami federal jury hearing the case in 2009 believed Castroneves’ explanations and acquitted him of the tax evasion charges.

Professional athletes are always looking for ways to lessen the tax bite on their huge payment pies. Castroneves’ situation underscores just how critical it is to get knowledgeable advice in complicated tax situations.

“Athletes are particularly susceptible,” says Sean Packard, a CPA who, as director of tax at the wealth management firm OFS in McLean, Virginia, specializes in athlete tax planning. “They have people around whom they trust. You see a lot of cases where people use a family friend, but that friend may not be well enough versed in the various tax issues.”

Look out for fraud



Freddie Mitchell: Tom Briglia/FilmMagic/Getty Images

Sometimes the quest for a lower tax bill goes beyond an honest mistake or iffy advice. Taxpayers, including some professional athletes, have resorted to or have been victims of fraud.

Former Philadelphia Eagles wide receiver Freddie Mitchell in March 2013 pleaded guilty to participating in a tax fraud scheme. Mitchell reportedly approached a fellow professional athlete with promises of tax preparer services that could produce significant tax refund amounts.

According to the court documents, a return in the other athlete's name was filed by Mitchell's confederates, resulting in an illegally inflated IRS refund check of nearly \$2 million. Mitchell and his partners, who also reached plea deals with federal prosecutors, split the fraudulently obtained tax money.

Facing up to 10 years in jail, Mitchell was sentenced to 37 months in prison.

While professional athletes' huge salaries make them tempting targets for refund and other tax scams, every taxpayer is a potential victim of tax fraud. Remember, if a tax promise sounds too good to be true, it generally is.

Pay attention to state taxes



Derek Jeter: Jim Rogash/Getty Images

The spotlight was nothing new for former New York Yankees shortstop Derek Jeter. He didn't, however, want tax collectors to be among those paying extra attention to his every move.

“Move” is the operative word. The Major League Baseball all-star claimed Florida as his home state from 2001 through 2003. New York tax officials weren't buying it. They said the residency claim was for tax reasons. Florida doesn't collect any income tax; New York collects a lot. Jeter and New York officials reached an undisclosed settlement in 2007 on his residency status and tax bills.

“Some guys who can afford it will try to live in a tax-free state,” says Packard. They must, however, pay very close attention to the residency rules of the state where they play their home games.

Athletes also must contend with so-called “jock taxes.” States and some municipalities tax visiting athletes, as well as musicians and other performers, for the days they work within their boundaries.

NFL team members play in 8 to 12 tax jurisdictions, says Losi. NBA members encounter 16 to 20 cities and states that want to collect taxes from them. For MLB players, jock taxes are collected in 20 to 26 team locations.

Understand international obligations



Lionel Messi: Paul Gilham/Getty Images

Sports know no global bounds. Neither do tax collectors.

Lionel Messi, the biggest star in the world's most popular sport, soccer (or "football" if you live outside the United States), discovered that his sports fame does not protect him against tax collection actions.

Messi, an Argentine who plays for Spain's FC Barcelona team, was accused in 2013 by Spanish tax officials of hiding millions of dollars by filing false tax returns from 2007 to 2009 and 2010 to 2011. At issue are earnings from Messi's image rights, which in most European countries are taxed differently than salary.

On July 6, a Barcelona court found Messi and his father Jorge, who also was charged in the tax evasion case, guilty of 3 counts of tax fraud and sentenced each to 21 months in prison. The pair can appeal the sentence, but neither the soccer star nor his dad will likely go to jail, even if it stands. Under Spanish law, a tax prison sentence of less than 2 years can be served under probation.

Prior to the verdict, in an attempt to settle the case out of court, Messi and his dad reportedly paid 5 million euro (equivalent to \$5.43 million) to the Spanish government to cover unpaid taxes and interest charges. At one court hearing, the father and son reportedly said they were misled by financial advisers.

American professional golfer Phil Mickelson learned about Great Britain's taxes when he lost a large chunk of his British Open championship winnings to Her Majesty's Revenue & Customs office. Mickelson's fellow PGA Tour member South African Retief Goosen was lead plaintiff in a 2011 Tax Court case filed by golfers in order to get clarification on U.S. taxation of international tournament winnings.

"The United States is pretty good at having information on everyone, and international tax collectors are starting to take that same approach," says Packard. "When dealing with international taxes, countries have all kinds of different rules. You can unwittingly get into tax trouble."

Charitable tax missteps



Chris Zorich (#97): Joseph Patronite/Getty Images

Almost every professional athlete establishes a charitable foundation. Not only does it allow players to support causes that are important to them personally, they get valuable PR exposure and tax breaks.

But charities also are rife with potential tax pitfalls.

Take the case of Chris Zorich, a former defensive tackle for the Chicago Bears and Washington Redskins. Zorich admitted to 4 counts of failure to file tax returns and pay taxes on income of more than \$1 million, including rental income received by his charity, the Chris Zorich Foundation.

Zorich didn't offer the court any excuses for his tax oversight, probably because he knew better. Before becoming an NFL player, he graduated from Notre Dame Law School. After his playing days, Zorich worked part time as an attorney.

He was sentenced to 3 years' probation and was required to pay \$71,000 in back taxes. Zorich also failed to file the proper information returns for his charity with the IRS. Without that documentation, the IRS could suspend a nonprofit's tax-exempt status. When that happens, any contributions made to the group are not tax deductible by the donors.