

The Effect of State Taxes On Baseball Free Agents

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Albert Pujols and Mark Buehrle were Major League Baseball free agents following the 2011 baseball season. Ultimately, Pujols signed a 10-year contract with the Los Angeles Angels of Anaheim, Calif., totaling \$240 million (excluding incentive provisions), and Buehrle signed a four-year contract with the Miami Marlins of Florida totaling \$54 million. Both contracts are backloaded. Pujols's salary for the 2012 season was \$12 million, and Buehrle's was \$6 million.

The negotiations that culminated in these contracts present an especially rich setting for examining jurisdictional tax considerations. Pujols's decision came down to the St. Louis Cardinals or the Los Angeles Angels of Anaheim. Buehrle's decision came down to the Chicago White Sox or the Miami Marlins. Those four jurisdictions feature vastly different state and local tax treatments, with financial ramifications in the hundreds of thousands of dollars each year. We demonstrate the tax implications of the different tax treatments in the context of the contracts of Pujols and Buehrle.

Background

City earnings tax. The city of St. Louis has a 1 percent earnings tax. Anaheim, Chicago, and Miami do not have earnings taxes.

State tax rate. Of these states, Florida has the lowest state income tax rate for individuals — 0 percent. Illinois has a flat 5 percent individual income tax rate, and Missouri has a 6 percent top individual income tax rate. California has by far the highest top individual income tax rate — 13.3 percent. Hence, the state tax rates are vastly different across these jurisdictions.

Allowable itemized deductions from the taxable state income. A major consideration for analyzing

after-tax income in those jurisdictions is the allowable itemized deductions. Florida has no tax on individual income, so allowable deductions are irrelevant. Of the other states, all of which tax individual income, only Illinois disallows itemized deductions. California allows itemized deductions but limits them for high-income residents. In contrast, Missouri has few limitations on itemized deductions. Hence, the allowable itemized deductions are vastly different across these jurisdictions.

'Jock Taxes' on Games Outside the Team's Home State

Professional athletes (and other performers) are often charged a tax on income earned in the state where they are performing, euphemistically known as "jock taxes." For professional athletes, that means paying income tax to many states. California provides its performer-residents a full tax credit for jock taxes paid to other states. Missouri provides a tax credit for jock taxes paid to other states, but has a limitation, as will be discussed. Illinois does not provide a tax credit to its residents for jock taxes paid to other states. Hence, the allowance of a credit for income taxes paid to other states is vastly different across those jurisdictions.

Missouri and California allow a credit for state income tax paid to other states on income earned while spending "duty days" in a state where away games are played. The tax credit allowed by Missouri is the lesser of the actual tax paid to that other state or what the tax would be if the games were played in Missouri instead of the other state.

Considering Pujols as a resident of California, this credit for jock taxes significantly reduces state income tax because every tax dollar paid to other states is allowed as a credit against California income tax. If Pujols were a Missouri resident, the credit for jock taxes would reduce his Missouri income tax, but not by as large an amount as for California's. Many MLB teams play in states with higher tax rates than Missouri's. Thus, part of the tax paid to those states is not allowed as a credit against Missouri income tax.

Illinois income tax law is unique in that the income tax pro athletes pay to other states when performing outside Illinois cannot be used to reduce income tax paid to Illinois. Effectively, a pro athlete on a Chicago team is double-taxed on income earned from games played in states that have a jock tax because both Illinois and the state the game is played in collect tax on the same income. State income tax on a Chicago Cub was analyzed previously in the context of the 2002 manager of the Cubs, Dusty Baker.¹ Baker earned a salary of \$4 million. His state and city income taxes were estimated, and the conclusion was that he paid \$102,900 additional tax because he could not take a credit for any jock taxes paid outside Illinois.

The Illinois tax law disallowing credit for jock taxes paid to other states, while conceptually unseemly, has withstood legal challenges by former Chicago Cub players Sammy Sosa and Dave Smith.² In Sosa's case, the judge wrote in response to one of the plaintiff's challenges:

Sosa makes a tortured attempt to bring the failure of Illinois to allow a credit for taxes paid to another state under the Commerce Clause. The Court fails to see how the Commerce Clause is implicated by a state's unwillingness to provide a credit to individuals who are residents for taxes paid to another state.

The judge agreed with "the longstanding principle of both state and federal law that tax credits . . . are matters which a legislative body is free to grant or withhold in its complete discretion. The wisdom of the tax policy presented by a credit which is parsed to some, but not all, is not for this Court to determine; it is a legislative prerogative."

Federal Deductibility of State and Local Taxes

The effect of high state and local taxes is mitigated by the deductibility of those taxes on the federal tax return. We factor that effect into our analysis, as well.

Overview

In summary, there are several tax policy differences across those jurisdictions. Florida has no state tax, California has a high state tax rate, and Missouri and Illinois have tax rates in the middle range among states. St. Louis has a city earnings tax. Chicago, Anaheim, and Miami have no city earnings taxes. Based on those considerations, one expects

Chicago to be second to nontaxing Miami in tax favorability. However, other tax considerations make Chicago an unfavorable market from a taxation perspective. The analysis in this article demonstrates the importance of evaluating income earned in different jurisdictions after considering taxes paid to *all* the governing jurisdictions instead of focusing only on the differences in tax rates of the governing jurisdictions. When all taxing criteria are considered, Chicago will be more expensive than St. Louis, despite St. Louis's 1 percent city earnings tax and Missouri's higher income tax rate in comparison with Illinois's tax.

Relevant Comparison: LeBron James's Free Agency

In late 2006 Stephen Kidder, who serves as tax counsel for several professional sports' players associations, said, "State taxes are now a factor that players will take into consideration when deciding where they want to play." In 2010, when LeBron James was an NBA free agent, two of the teams he considered signing with were Cleveland (his hometown team and the only pro team he had ever played for) and Miami. He chose to sign a contract with the Heat of Miami, where there is no city earned income tax and no state tax on income, instead of re-signing with the Cavaliers of Cleveland, where both taxes exist. There were major tax advantages for James to sign with his new team in Florida instead of his former team in Ohio.

After James signed with the Miami Heat, many articles pointed out that even if his salary was the same with both teams, his after-tax salary with Miami ended up much higher than his after-tax salary with Cleveland. Cleveland levies earnings tax at a rate of 2 percent, and Ohio levies tax at a rate of nearly 6 percent on an individual's income (after subtracting deductions Ohio allows). Income is not taxed in Florida. The NBA has the "Larry Bird exception" to the NBA's salary cap rules, which were designed to give a player's current team a better chance to keep that player by being able to offer a higher salary. The effect is that the maximum before taxes that the Cleveland Cavaliers were allowed to pay James was more than any other NBA team — approximately \$20 million versus \$19.2 million per year. Although he would have received approximately \$800,000 more in annual before-tax salary by remaining a Cleveland Cavalier, his after-tax salary would still be higher playing for the Miami Heat and moving from Ohio to Florida.

Pujols, Buehrle, and Free Agency

Unlike the NBA, MLB has no salary cap. The richest teams often outbid their competitors, as was the case with two major league free agents in 2011: Pujols, who signed with a new team in California, paying higher taxes than he would have had he

¹David K. Hoffman, "State and Local Income Taxation of Nonresident Athletes Spreads to Other Professions," Tax Foundation Special Report (No. 123) (July 2003).

²See *S. Sosa and S. Sosa v. Ill. Dept. of Revenue*, 02 L 50670 (Cook County Circuit Ct.) (June 26, 2003), and *Ill. Dept. of Revenue v. "John & Angela Doe,"* IT 01-6 (Mar. 23, 2001).

re-signed with his previous team in Missouri, and Buehrle, who signed with a Florida team, paying lower taxes than he would have had he re-signed with his previous team in Illinois.

In 2011, the final year of his contract with St. Louis, Pujols's salary was \$16 million. Before spring training for the 2011 season, management for the St. Louis Cardinals and Pujols's agent attempted to negotiate a new contract. Pujols's agent rejected a nine-year, \$198 million offer (an average of \$22 million per year) by the Cardinals.³ As a result, Pujols became a free agent a few days after the Cardinals won the 2011 World Series. Pujols via his agent began negotiating with several clubs for his services. At least three clubs — the St. Louis Cardinals, the Miami Marlins, and the Los Angeles Angels — brought Pujols to town for formal visits in their efforts to recruit him. Ultimately, on December 10, 2011, Pujols agreed to a 10-year, \$240 million contract (an average of \$24 million per year) with the Angels. His 2012 salary was \$12 million.⁴ We estimate that Pujols's total state and local income taxes for 2012 as a Los Angeles Angel are approximately \$770,000 higher than if he had remained with the St. Louis Cardinals and received the same salary. That amount will generally increase as Pujols's salary increases as called for under the contract. The higher tax in California is the result of a high state income tax rate and limited itemized deductions for high-income taxpayers. (The details are below.)

Like Pujols with the St. Louis Cardinals, before 2012, Buehrle spent his career with only one MLB team — the Chicago White Sox. The Miami Marlins signed a few high-priced free agents after the 2011 season, including Buehrle, who signed a four-year contract for \$54 million. His 2012 salary was \$6 million.⁵ We also compare Buehrle's after-tax salary as a professional baseball player with the Miami Marlins to what his after-tax salary would have been had he remained a player for the Chicago White Sox and received the same salary. Miami does not have an earnings tax, and Florida does not have a state income tax. Chicago does not have an earnings tax, but Illinois has a 5 percent individual income tax rate. Buehrle will pay approximately \$350,000 less state and local income tax with the Miami Marlins than he would have paid had he

remained with the Chicago White Sox under the same contract terms. That large incremental tax amount is because Illinois has a state income tax and other unfavorable tax laws. (The details are below.)

Differences Between the Four Cities and States in Taxing an Individual's Income

St. Louis burdens its residents with a 1 percent city earnings tax. Neither Anaheim, Miami, nor Chicago assess an earnings tax. Missouri's top rate of 6 percent begins at a low level of taxable income, and California's top rate is 13.3 percent. (Proposition 30, passed in California in November 2012, increased the top individual tax rate from 10.3 percent to 13.3 percent for 2012 through 2018.) Florida has no state income tax, and the Illinois individual income tax rate is 5 percent.⁶ Focusing only on tax rates, Florida is tax advantaged over Illinois, Illinois appears to be tax advantaged over Missouri, and Missouri is tax advantaged over California. However, the rate is not the sole determinant of total tax. A state's taxable base multiplied by its tax rate determines the amount of tax before credits.

Missouri's individual income tax base would be much lower for Pujols and his wife, Deidre (Dee Dee), if Pujols had played for St. Louis in 2012, given the same salary income as in California, because of deductions from income that are allowed in Missouri but not in California. The Pujols family is well known for their charitable giving. Albert and Dee Dee are evangelical Christians. They describe their charity, the Pujols Family Foundation, as "a faith-based nonprofit organization." "Albert and Dee Dee are extremely generous, not just to the Pujols Foundation but to other charities in the community. Their foundation is their passion," said the foundation's executive director, Todd Perry.⁷ We assume the Pujolses' federal itemized deductions without state and local income taxes totals \$1.2 million (that is, 10 percent of salary) for 2012 and are primarily composed of charitable contributions.⁸ Their charitable contributions are a deduction that would reduce income subject to Missouri tax. Unlike Missouri, however, California limits how much itemized deductions are allowed to offset income and reduce the

³Derrick Goold, "Marlins Entertain Pujols in Miami," *St. Louis Post-Dispatch*, Nov. 12, 2011, p. B2.

⁴Pujols's backloaded salary increases by \$4 million (to \$16 million) in 2013, by \$7 million (to \$23 million) in 2014, and then by \$1 million every year for the duration of the contract (to \$30 million in 2021, the last year of the contract). Also, Pujols cannot be traded to another team without his consent.

⁵Buehrle's backloaded salary increases by \$5 million (to \$11 million) in 2013, by \$7 million (to \$18 million) in 2014, and by \$1 million (to \$19 million) in 2015, the last year of the contract. There was also a \$4 million deferred signing bonus.

⁶During the last two decades, the Illinois state income tax rate on individuals was only 3 percent. The state increased the individual income tax rate from 3 percent to 5 percent from 2011 through 2014. It will drop to 3.75 percent for the 10-year period 2015 through 2024.

⁷Tim Townsend, "Albert Pujols Struggles Between Greed and God," *The Huffington Post*, Feb. 25, 2011.

⁸The 10 percent assumption is derived from the Christian tithe, which commands that 10 percent of one's income be donated.

state's income tax base. California's itemized deductions before that limitation equal itemized deductions from the federal Form 1040 after subtracting state and local income taxes paid (line 5 of Form 1040's Schedule A). The specific limitation (that is, reduction) in California's itemized deductions equals 6 percent of the taxpayer's federal adjusted gross income minus an AGI threshold of \$339,464. That reduces our assumption of \$1.2 million federal itemized deductions by approximately \$700,000 (that is, [$\$12 \text{ million} - \$339,464$] x 6 percent \approx \$700,000) for California purposes. California taxable income thus would be \$11.5 million (that is, \$12 million salary minus \$500,000 state itemized deductions) for the year, and California income tax would be approximately \$1.53 million (that is, \$11.5 million x 13.3 percent) before credits for taxes paid to other states.

Missouri itemized deductions equal itemized deductions from the federal Form 1040 adjusted accordingly: subtract state and local income tax paid (line 5 of Form 1040's Schedule A); add back local earnings tax paid to St. Louis and Kansas City of approximately \$52,871 (1 percent x \$12 million income x 89 games played in-state / 202 games played); add back Social Security tax paid of \$4,624 (that is, 4.2 percent rate on the first \$110,100 of salary); and add back Medicare tax paid of \$174,000 (1.45 percent rate x \$12 million salary) on Pujols's salary. Missouri also allows a deduction for federal income tax paid limited to a maximum deduction of \$10,000 for married filing combined. As mentioned earlier, we assume the Pujolses' federal itemized deductions without state and local income taxes totals \$1.2 million. Missouri itemized deductions are estimated to be \$1.44 million (rounded) after \$241,495 (that is, \$52,871 + \$4,624 + \$174,000 + \$10,000) is added to the \$1.2 million. Missouri taxable income is therefore estimated to be \$10.56 million for the year. At a 6 percent tax rate, Missouri income tax is approximately \$634,000 before credits for taxes paid to other states.

In contrast to Missouri, Illinois does not allow reductions for either charitable contributions or any other itemized deductions for federal income tax purposes. If Buehrle had played for Chicago in 2012, his Illinois income tax would be nearly \$300,000 (that is, \$6 million x 5 percent) since itemized deductions are not allowed and other deductions are minimal.

Assumptions

The following assumptions were made to facilitate the analyses in this report:

- The number of duty days equals the total number of games by the team for the season — preseason, regular season, and post-season combined.
- The athlete lives in the state he plays for (or is assumed to play for) during 2012.

- Tax rate brackets below the level of income earned in a state are ignored.

For example, in California, taxable income from above \$0 to \$97,884 is taxed in the 1 percent, 2 percent, 4 percent, or 8 percent rate brackets. Those brackets are ignored since in all four scenarios below, the player earned over \$97,884 from games in California.

- In every state where income is earned, the taxable income for that state is taxed at the top tax rate bracket unless the amount of income is not high enough for taxable income to be in the top tax rate bracket, as can occur in the following states:
 - In California, income above \$97,884 and up to \$500,000 is taxed at 9.3 percent; above \$500,000 to \$600,000 is taxed at 10.3 percent; above \$600,000 to \$1 million is taxed at 11.3 percent; and more than \$1 million is taxed at 13.3 percent (that is, 12.3 percent rate + 1 percent surtax rate). If the player earned less than \$500,000 in California, we use 9.3 percent as the tax rate; more than \$600,000 but not more than \$1 million, we use 11.3 percent as the tax rate; and more than \$1 million, we use 13.3 percent as the tax rate. Pujols has income more than \$1 million as a Los Angeles Angel. In the three other scenarios, the player has more than \$97,884 income but less than \$1 million income from away games in California.
 - In New York, taxable income above \$40,000 and up to \$150,000 is taxed at 6.45 percent; above \$150,000 to \$300,000 is taxed at 6.65 percent; above \$300,000 to \$2 million is taxed at 6.85 percent; and more than \$2 million is taxed at 8.82 percent. If the player earns less than \$150,000 of income on away games in New York, we use 6.45 percent as the tax rate; more than \$150,000 but less than \$300,000, we use the 6.65 percent tax rate; and more than \$300,000 we use the 6.85 percent tax rate. In no scenario below does a player have more than \$2 million in income from away games in New York.
 - In Maryland the nonresident tax rates are as follows: on taxable income above \$3,000 and up to \$150,000 the rate is 6 percent; above \$150,000 to \$175,000 is taxed at 6.25 percent; above \$175,000 to \$225,000 is taxed at 6.5 percent; above \$225,000 to \$300,000 is taxed at 6.75 percent; and more than \$300,000 is taxed at 7 percent. If the player earns less than \$150,000 of income on away games in Maryland, we use 6 percent as the tax rate. In no scenario below

Table 1.
Albert Pujols's 2012 City and State Taxes Paid Outside California on
Away Games With the Los Angeles Angels of Anaheim
(Salary of \$12 million divided by 192 games is \$62,500 per game.)

City	City Tax Rate	State	State Tax Rate	Number of Games	City Tax	State Tax
Baltimore	3.20%	Maryland	6.00% ^a	2	\$4,000	\$8,000
Boston	0.00%	Massachusetts	5.30%	3	\$0	\$10,000
Chicago	0.00%	Illinois	5.00%	3	\$0	\$9,000
Cleveland	2.00%	Ohio	5.925%	6	\$8,000	\$22,000
Dallas	0.00%	Texas	0.00%	10	\$0	\$0
Denver	0.00%	Colorado	4.63%	3	\$0	\$9,000
Detroit	1.25%	Michigan	4.35%	7	\$5,000	\$19,000
Kansas City	1.00%	Missouri	6.00%	3	\$2,000	\$11,000
Los Angeles	0.00%	California	13.30%	3	\$0	\$0 ^b
Minneapolis	0.00%	Minnesota	7.85%	6	\$0	\$29,000
New York	0.00%	New York	6.85% ^a	6	\$0	\$26,000
Oakland	0.00%	California	13.30%	9	\$0	\$0 ^b
San Diego	0.00%	California	13.30%	3	\$0	\$0 ^b
Seattle	0.00%	Washington	0.00%	10	\$0	\$0
Tampa Bay	0.00%	Florida	0.00%	3	\$0	\$0
Toronto	0.00%	n/a	0.00%	<u>4</u>	<u>\$0</u>	<u>\$0</u>
Total: regular season				81	\$19,000	\$143,000
Tempe (preseason)	0.00%	Arizona	4.54%	27	\$0	\$77,000
Los Angeles (preseason)	0.00%	California	13.30%	<u>3</u>	<u>\$0</u>	<u>\$0^b</u>
Total: regular and preseasons				<u>111</u>	<u>\$19,000</u>	<u>\$220,000</u>

^aLower than the top tax rate for this state. See Assumptions section for explanation.

^bThese away games were not played outside California.

does a player have more than \$150,000 in income from away games in Maryland.

Estimates of Tax Paid to Cities and States Where Away Games Are Played

Table 1 lists all the away games played by the Los Angeles Angels of Anaheim and the estimates of city and state income tax paid on such games. For Pujols in 2012, many away games played by the Angels against American League West division teams are played in states with no income tax. Ten away games were against the Seattle Mariners and 10 were against the Texas Rangers. Washington and Texas are states with no income taxes. (In 2013 the Houston Astros will move into the AL West division, so an even greater number of the Angels' away games will be in locations with no income taxes.) Fifteen away games were played in California — three were interleague games against the San Diego Padres, three were interleague games against their cross-city rival, the Los Angeles Dodgers, and nine games were against the Oakland Athletics. California has the highest state income tax of any state where an MLB team is located. Also, 27 spring training games

were played in Arizona, where the top state tax rate is 4.54 percent, and the last three spring training games were played in Los Angeles. With a \$12 million salary and 192 total preseason and regular season games, salary per game is \$62,500. Overall, we estimate that because of away games, Pujols pays about \$239,000 (that is, \$19,000 city and \$220,000 state) outside California.

As stated earlier, the Pujolses' California income tax on Albert's salary is estimated at \$1.53 million. The \$220,000 state tax paid because of away games played outside California in jurisdictions with jock taxes is allowed as a credit against California income tax, so no portion of his salary is subject to state double taxation. In other words, as a highly paid player for an MLB team in California, state jock taxes have no effect because California has the highest income tax rate among states that have an MLB team. However, the \$19,000 of earnings tax paid to the cities of Baltimore, Cleveland, Detroit, and Kansas City adds approximately \$20,000 of tax. Effectively, Pujols's sub-federal income tax burden is around 12.9 percent (that is, \$1.55 million tax on \$12 million) of salary.

Table 2.
Albert Pujols's 2012 City and State Taxes Paid Outside St. Louis and the
State of Missouri on Away Games if He Remained With the St. Louis Cardinals
(Salary of \$12 million divided by 202 games is \$59,406 per game.)

City	City Tax Rate	State	State Tax Rate	Number of Games	City Tax	State Tax
Atlanta (1 postseason)	0.00%	Georgia	6.00%	4	\$0	\$14,000
Chicago	0.00%	Illinois	5.00%	9	\$0	\$27,000
Cincinnati	2.10%	Ohio	5.925%	9	\$11,000	\$32,000
Denver	0.00%	Colorado	4.63%	3	\$0	\$8,000
Detroit	1.25%	Michigan	4.35%	3	\$2,000	\$8,000
Houston	0.00%	Texas	0.00%	9	\$0	\$0
Kansas City	1.00%	Missouri	6.00%	3	\$2,000	\$0 ^a
Los Angeles	0.00%	California	11.30% ^b	7	\$0	\$47,000
Miami	0.00%	Florida	0.00%	4	\$0	\$0
Milwaukee	0.00%	Wisconsin	7.75%	6	\$0	\$28,000
New York	0.00%	New York	6.65% ^b	4	\$0	\$16,000
Philadelphia	3.4985%	Pennsylvania	3.07%	3	\$6,000	\$5,000
Phoenix	0.00%	Arizona	4.54%	3	\$0	\$8,000
Pittsburgh	3.00%	Pennsylvania	3.07%	6	\$11,000	\$11,000
San Diego	0.00%	California	11.30% ^b	3	\$0	\$20,000
San Francisco (3 postseason)	0.00%	California	11.30% ^b	6	\$0	\$40,000
Washington (4 post season)	0.00%	District of Columbia	0.00%	7	\$0	\$0
Total: regular and postseasons				89	\$32,000	\$264,000
Jupiter (preseason)	0.00%	Florida	0.00%	27	\$0	\$0
Total: regular, post- and preseasons				<u>116</u>	<u>\$32,000</u>	<u>\$264,000</u>

^aThese away games were not played outside Missouri.
^bLower than the top tax rate for this state. See Assumptions section for explanation.

As stated earlier, the Pujolses' Missouri income tax had Albert remained a St. Louis Cardinal would have been an estimated \$634,000 before credits paid to other states. Total state income tax on away games is estimated to be \$264,000 (see Table 2). Of that total, only \$205,000 is allowed as a credit. The reason that is \$59,000 less than the total jock taxes paid to states is that Missouri does not allow a credit to the extent that tax paid to a state is more than what would have been paid had the game been played in Missouri. Missouri does not allow a 100 percent credit for tax paid on games played last season by the Cardinals in California, New York, and Wisconsin — states with higher tax rates than Missouri's. (The \$59,000 not allowed as a credit is \$51,000 paid to California, \$6,000 paid to Wisconsin, and \$2,000 paid to New York.) Furthermore, the local earnings tax paid results in no state tax credits. Earnings tax paid to St. Louis would have been approximately \$51,000 (that is, 1 percent rate x \$12 million salary x 86 games played in St. Louis / 202 games played). Earnings tax totaling \$32,000 also

has to be paid for 24 games in Detroit (3 games), Kansas City (3), Philadelphia (3), Pittsburgh (6), and Cincinnati (9).⁹ Pujols's state and local income and earnings taxes if he had remained a St. Louis Cardinal would have been around \$776,000 (that is, \$634,000 Missouri income tax + \$59,000 non-Missouri state income tax not allowed as a Missouri credit + \$51,000 St. Louis earnings tax + \$32,000 city earnings taxes on away games). Effectively, Pujols's sub-federal income tax burden if he had remained a St. Louis Cardinal would have been about 6.5 percent (that is, \$780,000 (rounded) tax on a \$12 million salary).

We now estimate the amounts of income tax Buehrle and his wife, Jamie, will pay on his salary

⁹Pittsburgh has a facility usage fee of 3 percent, not an earnings or income tax. It cannot be included in the state and local income tax category of federal itemized deductions but is instead included in the miscellaneous category subject to the 2 percent of AGI cutoff.

Table 3.
Mark Buehrle's 2012 City and State Taxes Paid on Away Games With the Miami Marlins
(Salary of \$6 million divided by 190 games is \$31,579 per game.)

City	City Tax Rate	State	State Tax Rate	Number of Games	City Tax	State Tax
Atlanta	0.00%	Georgia	6.00%	9	\$0	\$17,000
Boston	0.00%	Massachusetts	5.30%	3	\$0	\$5,000
Chicago	0.00%	Illinois	5.00%	3	\$0	\$0 ^a
Cincinnati	2.10%	Ohio	5.925%	3	\$2,000	\$6,000
Cleveland	2.00%	Ohio	5.925%	3	\$2,000	\$6,000
Denver	0.00%	Colorado	4.63%	4	\$0	\$6,000
Houston	0.00%	Texas	0.00%	3	\$0	\$0
Los Angeles	0.00%	California	9.30% ^b	3	\$0	\$9,000
Milwaukee	0.00%	Wisconsin	7.75%	4	\$0	\$10,000
New York	0.00%	New York	6.65% ^b	9	\$0	\$19,000
Philadelphia	3.4985%	Pennsylvania	3.07%	9	\$10,000	\$9,000
Phoenix	0.00%	Arizona	4.54%	4	\$0	\$6,000
Pittsburgh	3.00%	Pennsylvania	3.07%	3	\$3,000	\$3,000
San Diego	0.00%	California	9.30% ^b	3	\$0	\$9,000
San Francisco	0.00%	California	9.30% ^b	3	\$0	\$9,000
St. Louis	1.00%	Missouri	6.00%	3	\$1,000	\$6,000
Tampa Bay	0.00%	Florida	0.00%	3	\$0	\$0
Washington	0.00%	District of Columbia	0.00%	9	\$0	\$0
Total: regular season				81	\$18,000	\$120,000
Jupiter (preseason)	0.00%	Florida	0.00%	26	\$0	\$0
Miami (preseason)	0.00%	Florida	0.00%	2	\$0	\$0
Total: regular and preseasons				109	\$18,000	\$120,000

^aThe jock tax in Illinois is retaliatory. Since Florida does not subject Chicago Cubs players to state income tax, Illinois does not subject Miami Marlins players to state income tax.
^bLower than the top tax rate for this state. See Assumptions section for explanation.

as a player for the Miami Marlins (Table 3) compared with if he had remained with the Chicago White Sox and received the same salary. Florida does not have state or local income tax. There were 28 spring training games, all in Florida, 81 regular season games in Miami, and 81 away games. Buehrle's salary is therefore divided among 190 games. His per-game salary of \$31,579 multiplied by 190 games equals his \$6 million salary for 2012. Of the 81 regular season games outside Miami, nine were in Washington, D.C., three were in Tampa, Fla., and three were in Houston. Federal law does not allow the District of Columbia to impose an income tax on nonresidents, and Texas and Florida do not have state or local income taxes. Also, a three-game series was played in Chicago against the Cubs. Illinois's jock tax law is retaliatory, so because Florida does not levy a jock tax, none is assessed against the employees of the Miami Marlins when

they play games in Chicago.¹⁰ The other 63 games outside Florida were in cities where the states do have jock taxes. In five of those states, the local government (that is, the city where the game is played) also taxes earnings of the employees of the visiting teams. The estimated city and state income tax on Buehrle is \$140,000 (rounded) (that is, \$18,000 city and \$120,000 state). To summarize, playing for an MLB team in Florida (that also has its spring training games in Florida), a state with no income tax, results in paying an estimated jock tax

¹⁰The following is from the Illinois Department of Revenue "General Information Letter (IT 98-0010-GIL)" dated Jan. 26, 1998: "If [an] *athlete* is a member of [a] team located in a state that taxes players from Illinois teams when the Illinois team plays in that state, then Illinois will impose a tax on players on teams from that state when they play in Illinois."

Table 4.
Mark Buehrle's 2012 City and State Taxes Paid Outside Illinois on Away Games if He Remained
With the Chicago White Sox
(Salary of \$6 million divided by 192 games is \$31,250 per game.)

City	City Tax Rate	State	State Tax Rate	Number of Games	City Tax	State Tax
Baltimore	3.20%	Maryland	6.00% ^a	4	\$4,000	\$8,000
Boston	0.00%	Massachusetts	5.30%	4	\$0	\$7,000
Chicago (at Cubs)	0.00%	Illinois	5.00%	3	\$0	\$0 ^b
Cleveland	2.00%	Ohio	5.925%	9	\$6,000	\$17,000
Dallas	0.00%	Texas	0.00%	6	\$0	\$0
Detroit	1.25%	Michigan	4.35%	9	\$4,000	\$12,000
Kansas City	1.00%	Missouri	6.00%	9	\$3,000	\$17,000
Los Angeles	0.00%	California	9.30% ^a	8 ^c	\$0	\$23,000
Minneapolis	0.00%	Minnesota	7.85%	9	\$0	\$22,000
New York	0.00%	New York	6.45% ^a	4	\$0	\$8,000
Oakland	0.00%	California	9.30% ^a	3	\$0	\$9,000
St. Louis	1.00%	Missouri	6.00%	3	\$1,000	\$6,000
Seattle	0.00%	Washington	0.00%	3	\$0	\$0
Tampa	0.00%	Florida	0.00%	3	\$0	\$0
Toronto	0.00%	n/a	0.00%	4	\$0	\$0
Total: regular season				81	\$18,000	\$129,000
Glendale (preseason)	0.00%	Arizona	4.54%	28	\$0	\$40,000
Houston (preseason)	0.00%	Texas	0.00%	2	\$0	\$0
Total: regular and preseasons				111	\$18,000	\$169,000

^aLower than the top tax rate for this state. See Assumptions section for explanation.
^bThese away games were not played outside Illinois.
^cThree games against the Los Angeles Dodgers and five games against the Los Angeles Angels of Anaheim.

of \$140,000, on a \$6 million salary, to the states and cities where away games were played that have a jock tax. That is an effective sub-federal income tax burden of 2.3 percent of salary.

Assuming that Buehrle played for the Chicago White Sox, three out of four fellow American League Central Division teams have both city and state taxes (Cleveland, Detroit, and Kansas City) and the fourth team (Minnesota) has a high state tax rate (7.85 percent). Also, 28 of 30 spring training games were played in Arizona, where the top state tax rate is 4.54 percent, and two were played in Houston, where there is no income tax. Table 4 lists all the away games played by the Chicago White Sox and the city and state income tax paid on such games. With a \$6 million salary and 192 total preseason and regular season games, Buehrle's salary per game is \$31,250. Overall, Buehrle pays about \$190,000 (rounded) (that is, \$18,000 city + \$169,000 state) because of away games. As stated earlier, the Buehrles' Illinois income tax is estimated to be \$300,000. Effectively, Buehrle's sub-federal income tax burden if he had remained with the Chicago White Sox would have been about 8.2 percent (that

is, (\$190,000 jock taxes + \$300,000 Illinois income tax =) \$490,000 (rounded) tax on \$6 million in salary).

Effect of Federal Tax Savings Because of State and City Income Taxes

Our focus is the difference in state and local income tax, but an important fact is that the Pujolses' federal income tax is lower with the Los Angeles Angels than it would be had he remained a St. Louis Cardinal because in the former case, itemized deductions for total state and local income tax are higher, which saves 35 cents of federal income tax for every additional dollar of state and local income tax. As mentioned earlier, we assume that federal itemized deductions excluding state and local income tax are \$1.2 million. Adding in the state and local income tax of \$1.55 million (determined earlier) leads to federal taxable income of \$9.25 million and federal income tax of \$3.24 million (rounded) (that is, \$9.25 million x 35 percent). His total income tax from playing for the Angels is \$4.8 million (rounded) (that is, \$1.55 million + \$3.24 million) on his \$12 million salary.

Table 5.
Sub-Federal and Total Tax Burdens on Salaries of Albert Pujols and Mark Buehrle With Current Teams and Assuming the Same Salary Was Paid by Their Former Teams

	Albert Pujols		Mark Buehrle	
	Los Angeles Angels of Anaheim	St. Louis Cardinals	Miami Marlins	Chicago White Sox
1) Sub-Federal Income and Earnings Tax as a Percentage of Salary	\$1.55 million / \$12 million = 12.9 percent	\$0.78 million / \$12 million = 6.5 percent	\$0.14 million / \$6 million = 2.3 percent	\$0.49 million / \$6 million = 8.2 percent
2) Total Income and Earnings Taxes as a Percentage of Salary	\$4.8 million / \$12 million = 40 percent	\$4.3 million / \$12 million = 36 percent	\$2 million / \$6 million = 33 percent	\$2.2 million / \$6 million = 37 percent

In contrast, if Pujols had remained with St. Louis, adding in the state and local income tax of \$78,000 to the other itemized deductions of \$1.2 million leads to federal taxable income of \$10 million (rounded) and federal income tax of \$3.5 million. Total federal and state income taxes and local earnings tax would be \$4.3 million (\$80,000 (rounded) + \$3.5 million). To summarize, the Pujolses pay about \$500,000 (that is, \$4.8 million - \$4.3 million) more tax by playing for the Angels than they would have paid had Albert continued playing for St. Louis at the same salary he earned in Anaheim for 2012. That difference will increase in magnitude as Pujols's salary escalates over the life of his contract. (As mentioned earlier, the average annual salary paid by Anaheim will be \$24 million for 10 years, whereas St. Louis offered \$22 million annually for nine years.)

Again, our focus is the difference in state and local income tax, but an important fact is that the Buehrles' federal income tax would be lower had Mark remained with the Chicago White Sox instead of joining the Miami Marlins, because in the former case, itemized deductions for total state and local income tax are higher, which saves 35 cents of federal income tax for every additional dollar of state and local income tax. For consistency with the analysis of Pujols's tax, we again assume that federal itemized deductions excluding state and local income tax are 10 percent of his salary (that is, \$600,000). State and local tax (determined earlier) is \$490,000. That leads to federal taxable income of \$4.9 million (rounded) (that is, a salary of \$6 million minus itemized deductions of \$600,000 and \$490,000) and federal income tax of \$1.7 million. Total income tax if he had played for the Chicago White Sox would have been \$2.2 million (rounded) (that is, \$490,000 state and local income tax + \$1.7 million federal income tax) on his \$6 million salary.

In contrast, since Buehrle became a Miami Marlin, jock taxes of \$140,000 (rounded) (determined earlier) are an itemized deduction. Reducing his \$6 million salary by those jock taxes and by other itemized deductions totaling \$600,000 leads to fed-

eral taxable income of \$5.3 million (rounded) and federal income tax of \$1.86 million. Total federal income tax and jock taxes as a Miami Marlin are \$2 million (that is, \$140,000 + \$1.86 million). To summarize, the Buehrles pay about \$200,000 (that is, \$2.2 million - \$2 million) less total income tax playing for Miami than if he had continued playing for Chicago at the same salary as he made in Miami for 2012.

Conclusion

Table 5 summarizes the sub-federal income tax burden and total income and earnings tax burdens for the four scenarios in this article. If we look solely at the tax rates in each jurisdiction, it appears that Illinois was tax advantaged over Missouri because Missouri's tax rate is 1 percentage point higher (6 percent versus 5 percent) and St. Louis has a 1 percent earnings tax. After computing tax for each jurisdiction, it is clear that this is not true — Illinois is not tax advantaged over Missouri for professional athletes and other traveling performers. The higher tax rates in Missouri are more than offset by itemized deductions being relatively generous in Missouri compared with not being allowed by Illinois, and Missouri allowing a credit for most of the tax paid to other states compared with no credit being allowed by Illinois.

The only tax advantage to playing in California, which has the highest state tax rate in the nation, is that the additional state income tax of playing there reduces federal income tax via itemized deductions. As Table 5 shows, the relatively lowest federal income tax burden is 27.1 percent (that is, 40 percent - 12.9 percent) on Pujols with the Los Angeles Angels of Anaheim. That percentage is based on the difference between the two rows (that is, Row 2 - Row 1). The second lowest federal income tax burden is 28.8 percent (that is, 37 percent - 8.2 percent) on Buehrle if he was with the Chicago White Sox. The second highest is 29.5 percent (that is, 36 percent - 6.5 percent) on Pujols if he was with the St. Louis Cardinals. The highest is 30.7 percent (that is, 33

percent - 2.3 percent) on Buehrle with the Miami Marlins. To summarize, federal itemized deductions increase when the sub-federal income and earnings tax burden increases, which has the effect of decreasing the federal income tax burden. This analysis is consistent with Missouri being more tax advantaged than Illinois for pro athletes despite Illinois having a lower state tax rate than Missouri.

Postscript: After the 2012 Season

When a free agent is considering signing a new contract, what matters is not only current tax law in the city and state of the team that makes the offer, but also the potential changes in the tax law or the possibility of being traded to a team in a different city or state — or even country. After the 2012 MLB season was over, California citizens voted on Proposition 30 as part of their November ballot. The measure passed, causing the top tax rate in California to rise from 10.3 percent in 2011 to 13.3 percent from 2012 through 2018. That causes a substantial reduction in after-tax income for Pujols unless his contract includes a provision to indemnify him in case of a California income tax rate increase.¹¹ After the 2012 MLB season began, the Miami Marlins ownership decided to go in the opposite strategic direction and traded all the high-priced free agents they had signed after the 2011 season, including Buehrle. His trade to the Toronto Blue Jays subjects him to Ontario province income tax and Canadian income tax. Those will cause a relatively much more substantial reduction in after-tax income than the California tax rate increase did to Pujols. The only possible exception to that outcome is if Buehrle's contract included a provision for Miami to indemnify him in case of a trade to a team in a higher tax rate environment.¹² ☆

¹¹There was enough time to include such a provision in his contract. On December 6, 2011, Gov. Jerry Brown (D) called for both a 2 percentage point increase in the tax rate on the highest earners and a modest sales tax rate increase to be voted on as part of the following November's ballot instead of trying to push a tax rate increase through the State Legislature. (It later became a 3 percentage point increase in the income tax rate.) Pujols reached a tentative agreement on a contract with the Los Angeles Angels on December 8, 2011. He signed the contract two days later. The authors do not have access to the details of Pujols's contract to know whether that provision is included in his contract.

¹²The authors do not have access to the details of Buehrle's contract to know whether that provision is included in his contract.

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