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## World Series Bonuses Subject to Steep Income Taxes



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The Houston Astros are World Series champions, having defeated the Los Angeles Dodgers in seven games. However, both teams are entitled to a hefty bonus—and the income taxes that come along with it.

Each Astros player will see an estimated \$368,872 bonus. After an array of taxes and fees, the players will pocket approximately \$200,560. Each Dodger player can expect an estimated \$261,805 bonus, with an after-tax and fee total of \$110,179.

Dr. John Karaffa, president of ProSport CPA, told Bloomberg Tax that players are aware of the large tax burdens, even on bonuses.

"The playoff bonus pool is quite large and very lucrative to the players. The fortunate recipients of the bonus pool are quite grateful for the benefit. I hear no complaints," he said. "From my experiences in dealing with the more than 500 professional athletes we serve, they absolutely are aware that taxes take such a large portion of their pay, almost half in some cases."

The disparity between the gross and net figures is due to a handful of factors, including federal and state taxes, "jock taxes" and agent fees.

## Collective Bargaining Agreement

Each team gets to dictate the division of

its respective bonus. Under Major League Baseball's collective bargaining agreement, players of each club vote on how full shares of the bonus will be made available. Teams may also elect to use portions of their bonus for partial shares or cash awards.

Because the total bonus pool figures aren't released until December, Bloomberg Tax estimated the bonus amount based off the 2016 bonus pool—in which the World Series champions received \$27,586,018 and the runner-up received \$18,390,679.

The 2016 Chicago Cubs set aside \$3,240,466 for partial shares and cash awards, while the Cleveland Indians set aside \$2,682,378. The Cubs elected to split its bonus into 66 full shares, while the Indians split its bonus into 60 full shares.

Brett Dimas, financial advisor at McLean, Va.-based sports agency Octagon Financial Services, cited MLB's 2017-2021 collective bargaining agreement when explaining the bonus breakdown, which is made up entirely of ticketing revenue:

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- 60 percent of total gate receipts from the first four World Series games;
- 60 percent of total gate receipts from the first four games of each league championship series;
- 60 percent of total gate receipts from the first three games of each division series; and
- 50 percent of total gate receipts from each wild card game after deducting the traveling expenses of visiting clubs.

In fact, every ball club that reaches the playoffs gets a piece of the pie, but the distribution of the total pool grows the further a team plays into the postseason. The World Series winner collects 36 percent of the total pool, while the runner-up collects 24 percent of the pool. League championship series losers (2) collect 24 percent of the total pool, and division series losers (4) collect 13

percent. Wild card losers (2) collect 3 percent.

## Biggest Impact

The initial and biggest blow to each player's share is federal income tax, as each player falls into the 39.6 percent tax bracket. For the champion Astros, each player would pay \$146,073 in federal taxes. Each Dodger would face a \$103,675 federal income tax bill.

Next comes states taxes. Texas doesn't have a state income tax, so Astros players residing in the Lone Star state avoid a state levy. Meanwhile, Dodger players residing in California are subject to the nation's highest income tax at 13.3 percent. Each Dodger player would lose \$34,820 from their bonus.

## Duty Days, Other Taxes

Every professional athlete pays jock taxes, which are calculated by the amount of days a player contributes to "income-related work" in a state administering an income tax.

Days spent in foreign jurisdictions are called "duty days" and are counted on the first day of MLB Spring Training by every state except Arizona and Michigan, which

begin counting duty days on the first day of the regular season, according to Sean Packard, tax director at Octagon Financial Services.

As a result, Arizona becomes especially attractive to half of all baseball teams each year for "Cactus League" Spring Training.

Individuals making over \$200,000 are also subject to a .09 percent Medicare surplus tax.

Lastly, players face an agent fee, which averages around 3 percent of a player's salary, according to Packard.

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