'Pros should only work with pros'

By Roger Russell
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With the 2018 National Football League season underway, many of John Karaffa's clients are very hard at work.

Karaffa, the founder and president of ProSport CPA, limits his practice to professional athletes and coaches, and currently numbers among his clients more than 500 athletes in all major professional leagues, with over 200 clients in the NFL and Canadian Football League.

"Professional athletes face unique financial challenges," he said. "They need to have highly qualified professionals on their team. They have very complicated federal returns, but they also have to file in most of the states and some of the cities that they compete in. The normal professional athlete's tax return is 150 pages long."

"Taxes are their largest expense by far. They not only want to come out with the best possible tax result, but they don't want to be in the headlines for not doing them correctly," he said.

Even the cities where games are played in can complicate matters. Cleveland attempted to impose a tax on visiting athletes based on a games-played allocation, which taxed the portion of a professional athlete's income based on the number of games the athlete played in Cleveland in relation to the total number of games played that year. The Ohio Supreme Court struck this down, and the case, brought by two former pro football players, was denied cert (declined a hearing) by the U.S. Supreme Court in 2015, upholding the players' victory.

"The common allocation practice is based on 'duty days' – the number of days a player is present in the city divided by the total days the athlete is with the team," said Karaffa. "The 'days present' is normally two days for each game."

"State tax planning is a very important part of dealing with the professional athlete," he continued. "The resident state will tax everything, and normally the player will get a credit for taxes paid to other jurisdictions, so the state of residence is fundamental. As a result of the cap on state and local taxes with the new tax bill, the discrepancy in tax between a high-tax state versus a low-tax state has grown. Over time, this could affect athlete decisions during free agency."

The Tax Cuts and Jobs Act will decrease the taxes of some professional athletes, while increasing the taxes of others, Karaffa observed. "Many athletes will benefit from lower tax rates, an increased standard deduction, and favorable treatment of business investments. Athletes who have substantial non-wage income such as income from endorsements, businesses, and partnerships, may benefit from the pass-through deduction. Overall, unless they are living in a high-tax state, married pro athletes will likely pay lower taxes, and unless they are living in a no-tax state, single pro athletes will likely pay higher taxes."

Many athletes are incorrectly advised to immediately set up an LLC or other corporate structures, Karaffa noted: "There's a time and place for utilizing a corporate structure in tax planning, but there are expenses associated with them and in most cases it's not necessary. But elite athletes with high endorsement income should absolutely set up an LLC and work with us on structuring it properly."

Karaffa's clients often come to him as a result of a referral by an athlete's agent. "Most athletes' agents are quite savvy about the need to bring qualified CPAs to the table," he said. "And financial advisors understand that they should be in communication with us on retirement

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planning opportunities, tax-advantaged investments, and state residency issues, because all of these will affect the performance of an investment portfolio."

But providing services to a professional athlete is not for beginners, Karaffa indicated. "We constantly see where athletes used somebody that may be a good accountant but has no idea what they were doing regarding professional athletes," he said. "We end up doing a lot of amendments. Pros should only work with pros."

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