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FOR PROFESSIONAL ATHLETES & ENTERTAINERS

It's tax time. Get filing tips to keep you on track.

As an elite professional sports or entertainment figure, anticipation and preparation are key to your performance. They are just as important when it comes to your taxes.

Sports and entertainment professionals are often high earners with income that flows, in some part, from non-traditional streams. These can make for an exciting lifestyle and open up a world of opportunities not available to most people. A lot less exciting is the complexity they can cause when it comes to taxes.

You may be familiar with the so-called "jock tax" (triggered because you earn income in localities, states or countries where you play or perform), but it's worth exploring a few other tax considerations that are especially relevant to sports and entertainment professionals. After all, even if you use an experienced tax professional to help prepare your taxes, like so many people do, being an athlete or entertainer won't mean you receive more leeway for tax missteps. Your name is on the tax return, so you are ultimately responsible for its accuracy.

Understand being a global brand has U.S. tax implications.

U.S. taxes may need to be paid even in situations that seem to be beyond U.S. borders.

- If you are a U.S. citizen earning income outside the U.S., such as an offshore endorsement deal, you are obligated to report that income and pay U.S. taxes on it. That income might be taxed as ordinary income or as capital gain income.
- An income tax treaty between the U.S. and the country in which you earn income could affect your federal tax obligations.
- If you are a non-U.S. person earning income in the U.S., you are required to pay U.S. taxes on that income. That income might be taxed as ordinary income.
- If you are a non-U.S. person who owns U.S. real estate, it could expose you to U.S. estate taxes. However, owning real estate through a non-U.S. entity instead of in your name, could avoid U.S. estate tax.

Get your timing right.

"Tax day" is known as April 15, but your filing calendar could be different.

- As an athlete or entertainer, some of your income likely comes from royalties, licenses, sponsorships and service agreements beyond a salary you may earn. These are all examples of self-employment income (also known as "1099" or "non-compensation" income). Generally if you expect to owe at least $1,000 in federal taxes, you may have to file and pay estimated taxes on this type of income each quarter, in April, June, September and January. Not making these quarterly payments, or estimating them incorrectly, can result in penalities and interest.
- There is no incentive to file early unless you are owed a refund. In fact, you may not receive the needed tax forms for some of the income you earn until after the original date your tax return is due. A return that's missing information will need to be amended and refiled, which takes more time and money so it may be preferable to wait to file your tax return.
- You can request an extension for time to file your tax return if you need more time to prepare your return. Failure to file your tax return on time without an extension could result in interest and penalties.
- An extension to file your taxes does not grant you an extension to pay your taxes. You should estimate the taxes owed and submit the taxes with your extension.

Follow the rules for "Gifting" and "Charitable Giving."

As a sports or entertainment professional, you may have both the means and the desire to do good for others through various kinds of gifts. What is and is not considered a "gift" may surprise you.

- You may donate your time, name, likeness and/or image to a particular charity or charitable event. This may do wonders for the charity, but it does not provide you with a charitable income tax deduction.
- Buying or giving gifts worth more than $18,000 in 2024 to any non-spouse requires you to file a federal gift tax return and use some or all of your lifetime gift exemption amount. You may be surprised by what constitutes a qualifying gift: paying for somebody's living expenses, paying for their vacations/automobiles or covering the cost of their gym membership are common examples.
- If you purchase real estate using only your funds but title the property jointly in your name and that of a non-spouse, or a spouse who is not a United States citizen, you may be on the hook to report half its value as a gift, file a federal gift tax return (if the value of the gifted interest is over $18,000), apply that gift against your lifetime gift tax exemption, and pay gift tax at a maximum rate of 40% on the amount not covered by the exemption.

Stay current on reporting requirements for digital asset transactions and foreign bank accounts.

With fame and financial means, sports and entertainment professionals are being courted for digital asset investments. Among the many topics you should understand before participating is the regulatory requirements.

- Regulators including the Department of the Treasury, IRS, SEC, Federal Reserve and The Chicago Board of Trade (to name a few) have begun closely monitoring transactions in digital assets such as crypto-currencies and NFTs.
- The IRS now requires you to report digital asset transactions on your annual income tax return (see FAQs on Virtual Currency Transactions at IRS.gov).
- New laws and regulations are being published frequently. Failure to report certain transactions can trigger civil and criminal penalties from these regulatory agencies.
- You also need to be aware of FBAR (Report of Foreign Bank and Financial Accounts) using FinCEN Form 114. Failure to disclose bank accounts in a foreign country, if the aggregate value of those accounts exceeded $10,000 at any time during the year, could subject you to penalties which may exceed the value of the funds in the account.

Tax

Understand your tax-reporting requirements as an employer.

You may have hired professionals to help you manage your lifestyle. It's possible that you could therefore be characterized as an "employer" from a tax standpoint.

- If you employ staff (for example a personal assistant) and report their wages to tax authorities, you must provide them with a Form W-2 by January 31.
- It is your responsibility to withhold FICA tax (to cover Social Security and Medicare) and FUTA (to cover unemployment), if warranted, from their paychecks, and to remit employment taxes to the government.

Be aware of tax considerations if using a loan-out corporation.

Over the last 20 years, loan-out corporations have become ubiquitous among sports and entertainment professionals. Setting up a loan-out corporation allows you to maximize the deductibility of all your business-related expenses, but there are some considerations to keep in mind.

- Be careful to not mix your personal assets with the assets of the loan-out corporation.
- Keep detailed records of all ordinary and necessary business expenses incurred by the loan-out corporation.
- The loan-out corporation is responsible for issuing you a Form W-2 no later than January 31 each year.
- The loan-out corporation has its own annual tax reporting responsibilities, even if it's a "flow-through" entity that doesn't pay income tax.

Do your best to submit an error-free return.

Tax returns mean an array of forms, with lots of information, calculations and interpretations. Those create many places for an inadvertent misstep. Keep the following danger zones in mind and think about using tax filing software or a vetted, qualified tax advisor to help you.

- Typos in your Social Security number or the spelling of your name.
- Errors inputting the amounts for each category on the form.
- Incorrect bank routing and account numbers for direct deposit if you are due a refund.
- Incorrectly choosing your filing status.
- Errors in any calculations you do.
- An unsigned tax return or a joint return with only one spouse's signature. Either of these invalidates the return. Exceptions may apply for taxpayers who have a valid IRS power of attorney.

Remember, taxes must be paid, and the tax code has to be followed. Federal and state taxing authorities are very good at ensuring they receive what they're owed and assigning penalties for errors, whether they're simple or significant. While you are responsible for the information on your return, you don't have to do it all on your own. There are qualified and trustworthy professional tax advisors and return preparers on whom you can rely for the needed expertise.

To continue the conversation, reach out to a Merrill advisor.

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