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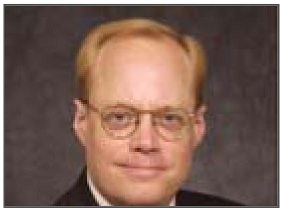

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# You'd Run Too If Your Take-Home Pay Was Only 15%

Some of the top athletes in Kenya have threatened to stop competing in international meets because of taxes. Kenya seems an unlikely source of tax discontent. Yet Wesley Korir is a member of Kenya's Parliament and previous winner of the Boston marathon. He says athletes pay taxes twice and only get to keep about 15% of their winnings.

Kenya is famous for its distance runners, but the Kenya Revenue Authority wants prize-winning athletes to pay the top tax rate of 30% on their earnings. A 30% doesn't sound so bad until you do the math and see what's left. The athlete MP claims that if you win prize money abroad, here's where it goes:

- 30% to 35% for the country where they compete, since most countries take a chunk of the prize money while they can;
- 15% to the agent;
- 10% to the manager; and
- The big 30% tax to the Kenya government.

Robert Cheruiyot in 2006 Boston Marathon as he passes through Wellesley Square. (Photo credit: Wikipedia)

What's left, he claims, is only about 15%. And that means considerable effort for a meager return. A 30% or 35% tax abroad plus a 30% tax in Kenya is the problem. Kenya's Daily Nation newspaper quoted him as saying there could be an exodus of top athletes. Some champions agree, noting that they are already taxed abroad when they win.

Increasingly, taxes and sports go together, and they've been known to interfere with athlete's competing in certain locations. For example, Jamaican sprinter Usain Bolt appears at events in the UK only when the government gives a tax exemption. Otherwise, his representatives have said, the UK taxes earnings, as well as a portion of his global sponsorship income.

When the U.K. announced before the London Olympics that it would not tax the athletes, Bolt taunted that, “As soon as the [tax] law changes I’ll be here all the time.” After all, Britain takes a cut of an athlete’s worldwide endorsement earnings proportional to the athlete’s time there. That doesn’t seem bad until you compare.

Although America is criticized for its global tax system, the British rule for athletes is actually harsher. The U.K. taxes a share of endorsement fees, but the U.S. taxes nonresident athletes only on endorsement fees from American sponsors. Tennis star Andre Agassi lost a U.K. battle over endorsement income from overseas sponsors. Like Bolt, Rafael Nadal has cited taxes and stays out of the U.K. except when it’s critical.

Earning far flung income and apportioning is the norm for professional athletes. A unit of U.K. tax collector Her Majesty’s Revenue and Customs known as the Foreign Entertainers Unit tracks athletes and entertainers. Those who play or perform in the U.K. face systemic taxes.

The IRS too has launched a special program targeting foreign athletes and entertainers. They generally must pay U.S. tax on their U.S.-source income. That includes pay for performances, endorsements, merchandise sales and other income closely related to the event.

Apart from filing U.S. tax returns, foreign athletes and entertainers are subject to special withholding rules. Some qualify for tax treaty benefits. Even so, disputes over allocations to a particular country are common.

*You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*