Will Income Taxes prevent Los Angeles Chargers from moving to London?

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Abstract

Income taxes should always play a large role in evaluating economic decisions. These taxes are usually a large percentage of the income earned. National Football League participants pay attention to these taxes. Even moving from a state imposing an income tax to a non-taxing state is often desirable. This is true even though state tax rates are much smaller than federal income taxes. There has been a great deal of publicity about the Los Angeles Chargers moving to London. This paper is a discussion of the income tax implications of such a move. The income tax liabilities of three Los Angeles players are computed under two levels of income – salary only and salary plus endorsements. Then the income tax liabilities of playing games only in Los Angeles and playing games only in London are computed. The results indicate that the move to London would be extremely expensive to these players and could impact the decision to move.

The COVID-19 pandemic is having a massive impact on every part of human life – including a huge impact on the National Football League. This case is based on the facts existing in 2019. Hopefully, the world, including professional sports, will return to some semblance of pre-COVID-19 normality as it was in 2019.

Keywords: Income tax, state income tax, foreign income tax credit, tax rate schedule

INTRODUCTION

In an accounting tax course, one of the topics discussed is the imposition of income tax by state and local authorities. Sports players that play games in-other-than home locations are subject to the state and local income tax at the location of their away games. There is usually relief in that a credit can be claimed against the state or local income tax in the state where the player resides. However, living in a state with no state or local income tax results in no credit and just an extra expense for the away-from-home game.

There has been speculation that the Los Angeles Chargers might have an interest in moving to London, England. The tax implications of this move would be very large. This case study will explore the implications of such a move upon the Chargers players and organization. The income tax liabilities of three Los Angeles players are computed under two levels of income – salary only and salary plus endorsements. Then the income tax liabilities of playing games only in Los Angeles and playing games only in London are computed.

In completing this case, students should be able to:

1. Discuss the basic computation of the US income tax;
2. Discuss the basic computation of a state income tax;
3. Discuss the basic computation of the United Kingdom income tax;
4. Describe the impact of a state income tax on a player's decision to live in a state with an income tax;
5. Describe the impact of the United Kingdom income tax on a player's decision to live in London; and
6. Evaluate the effect of the various income taxes on the Chargers' decision to move the team to London.

WHY ARE THE CHARGERS CONSIDERING A MOVE?

Since 2007, the National Football League (NFL) has featured regular season games outside of the United States as part of their International Series. The league began hosting these overseas matchups with hopes of reaching an untapped fan base in Europe and beyond. The majority of these games have been played in the United Kingdom with a few played in Mexico City. The NFL has indicated that the International Series may expand to other markets such as Germany and China. The NFL is very aware of the fact that although millions of fans watch the Super Bowl each year globally, that number pales in comparison to those who follow the World Cup every four years.

The league has quickly learned that there is a strong interest in American football across the globe, particularly in Europe. In 2017, all four games played in London were sold out. Of the approximately 300,000 fans that attended the games, over 40,000 had purchased tickets to all four games. Considering it is highly unlikely for the league to expand from its current 32 teams, many people believe that London would be a logical destination for an NFL franchise looking to relocate. Despite the obvious logistical challenges to overcome with playing eight regular season games on another continent, the league is confident that by scheduling bye weeks and two to three blocks of home/away games, they can arrange a regular season schedule that is fair to all the teams making the trans-Atlantic journey during the season.

With that said, the even bigger obstacle to overcome is finding a team willing to "pull up their stakes" and move across the pond. Not only does team ownership have to consider their fan base and the negative attention associated with a team relocation, many teams are legally obligated to play in cities and/or stadiums due to long term leases.

Although denied by team ownership and the league itself, many fans have speculated that the Los Angeles Chargers could be the NFL franchise with the most to gain from a move to London. The Chargers left San Diego in 2017 and are temporarily playing their home games in a 30,000-capacity stadium in Carson, CA. The team has agreed to a 20-year lease to play in the much larger mega-stadium in Inglewood with a capacity of over 70,000 fans. When the team moves in to the new stadium in 2020, they will be sharing it with the Los Angeles Rams.

The owner of the Los Angeles Rams, Stan Kroenke, is also building the new stadium in Inglewood. Before Kroenke relocated the Rams from St. Louis to Los Angeles in 2016, he initially envisioned Los Angeles with one NFL franchise. To facilitate his team's move to California, Kroenke proposed building a new stadium which he would be obligated to share with another team.

The Chargers' financial projections have been a disappointment since moving to Los Angeles. Should they express interest in moving overseas, it is possible that Kroenke would let them out of their lease in Inglewood. After all, Kroenke originally wanted the Los Angeles market to himself!

Assuming the Chargers are willing and able to navigate the hurdles associated with relocating to another country, there will most likely be significant tax changes for the ownership, employees and athletes of an NFL franchise based in the United Kingdom. For the remainder of this case study, we will discuss the tax implications for three members of the Los Angeles Chargers football team.

Tax Implications of a Move

To explore the tax implications of a move, the salaries of three players are used. These salaries were reported on spotrac.com on November 14, 2019. Endorsements for the three players are not available, so estimates have been included in the computations.

	Salaries	Estimated Endorsements
Philip Rivers	23,000,000	500,000
Melvin Ingram	19,625,000	400,000
Russell Okung	15,500,000	300,000

There are two income taxes paid by athletes living in Los Angeles, California. There is not a city income tax for the City of Los Angeles, California. As detailed in the Appendix, the federal and state income taxes imposed on a person living in Los Angeles, California are substantial.

Another potential complication is the so-called jock tax. All of the taxing jurisdictions impose a tax on the player's basic salary earned while playing a game in that jurisdiction. Some jurisdictions are enacting tax provisions to tax a ratable portion of the player's endorsements. The computations on Figure 1 are the worst-case scenario for the jock tax. The second set of computations is under the assumption that all endorsement income for all the players is included in United Kingdom taxable income.

Figure 1 illustrates the computations of the income tax for the three players. The income tax liabilities of the three Los Angeles players are computed under two levels of income – salary only and salary plus endorsements. Then the income tax liabilities of playing games only in Los Angeles and playing games only in London are computed. The income taxes are computed using the 2019 tax rate schedules in the Appendix.

The Move to London

The possible move to London involves a large tax expense to the players. The current rates for income earned in the United Kingdom include a top rate of 45%. The top rate in the US is only 37%. On their US income tax returns, the players receive a foreign tax credit for the income taxes paid in the UK. However, they can receive a credit of no more than the equivalent US income taxes paid on the income. The result is that the players pay US income tax equal to UK income tax rates.

As illustrated in Figure 1 the three players would incur substantial reductions in income on a move to London. The reduction in net income for moving to London is as follows.

	Salaries	Salaries and Endorsements
Philip Rivers	1,885,360	1,925,360
Melvin Ingram	1,617,520	1,649,520
Russell Okung	1,285,360	1,309,360

Move Involving only State Income Taxes

Another football team, the Oakland Raiders, have reported that they will be moving to Las Vegas, Nevada in 2020. The tax implications of this move are obvious – there is no Nevada state income tax. Hypothetically, if the Chargers moved to a state without income taxes, the tax savings from not paying the California income tax would be substantial for the three players as illustrated on Figure 1. The magnitude of these taxes could be an incentive to move to a state with no income taxes.

	Salaries	Salaries and Endorsements
Philip Rivers	2,798,525	2,860,025
Melvin Ingram	2,386,721	2,435,921
Russell Okung	1,876,025	1,912,925

Figure 1 - Income taxes in the United States, California and London

Net Income after Tax - Base Salary

	Philip Rivers	Melvin Ingram	Russell Okung
Base salary	23,000,000	19,652,000	15,500,000
US income tax	8,437,973	7,199,213	5,662,973
California income tax	2,798,525	2,386,721	1,876,025
Net income after tax - only US taxes	11,763,502	10,066,066	7,961,002
UK income tax in UK pounds	7,742,499	6,612,549	5,211,249
Conversion rate	0.75	0.75	0.75
UK income tax in US dollars	10,323,333	8,816,733	6,948,333
Foreign tax credit	-8,437,973	-7,199,213	-5,662,973
Net income after tax	9,878,142	8,448,546	6,675,642
Reduction in net income for moving to UK	1,885,360	1,617,520	1,285,360

Net Income after Tax - Base Salary + Endorsements
All Income Included in Both US and UK income

	Philip Rivers	Melvin Ingram	Russell Okung
Base salary	23,000,000	19,652,000	15,500,000
Endorsements	500,000	400,000	300,000
Total income	23,500,000	20,052,000	15,800,000
US income tax	8,622,973	7,347,213	5,773,973
California income tax	2,860,025	2,435,921	1,912,925
Net income after tax - only US taxes	12,017,002	10,268,866	8,113,102

UK income tax in UK pounds	7,911,249	6,747,549	5,312,499
Conversion rate	0.75	0.75	0.75
UK income tax in US dollars	10,548,333	8,996,733	7,083,333
Foreign tax credit	-8,622,973	-7,347,213	-5,773,973
Net income after tax	10,091,642	8,619,346	6,803,742
Reduction in net income for moving to UK	1,925,360	1,649,520	1,309,360

DISCUSSION AND CONCLUSION

The example in this paper has highlighted the reason the income taxes that would be paid in the UK will make sports players, coaches and other involved individuals reluctant to move. The calculations in this case have demonstrated that these amounts are substantial.

Discussion for Accounting Students

Questions

1. Discuss the basic computation of the US income tax;
2. Discuss the basic computation of a state income tax;
3. Discuss the basic computation of the United Kingdom income tax;
4. Describe the impact of a state income tax on a player's decision to live in a state with an income tax;
5. Describe the impact of the United Kingdom income tax on a player's decision to live in London; and
6. Evaluate the effect of the various income taxes on the Chargers' decision to move the team to London.

Answers

1. This first step in determining an individual's US tax liability is to determine the income items that must be included in gross income.[1] Then there are several deductions to arrive at taxable income.[2] The most common deductions are the greater of itemized deductions or the standard deduction and the qualified business income deduction.[3] The tax rate schedule in the Appendix (for a married couple filing jointly) is used to compute the income tax. There are special rates for dividends and capital gains.[4] Credits then reduce the tax liability to arrive at the amount due or the refund.
2. As in most states, the computation of an individual's California state income tax begins with federal adjusted gross income. This amount is adjusted for California income tax provisions to arrive at California adjusted gross income. This amount is reduced by the greater of itemized deductions or the California standard deduction to arrive at taxable income. The table in the Appendix (again for a married couple filing jointly) is applied to compute the income tax. California has its own set of credits to reduce the income tax, resulting in taxes due or a refund.[5]
3. The computation of the individual UK income tax is similar to the computation of the US income tax. After income is determined there is a set of deductions to arrive at taxable income. The table in the Appendix is used to compute the income tax. The income tax is reduced by tax reliefs (similar to the US credits) to determine tax due or refundable.[6]
4. State income taxes reduce the amount of income that an individual can spend on living expenses, debt reduction, investments or whatever is important to the individual. Individuals are generally reluctant to pay taxes instead of having income to spend on other priorities. Although state income tax rates are generally much lower than the federal income tax rates (see the tax rate schedules in the Appendix) individuals generally would rather not pay state income taxes. State income taxes are one of the attributes that individuals will consider when determining in which state to live. If all other attributes are the same, living in a state with no income tax immediately increases an individual's net income.
5. The income tax rates for an individual living in the UK are substantially higher than the income tax rates for an individual living in the US (see the tax rate schedules in the Appendix). Citizens of the US are taxed on their worldwide income. If they are working in the UK they are also taxed on their income in the UK. Although US individuals can claim a foreign tax credit[7] for taxes paid in the UK, the credit is limited to the US tax rates on that income.[8] Consequently an individual working in

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[1] IRC Sec 61
[2] IRC Sec 63
[3] IRC Sec 199A
[4] Rev. Proc. 2019-44, 2019-47 IRB 1093
[5] https://www.ftb.ca.gov/forms/2019/2019-540-booklet.html#18_540-12
[6] https://www.gov.uk/income-tax-rates/previous-tax-years
[7] IRC Sec 901
[8] IRC Sec 904

the UK will pay the UK income tax at the UK's higher rates. If all other attributes are the same, living in the UK immediately decreases an individual's net income.

6. If all individuals are rational economic persons, they would rather pay less taxes. If all other attributes are the same, living in the UK immediately decreases an individual's net income. This would seem to be a disincentive for moving to the UK.

REFERENCES

IRC Sec 61
IRC Sec 63
IRC Sec 199A
IRC Sec 901
IRC Sec 904
Rev. Proc. 2019-44, 2019-47 IRB 1093
California Franchise Tax Board https://www.ftb.ca.gov/forms/2019/2019-540-booklet.html#18_540-12
HM Revenue & Customs https://www.gov.uk/income-tax-rates

APPENDIX: TAX RATE SCHEDULES FOR THE US, CALIFORNIA AND THE UK

US Income Tax Rate Schedule
Returns for Married, Joint and Surviving Spouses
Taxable Years Beginning in 2019[9]

If Taxable Income Is:	The Tax Is:
Not over $19,750	10% of taxable income
Over $19,750 but not over $80,250	$1,975 plus 12% of the excess over $19,750
Over $80,250 but not over $171,050	$9,235 plus 22% of the excess over $80,250
Over $171,050 but not over $326,600	$29,211 plus 24% of the excess over $171,050
Over $326,600 but not over $414,700	$66,543 plus 32% of the excess over $326,600
Over $414,700 but not over $622,050	$94,735 plus 35% of the excess over $414,700
Over $622,050	$167,307.50 plus 37% of the excess over $622,050

California Income Tax Rate Schedule
2019 California Tax Rate Schedules
Schedule Y10

Use if your filing status is Married/RDP Filing Jointly or Qualifying Widow(er)

If the amount on Form 540, line 19 is

over –	But not over –	Enter on Form 540, line 31
$0	$17,618	$ 0.00 + 1.00% of the amount over $0
17,618	41,766	176.18 + 2.00% of the amount over 17,618
41,766	65,920	659.14 + 4.00% of the amount over 41,766
65,920	91.506	1,625.30 + 6.00% of the amount over 65,920
91,506	115,648	3,160.46 + 8.00% of the amount over 91,506
115,648	590,746	5,091.82 + 9.30% of the amount over 115,648
590,746	708,890	49,275.93 + 10.30% of the amount over 590,746
708,890	1,181,484	61,444.76 + 11.30% of the amount over 708,890
1,181,484	and over	114,847.88 + 12.30% of the amount over 1,181,484

[9] Rev. Proc. 2019-44, 2019-47 IRB 1093
[10] https://www.ftb.ca.gov/forms/2019/2019-540-booklet.html#18_540-12

London Income Tax Rate Schedule

Income Tax rates and bands[11]

The table shows the tax rates you pay in each band if you have a standard Personal Allowance of £12,500.

Band	Taxable income	Tax rate
Personal Allowance	Up to £12,500	0%
Basic rate	£12,501 to £50,000	20%
Higher rate	£50,001 to £150,000	40%
Additional rate	over £150,000	45%

[11] https://www.gov.uk/income-tax-rates