

Worth their weight in gold

In the light of their Beijing success, our Olympic medal winners could find that their tax affairs come under greater scrutiny, warns Richard Baldwin

Winning 47 medals at the Beijing Olympics in August was a fantastic achievement for Team GB. For some, winning a medal will open the doors to lucrative sponsorship and endorsement contracts; others may not be so lucky and will have to be content with lower rewards. But one thing is certain for all of our successful athletes: they overlook tax at their peril.

Generally our athletes, whether medal winners or not, do not have large incomes. Most have a single source: the Athlete Personal Award (APA) received from UK Sport (UKS) out of National Lottery funds. The annual average APA at the top 'podium' level is £16,700, and out of the 400 or so 'podium' athletes, nearly two-thirds have other income of less than £5,000 a year, with only 13% receiving income of over £20,000. While the APA does provide valuable support, it is insufficient to meet the athletes' spending on sport in most cases. Nearly 50% of the athletes spend over £5,000 a year more than their APA.

Our medal winners often start from this financial base: while they receive valuable support from UKS, they are spending much more to compete. Most are still 'amateur' in so far as they spend more on their sport than they take out of it. Clearly gold medal winners will have the opportunity to generate commercial income that could easily exceed £100,000 a year and more for the more successful athletes in the better-known sports. But a bronze medal winner in a less well-known sport may struggle to generate £5,000 a year. Both will need to deal with income tax and take particular care with the APA.

Why is the APA so important?

The purpose of the APA is to enable athletes to reach their full potential by providing funding for them while training. It is a contribution, subject to conditions, towards individual athlete living and sporting costs and is awarded for a 12-month period. Unfortunately, the APA is not exempt from tax; hence every athlete on UKS's programme could be paying income tax and filing income tax returns. Lobbying the Treasury to exempt APAs from tax has so far been unsuccessful. All of the possible schedules of charge to income tax under which the APA might fall, such as employment income, annual payments, miscellaneous receipts etc. must be considered. Fortunately, the position has been clarified with Revenue & Customs, which has reviewed and commented on the standard documentation used for APAs. The Revenue has agreed that generally the APA can only be taxed if the athlete is carrying on a profession. This followed long discussions with Revenue head office specialists and continues to be monitored by

the Revenue, since changes in the structure of the APA scheme could change the tax treatment.

While the Revenue has narrowed the options to one – ie, is the athlete a professional sports person? – this question is not always easy to answer, although there are useful guidelines published in the Revenue's *Business Income Manual* (BIM).

The Revenue has accepted that if the APA is the athlete's sole income from sporting activities (which is the case for the vast majority); normally it will not be treated as a taxable receipt. This will be the case currently for most of our medal winners, but is subject to the usual caveat that each case turns on its own facts and circumstances. At what stage, however, does a professional activity commence, and what are the implications?

Becoming a professional

Each athlete needs to look at his or her own position. The fact that he or she may be described as an amateur will not be decisive (see guidance published by the Revenue in its BIM). For example, appointing an agent to find sponsorship contracts is likely to indicate that a professional activity has started.

There will be situations that are not clear-cut, and here case study examples are helpful. UKS has published a number of these on its 'Performance Lifestyle' website. The case study illustrated in the box indicates that a professional activity does not necessarily start when income is generated following a medal win. Elizabeth pays tax on her miscellaneous income but not on the APA. But if she were to receive sponsorship following the appointment of an agent then it is likely she would become a professional, which would mean that both her commercial income and the APA would be taxable. This could result in an effective tax rate of above 40%, because although the APA is designed to cover expenses, ie, personal sporting and subsistence costs, not all of those costs will be tax deductible. Hence she would be paying tax on all of her commercial income plus the portion of the APA that was not covered by tax-deductible expenses.

Deductible expenditure

Professional athletes are able to deduct a range of expenses from their taxable income if the expenses are incurred 'wholly and exclusively' for the purposes of their profession. The Revenue will often allow an allocation of expenditure that has a personal benefit to reflect the 'professional expenditure'. I have developed a guidance note on what expenses are likely to be tax deductible for UKS and the British Athletes Commission. Deductible expenses include agents' and management fees, commissions, travel costs, payments for the use of sports facilities, sports coaching costs, professional fees etc.

There is likely to be difficulty with deducting the annual subsistence costs that are met by the APA. Such costs include principally housing costs such as rent and mortgage payments and food, which total around £10,000 of the APA. When the athlete becomes a professional the Revenue is unlikely to allow a tax deduction for such

expenditure since it does not generally satisfy the 'wholly and exclusively' test. But where an athlete has to move, say, from his or her parents' home to take accommodation near to the sports national training facility, the additional expenditure may be tax deductible. This may have to be argued on a facts and circumstances basis with the athlete's tax inspector. The clear message to our medal winners is to carry out a detailed review of expenses and to claim all expenditure that is deductible.

Keeping records

Athletes are usually more focused on breaking records than keeping them. But it is important that medal winners keep proper records to support the profit and loss account for their professional activities. The more successful will ask their agents or accountants to help with this. All commercial income must be recorded and copies retained of invoices the athlete has issued. Supporting evidence must be kept to substantiate tax deductible expenditure, including copies of invoices/receipts for purchases and expenses. Particular care must be taken with apportioning professional and personal expenditure. A separate bank account should be kept for professional activities if income levels are high, but for those earning at the lower levels it may be sufficient to keep a detailed diary record. If records are not kept throughout the year it may be too late to reconstruct them later, so an early start should be made.

Under our self-assessment system it is the athlete's responsibility to request, complete and submit his or her income tax return. Medal winners who are unable to secure commercial income need not generally worry about tax compliance, since they should be covered by the Revenue's practice of not taxing an athlete where his or her only source of income is the APA. Those who are only moderately successful and do not actively promote themselves may still have no tax problems if they are in a position similar to Elizabeth in the case study. If their sporting income is less than the personal allowance, it would be advisable to complete a tax return and submit it to avoid later questions.

Finally, medal winners who wish to recoup years of heavy expenditure on their sporting activities by seeking sponsorship and endorsement contracts will need to put the appropriate record-keeping in place now, report the commencement of their profession to the Revenue and be prepared to file year-end accounts and income tax returns.

If it moves, tax it

Medal winners should rightly bask in their success at the Beijing Olympics. They should, however, remember our government's tendency to follow Ronald Reagan's famous adage, 'If it moves, tax it', even on grants it itself has made. Rather than breaking records, athletes need to turn their attention to keeping records. Unfortunately the tax system as it applies to athletes is not at all straightforward, and for those medal winners who aspire to commercial riches an early review of their tax position would be worthwhile.

Case study

Elizabeth is in a sport that finds it difficult to attract sponsorship and her sole funding has been from the APA. Despite the fact that she wins a medal in Beijing she still cannot secure sponsorship. But following her medal success she is asked to open a local store, for which she receives a fee of £500, and also to make a presentation on motivation to a group of businessmen employed by a well-known company at its national conference, for which she receives £1,000. Despite earning £1,500 from these activities related to her sporting success, she is not a professional athlete for tax purposes, although the income of £1,500 net of any related expenses will be subject to income tax as miscellaneous income.



Olympic champions like Christine Ohuruogu will see their tax bills rise if they choose to cash in on their success

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