



THE BRITISH ATHLETES COMMISSION LIMITED

THE BRITISH ATHLETE'S COMMISSION LIMITED PROPOSAL FOR EXEMPTING ATHLETE PERSONAL AWARDS FROM TAXATION

Executive Summary

The current tax regime for athletes is acting as a disincentive to them looking for, or accepting, low to medium level sponsorship in the £0 - £10,000 range, because at present, when an athlete earns any money from their sport over and above their lottery award, they are likely to be deemed to be a professional sports person in which event all their sporting income becomes taxable, including their Lottery Award. This means that athletes need to earn significantly in excess of £10,000 in this way before it becomes worthwhile.

We feel that changing the way in which athletes are taxed would have a minimal cost impact on HM Treasury, but could have a significant number of benefits for athletes and sport. Exempting all lottery funded Athlete Personal Awards from income tax so that athletes would only need to worry about the tax treatment of any other income (including sponsorship) would significantly simplify the tax system for athletes and reduce the amount of time HMRC has to spend on assessing individual athlete cases to recover relatively small amounts of income tax.

Increasing the number of sponsorship links athletes could create with the commercial sector could not only bring more money into sport but also enable athletes to forge longer term partnerships improving their skills base and future employment prospects. Given that only a very small percentage of elite athletes make significant amounts of money from their sport, it is important that athletes plan ahead for life after sport.

Purpose of paper

To present the case for tax exemption for APAs, by showing the benefits this would bring to elite sport and athletes chances of success in 2012, and demonstrating the minimal effect this would have on the Treasury.

Benefits of WCP - APA grant programme

This enables athletes to reach their full potential by significantly reducing the need for them to provide an income for themselves whilst training. The APA is a contribution towards individual athlete living and sporting costs. Research by UK Sport has shown that many athletes have to supplement this with their own income or support from relatives, friends or sponsors in order to be able to meet the costs of being an elite athlete (the average annual amount being £5,000 but with some athletes in the more expensive sports like Sailing spending more than £10,000).

UK Sport have agreed detailed guidance on the taxation of APA's with HMRC which has been published on HMRC's website. Under this guidance which has proved extremely useful in practice, athletes who receive only an APA and no other income from their sport are not treated as carrying on a profession – as a sports person and are therefore not subject to tax. It is when such individuals generate other income from their sport such as sponsorship that tax problems arise. This paper is concerned with these athletes.

Current problems with taxation of APAs

The current problems with taxation of APA's relate to the way in which athletes are assessed as to whether or not they are professional sports people. At present, if an athlete earns income from their sport above their lottery athlete personal award as noted above, they are likely to be regarded by HMRC as a professional athlete (although this is assessed on a case by case basis) and consequently all sporting income, including the lottery award, may be subject to income tax. This means that athletes in receipt of small to medium sponsorship or sporting earnings (£0 - £10,000) may stand to lose money, as the tax and national insurance bill could be greater than the amount they are earning (See Appendix 1).

This is acting as a huge disincentive to athletes to look for, or accept, commercial sponsorship. It also means that lottery income is being lost from sport. This system is very complex for athletes to understand/manage. Whilst the BAC and other bodies such as UK Sport provide guidance to athletes on managing their financial affairs, it is clear that in practice many are not very well-informed and do not seek proper financial advice. The result is that tax can be a major concern to athletes and a performance distraction (see Appendix 3 which contains examples of athletes who have had tax problems).

Benefits of exempting APAs from tax

A much simpler taxation system for athletes is needed. This will result in:

- Less time worrying about unexpected tax exposure which can detract from performance.

- Athletes actively seeking and accepting sponsorship, helping them and NGBs attract more commercial sponsors and funding to sports, knowing that this will not affect their APAs.
- Efficiency savings for HMRC through having an easier system to administer and less time spent on assessing individual athlete cases to see if an athlete classes as a “professional” or not. The presumption would be that if they are earning sponsorship income resulting from their sport that they are a professional athlete unless they can show otherwise they are from ad hoc non sporting appearances.
- Lottery APA income would not be lost to sport through taxation, which could become an increasing concern with potentially more sponsorship opportunities available on the back of London 2012.
- If more athletes are able to access sponsorship income this might increase the number of lottery APAs reduced by means testing which would enable these funds to be spread further.
- Avoiding adverse publicity for everyone which would inevitably arise from some athletes getting their tax affairs wrong under the current complex system.

Detailed technical arrangements

This would obviously be a matter for HM Treasury but our objective could quite simply be achieved by a specific tax provision exempting APAs from income tax [it being provided that any costs met out of such awards would not be tax deductible in arriving at the taxable profits from the professional trade].

Anticipated Exchequer costs

It is not easy to estimate the cost of the loss of tax. As Appendix 2 shows only those with income in the £5,000 plus band would be affected. Some of these athletes would be deriving the income shown from part or fulltime employment and again there would be no loss of tax in these cases. Ignoring this, the maximum loss of tax and national insurance based on Appendix 2 is estimated at £0.75m. The saving in administration time and effort by HMRC, and athletes and their advisers in the case of the 250 or so athletes who would not have to register and file returns as a result of the proposal, would substantially offset this cost.

APPENDIX 1 – THE IMPACT OF SPONSORSHIP

Facts

Athlete A receives an annual APA of £20,000 (typically split equally between a grant towards living costs and personal sporting equipment/costs).

He has no other income but has the opportunity to enter into a sponsorship contract of £5,035 pa for 3 years as a result of which he would be treated as a professional sportsman for tax purposes.

Tax Position

Before sponsorship income A is not treated as a professional and pays no tax after sponsorship A is a professional and has –

Taxable income (1)	£25,035
Personal allowance	<u>£(5,035)</u>
Taxable	<u>£20,000</u>

(1) Assumes no tax deductible expenditure claimed against the income

Income tax payable	£ 4,142
National Insurance	
Class 2	£ 110
Class 4 £20,000 @ 8%	<u>£1,600</u>
Total	<u>£5,852</u>

Conclusion

It is not worth A accepting the sponsorship contract since the tax payable of £5,852 is more than sponsorship income.

APPENDIX 2 – DETAILS OF ATHLETE INCOME

UK Sport currently has 438 Podium level athletes eligible for Athlete Personal Awards. 12 of these are Means-tested out or have not applied for funding (which is normally because they know they will be means tested out), leaving 426.

1. 271 of the 393 athletes with awards have declared some income on their most recent review/application form.

2. Details of income amounts are:

Income declared	Number of athletes
£0	123
£1 - £5,000	128
£5,001 - £10,000	54
£10,001 - £15,000	29
£15,001 - £20,000	25
£20,001 or more	35
Total	394

3. Average annual APA £16,500

APPENDIX 3 – EXAMPLES OF ATHLETES AFFECTED BY THE TAX PROBLEM

Case study 1) X

X is part of the highly successful GB XX who have been unbeaten in their last two seasons and are double world champions. Their success has led to increasing sponsorship interest, and they managed to secure a major sponsor in 2005. X came to fill in his tax return at the end of the 2005-06 tax year and after speaking to an accountant, discovered to his surprise that he would be losing all the money he had earned through sponsorship and appearances, as his A level lottery award, which up until then was tax free, suddenly became taxable.

Case study 2) X

A number of members of the GB team became eligible for a performance bonus of £5000 each from a sponsor. They have realized that if they accept this bonus, they may end up having to pay more than £5000 each when their lottery awards become liable for income tax.

Case Study 3) X

An aquatics athlete has been offered a £5000 contract with a swimwear company. He feels he will have to turn the offer down as accepting the sponsorship will make him a professional athlete in the eyes of HMRC and he will end up losing more money than he makes.

Case Study 4) X

X was earning significant amounts of money through appearances and sponsorship in the lead up to the Sydney Olympics, however he had run into difficulties as his accountant had not fully understood all the rules relating to athletes and X had not been paying enough tax. This resulted in a significant tax bill which he could not afford to pay. The day X left for the Olympics, the bailiffs turned up at his house to begin repossessing his belongings to pay off the debts. Not exactly ideal preparations for the biggest event of his life! This is an indication of how a complex system can have a damaging effect on an athletes medal chances at a major competition.