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### IRS Sand Trap For Pro Golfers

If your memories of Tiger Woods' flameout have dimmed, you may think big-time golfers don't have any problems. Tax problems may seem especially distant when you're raking in big dough. But a recent Tax Court case gives a peek into the financial life of the links elite and the U.S. tax difficulties club-toting globetrotters can face.

Foreign athletes and entertainers generally must pay U.S. income tax on their U.S.-source income. This includes compensation for performances, endorsements, the sale of merchandise, and royalty or other income closely related to the event. These taxpayers are required to file a U.S. income tax return and are subject to [special withholding rules](#). Some can qualify for special tax treaty benefits depending on their home country.

The IRS has launched a [special program](#) to target them and assure compliance. South African [Retief Goosen](#) has twice won the U.S. Open (in 2001 and 2004), but didn't fare well in U.S. Tax Court. See [Goosen v. Commissioner](#). His case concerned what was U.S.-source income subject to tax by the IRS.

In addition to his income from playing in tournaments, Goosen had endorsement deals with: Electronic Arts; Rolex; Upper Deck; Izod, which is owned by [Phillips-Van Heusen Corp. \(PVH\)](#); Acushnet Co., maker of Titleist golf equipment sold by [Fortune Brands Inc. \(FO\)](#); and TaylorMade, owned by [Adidas AG. \(ADS\)](#). Filing non-resident U.S. tax returns, Goosen allocated 50% of his endorsement fees and bonuses from Acushnet, TaylorMade and Izod to personal services, classifying the

other 50% as royalty income.

But he labeled other endorsement fees—from Upper Deck, Electronic Arts and Rolex—100% royalty income. The case turned on whether the endorsement earnings were royalty income—**based on his image**—or personal services income—**based on his performance on the golf course**. The IRS argued the personal services point, downplaying the royalty income based on his image. The judge found his off-course image and his on-course performance were both important, but came out differently than Goosen did.

Before you feel too sorry for Goosen, note that he treated only about 7% of his total endorsement income as U.S.-source income. The Tax Court ruled Goosen's endorsement fees and bonuses from Acushnet, TaylorMade and Izod were 50% personal services and 50% royalty income. Since the royalty income was effectively connected with a U.S. trade or business, the IRS got its slice.

The royalty income from Rolex was 50% U.S.-source income not effectively connected with a U.S. trade or business. The royalty income from Upper Deck was 92% U.S.-source income not effectively connected with a U.S. trade or business. Goosen's royalties from Electronic Arts were 70% U.S.-source income not effectively connected with a U.S. trade or business, the court ruled.

For more, see:

[Two-Time U.S. Open Champ Goosen Understated Income, U.S. Tax Court Says](#)

[Golfer Goosen joins the U.S. Tax Tour](#)

[When Is a CPA As Important As Your ERA?](#)

[The Taxing Life Of A Pro Athlete](#)

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