PERSPECTIVE

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Olympic Athletes Must Pay Taxes, But Should They?

By Robert W. Wood

For most of us, the Olympics offer a short flurry of colorful events, and then go into hibernation again. And the stakes, financial and otherwise, can be big. Successful Olympic athletes can make large amounts of money, on top of the glory. And money inevitably means taxes. Prizes and awards can too.

It turns out that American athletes receive a modest cash prize *with* their medals. Athletes get $25,000 for gold, $15,000 for silver and $10,000 for bronze. The "podium value" of a gold medal at the Rio Olympics has been reported as approximately $564, based on the price of gold at $43.76 per gram and the price of sterling silver at 61 cents per gram. Fortunately, the value of the medals themselves is not income.

However, the Internal Revenue Service says the cash is, and that has some people outraged. Sen. Charles E. Schumer, D-NY, is urging Congress to block the IRS from taxing Olympic medals. In the scheme of things, the worry over Olympic medals triggering taxes seems a little silly.

After all, if you are about to rake in millions in product endorsements, is it likely that you care if the $25,000 cash prize that comes with a gold medal is something like $16,000 after taxes? Probably not, but some observers find that a shock, even an injustice! Schumer for one says it isn't right.

Note that these stipends come from the U.S. Olympic Committee, not the U.S. government. The stipends are small compared to what medals bring in endorsements and other income. And in that sense, this is hardly a big issue, however it comes out. But make no mistake, the IRS does like to collect.

Since 1986, prizes and awards are fully taxable to the IRS. The IRS website warns that cash prizes and awards are taxed whether you win a drawing, quiz show or beauty contest. For many decades, the tax law distinguished between awards that were based on achievements, and those that were more like a lottery.

But the line-drawing was quite difficult, and in the end, Congress changed the tax law to make all prizes and awards taxable. The same rule applies to any cash prize, be it the lottery, a Nobel Prize and Olympic medals, too. Plus, it isn't only cash that is taxable. You must report the fair market value of merchandise or products too. It's all other income on Form 1040, Line 21. If you win a car from Oprah, someone has to pay the tax.

Most people who win awards do just that, pay the tax, although they may grumble about it. Technically, though, you could avoid taxes by declining an award. One famous example was George C. Scott, who declined a Best Actor Academy Award for "Patton." You can even decline a Nobel Prize, and six Nobel laureates have done it.

Nobel laureates receive a diploma, a gold medal, and cash in Swedish kronor. The amount has been as high as $1.5 million, but is now considerably less. President Barack Obama cleverly managed to accept his Nobel Peace Prize, but to donate the cash that came with it to charity. It was clever because if he received the $1.4 million in cash and promptly donated it to charity, he would have a big tax problem. He would not have been able to write off the entire gift to charity. There are limits on annual charitable giving (usually 50 percent of your income).

So, Obama used an IRS rule that allowed him to accept the prize but tell the organization in advance that he would not accept the cash. In effect, he diverted the cash away from his tax return in advance. That way he didn't have to worry about the income he would have to report, or the limitations on charitable contribution deductions that would cut back on his deduction. And because he arranged it in advance, a kind of regifting of the $1.4 million cash award, it was tax efficient.

In other cases where people do not do exactly what Obama did, the tax consequences of regifting can be problematic. You cannot deduct charitable contributions that exceed 50 percent of your "contribution base," which is generally your adjusted gross income. That's why his arrangement in advance for the cash bypassed his income entirely. That was good tax planning. Of course, winning has its own perks, financial and otherwise.

Apart from efforts to stop the IRS from taxing the winnings of Olympians, California has also gotten into the act. A bill as introduced into the California Legislature that would have exempted the Olympic stipends from state income tax. With top rates of 13.3 percent, California income taxes are among the highest in the nation. And the way California computes its tax is also generally strict, causing some taxpayers to bolt from the state before selling a company or settling a big lawsuit.

But Olympic athletes are not getting a break from California this year, the bill having failed. Similar California tax bills failed in 2012 and 2014. But fear not, Olympic medal winners stand to earn big after the games. The income may come from product endorsements, or all manner of other sources. Of course, that is all taxable too. But at least it is not taxable until it is earned.

Speaking of earning, many other awards also impact earnings. Some sources estimate that having a Nobel Prize winner on an institution's faculty will inject something on the order of $24 million into the institution's coffers. On the human front, winning that prize is said to also add two years to a Nobel laureate's life. A study published in May 2011 by Research Policy suggests having a Nobel Prize winner on staff is perfect for a company doing an initial public offering.

Olympic medals must help too. So I'm betting the Olympians are not that worried about paying taxes on the cash that comes with medals. But this is an election year, so stay tuned.

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