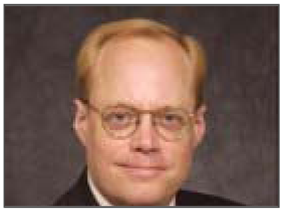

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Golfer Phil Mickelson Is Not Alone In Fleeing Taxes

Phil Mickelson has mentioned making "drastic changes" because of recent tax increases, including California's huge new–not to mention retroactive–taxes on the wealthy. He even suggested that taxes were one of the reasons he withdrew from the investment group buying San Diego's Padres. "There are going to be some drastic changes for me because I happen to be in that zone that has been targeted both federally and by the state and, you know, it doesn't work for me right now," Mickelson said after his T37 finish at the Humana Challenge in Palm Springs, California.

Phil Mickelson (Photo credit: Ed (supergolfdude))

Professional athletes and entertainers face a dizzying array of tax laws. Most states and countries tax them when they perform or play in their boundaries. Foreign athletes and entertainers must file U.S. income tax returns and face special withholding rules. What is considered U.S.-source can be debated but includes pay for performances, endorsements, merchandise sales, and royalty or other income closely related to the event. See IRS Sand Trap For Pro Golfers.

But when you are a resident–as Mickelson is of California at least for now–you get taxed on ***everything***. Most PGA Tour players live in no-tax states like Florida or Texas. Controversially, California residents voted in November to raise tax rates to 13.3 percent from 10.3 percent for those making more than $1 million. Still, Mr. Mickelson was measured in his remarks. Many are much less so and headed for the exits.

In some cases it is triggered by a big income event like selling real estate or a business, taking a company public or winning a legal settlement. Some of that has always happened in California and other high tax states. But there are signs the impact this time is more pronounced, combined with federal increases and a more general tax malaise. Yet many who leave will find it's not as easy to escape California's clutches as they thought. A California resident is anyone in the state for other than a temporary or transitory purpose. See FTB Publication 1031.

Plus, it includes anyone domiciled in California who is outside the state for a temporary or transitory purpose. The burden is on you to show you're ***not*** a Californian. Besides, even if you successfully shed your state's residency, some income could still be taxed by your former state.

For example, compensation paid to an employee working in California is taxable there even if the worker is no longer a resident when paid. That's one reason it's wise to get some advice and be realistic. Viewing your situation critically and strategically is important. Even if your state comes after you, if you have planned carefully you may be able to resolve any resulting dispute for a fraction of the taxes being sought.

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