



Robert W. Wood THE TAX LAWYER

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Tax Sand Traps For Ernie Els And Other Pro Athletes

South Africa's Ernie Els won the 141st British Open and should be relishing his success, not worrying about taxes. Even less successful professional golfers may not engender much sympathy. The money seems incredible, the work seems better than what most of us do for a living, and the adoring fans and media seem generally supportive. And think of that endorsement income!



Ernie Els of South Africa holds the Claret Jug, 'The Golf Champion Trophy' after winning the 2012 British Open Golf Championship at Royal Lytham and St Annes in Lytham, north-west England, on July 22, 2012. Els won the championship with a score of 273, one shot clear of Adam Scott of Australia. (Image credit: AFP/Getty Images via @daylife)

Still, if you've ever waged a tax battle—or even had difficulty trying to figure out something that is supposedly simple—you might feel differently. Imagine not just dealing with the IRS or your own home country's tax rules. Suppose you earn income in various countries and must apportion it and pay tax in many different places?

Welcome to the world of the professional athlete. For the British Open, it isn't only winnings that are at stake. It is also endorsement income.

The UK's tax collector, [Her Majesty's Revenue and Customs](#), does a shipshape job of revenue collection and administration, some say better than the IRS. In fact, even those who did not make The Open cut and didn't earn money from the tournament must pay taxes on endorsements.

The British tax collection service has a special unit known as the [Foreign Entertainers Unit](#). Its job is to track athletes and entertainers who play or perform in the UK. Tournaments withhold taxes from athlete earnings, so tracing income and withholding is relatively easy.

Golfers who participated in The Open pay taxes on:

- Tournament winnings.
- Endorsement retainers, based on days playing/practicing in the UK v. days playing/practicing elsewhere.
- Winning/placing bonuses, fully taxed by the UK.
- Ranking bonuses, taxed based on ranking points earned in the UK v. points earned elsewhere.
- Paid appearances before, during and after the British Open.
See [The Open Championship, A Taxing Golf Tournament](#).

Stateside, the IRS has also launched a [special program](#) to target foreign athletes and entertainers. After all, they generally must pay U.S. income tax on their U.S.-source income. That includes compensation for performances, endorsements, the sale of merchandise, and royalty or other income closely related to the event.

Foreign athletes and entertainers are required to file U.S. income tax returns and are subject to [special withholding rules](#). Some qualify for special tax treaty benefits depending on their home country. Still, disputes about how much is allocated to a particular country and where endorsement earnings should be taxed are common.

Consider the tax battle by another South African golfer, [Retief Goosen](#). Goosen twice won the U.S. Open (in 2001 and 2004), but didn't fare as 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. See [IRS Sand](#)

[Trap For Pro Golfers](#). So do professional athletes and entertainers deserve tax sympathy? Maybe just a little.

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