Do high state taxes affect NFL players’ performance?

BY MICHAEL COHN

High tax rates in some states could be having an impact on how well professional football teams perform on the field.

A paper presented at last month’s annual meeting of the American Accounting Association found “a significant negative relation” between NFL teams’ performance and the individual income tax rates of their home states. The study, presented by Matthias Petutschnig of the Vienna University of Economics and Business, found “the most straightforward reason why personal income tax rates might affect team performance is that higher taxes on a mobile labor force is a negotiating disadvantage for teams in high-tax states, hindering their ability to attract quality players.”

New England Patriots fans might question the premise of the study, though. The team is based in Massachusetts, which has one of the highest tax rates in the country: 5.1 percent. However, the team has won five Super Bowl championships and played in five other Super Bowls.

Nevertheless, the study found that over a 23-year period between 1994 and 2016, “teams in high-tax states win on average 0.2 games less per each percentage point of tax differential. For example, a team from California, which has the highest average state personal income tax rate over the whole observation period wins 2.75 fewer games per year (or 17 percent of the 16-game season) than a team located in a state without personal income tax, such as Florida or Texas.”

The average state tax rate of NFL players on teams that failed to make the playoffs in 2016, the final year covered in the study, was nearly 30 percent higher than the rate for playoff participants — 5.93 percent compared to 4.62 percent.

The NFL salary cap could account for the negative relationship between state taxes and team performance. The study compared the 10-year periods before and after imposition of the salary
cap in 1994. While there was no significant relationship before the cap was put in place, a strong negative relationship was seen after it was imposed.

“NFL players are paid very well and therefore have strong incentives to consider the tax implications of the teams they choose to play for,” said the study. “So, when negotiating with high-tax teams, players might ask for higher gross income to recapture the cost of paying higher personal income taxes. Under a strict salary cap, teams might not be able to satisfy this demand and the players might choose to play for a team in a low-tax state.”

The salary cap during the current NFL season is $177.2 million per team, an increase from $167 million last year and far higher than the $34.6 million cap imposed in 1994. Based on a roster of 53 players per team, the current cap amounts to an average of approximately $3.3 million per player, all of which is taxable by states — through the so-called “jock tax” — whether or not players are actual residents in a state.

“Players’ location attachment is small,” said the study. “In general, professional athletes are aware of and react to tax rate differentials, whether by migrating to low-tax locations or by negotiating the higher tax cost into their salary packages.”

Petutschnig thinks the study’s findings could have implications beyond the NFL to the corporate world, where income inequality between top executives and rank-and-file employees has increasingly provoked public controversy.

“Salary cap regulations have been introduced more frequently into the policy debate over the last several years,” Petutschnig said in a statement. “In a world of perceived growing inequality, this discussion has raised questions such as whether and how to regulate firms’ payments to their executives. One of the discussed methods of regulating and reducing executive compensation is a mandatory upper boundary (‘maximum wage’), which is a similar concept to the NFL’s salary cap.”

Is it possible that at some point CEO pay might be capped the same way NFL team salaries are capped? “Top managers are usually highly mobile and can get jobs everywhere, particularly with English increasingly serving as the world’s business language,” said Petutschnig. “Yet the link between able managers and company success is much weaker than the link between player performance and team success in the NFL; thus, even if we see an emigration of some top executives from regulated areas, we probably would not see a negative effect on firm performance — not, at least, in the short run.”

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