

Everyone's a winner?

Peter Fairchild explains how overseas sports stars are taxed in the UK

With the men's and women's football World Cups complete, the wait for the next tournament has begun. Tournaments of this scale in any sport take years of planning and financing from governing bodies and the countries throwing their hat in the ring to play host. Late last year, UEFA, European Football's governing body, warned the UK and Ireland over their bid for the Euro Championships in 2028, one of the major concerns being the tax treatment of competing players.

From a purely sporting perspective, competing in major tournaments represents the pinnacle of an international sports star's career. Similarly for tournament hosts, the excitement and economic boost that such events bring can uplift a nation. But as UEFA's warning indicates, beneath the surface of this seemingly win-win scenario of celebration for all lies a complex web of tax issues to unwrap.

This article explains the tax framework for overseas sports stars competing in the UK, looking at:

- What are the UK tax rules for non-resident sports people?
- How is a sportsperson's UK endorsement income calculated?
- What are the drawbacks of the UK's method of taxing athletes?
- Are there tax exemptions for athletes?
- Should athletes seek expert help?

Background

The first thing to mention is that sport and entertainment are outliers. Most of the time, non-UK residents temporarily visiting the UK to carry out work duties do not incur a UK tax charge, whether they are employed or self-employed. If a UK tax liability were to arise, the non-resident will usually find protection by virtue of being able to offset all or some of that charge in accordance with the terms of a tax treaty to prevent 'double taxation' – that is, being taxed twice on the same income, by different jurisdictional authorities.

However, this protection does not extend to non-UK resident sportspeople who are taxable in the UK when performing or training here (as Andre Agassi discovered following the ruling against him by the House of Lords in 2006).

What are the UK tax rules for non-resident sportspeople?

UK tax regulations provide that if a sportsperson or entertainer's gross annual payment exceeds the personal allowance (£12,750 for 2023/24) any individual or organisation that pays that person is required to withhold basic rate income tax.

It's likely that additional UK tax will be due if the individual's net profit – the taxable income after deducting allowable expenses from the gross income – exceeds the personal allowance and basic rate band in a tax year (broadly more than £50,000). In which case, the performer is required to register for self-assessment and file a UK tax return and will be exposed to UK income tax at the

usual rates (20% basic rate, 40% higher rate and the additional 45% on income over £125,140 for 2023/24) – after expense deductions.

Allowable expenses such as travel, accommodation, coaching, etc., could produce a reimbursement of some or the entirety of the 20% withholding tax. This cashflow disadvantage can be alleviated or eliminated by submitting an application to HMRC's foreign entertainers' unit, requesting that tax be assessed based on the expected net profit, rather than the gross appearance fee.

In most jurisdictions tax is applied to income directly associated with the appearance fee or prize money received. However, the UK stands out as one of the few countries where an additional tax is imposed on a segment of an individual's global endorsement income linked to their performances.

How is a sportsperson's UK endorsement income calculated?

It's first essential to be clear on what defines a 'performance' or 'training' day.

A performance day is characterised as the duration during which an individual engages in public performances, whether for competition or training, regardless of the duration of time involved. Conversely, a training day is three or more hours of physical activity spent training towards the chosen sport and these sessions are not open to the public for observation. This typically occurs within settings like the gym, road running or practice, for example.

Additionally, all prize money earned from UK based performances is subject to the country's taxation, as are appearance fees and bonuses paid by sponsors which specifically relate to UK tournaments. To ensure ease and consistency, HMRC recommends using two of the following ways to calculate the UK element of endorsement income – either the Relevant Performance Days (RPD) or the Relevant Performance and Training Days (RPTD) method.

The sportsperson is free to choose which of these methods to use for self-assessment each year. Given that a non-resident individual is most likely to spend the majority of their time training outside of the UK, the RPTD method is usually the preferred option. It is fundamental that a detailed diary is kept accurately tracking the individual's movements from one jurisdiction to another, as HMRC regularly ask to see evidence of training and performance days internationally.

To calculate taxable income using one of the two methods, one needs to calculate the number of UK days over the number of worldwide days of which the total worldwide endorsement income will be multiplied by:

Endorsement Income x UK Days / Worldwide Days = UK taxable income

To give an example, if a sportsperson spends 100 days of the year performing their sport in competition, of which ten are spent performing in the UK, using the RPD method, 10% of their worldwide endorsement income is subject to UK tax.

However, if the total number of performance and training days was 300 and only five additional days were spent training in the UK, then the RPTD fraction of 15/300 would mean that 5% of the sportsperson's worldwide endorsement income would be subject to UK tax.

What are the drawbacks of the UK's method of taxing athletes?

In the author's experience, HMRC's decision to tax endorsement income has been met with much internal criticism from within the accounting profession over the years. This is primarily

because it often deters athletes from competing in the UK and deprives the country of hosting showpiece events which could boost the economy by attracting overseas fans and tourists to watch their international heroes.

The impact is not just theoretical. Outside of the London Olympics in 2012 (Olympic Games carry different tax treatment via special exemption) UK fans rarely got to see athletics icon Usain Bolt compete, while international tennis stars regularly play 'warm-up' tournaments for Wimbledon outside the UK. In fact, in 2011, it was reported Rafael Nadal refused to compete at Queen's, the traditional precursor to Wimbledon, due to UK tax laws, instead opting to compete in Germany. Usain Bolt had a similar run-in with HMRC. In 2010, Wembley also reportedly lost out on hosting the Champions League Final for similar reasons.

Using the example of Wimbledon to illustrate the issue, a non-UK resident singles player knocked out of Wimbledon in the first round will receive approximately £50,000 in prize money, but could still end up going home with a net loss if they have a large global endorsement income.

For example:

Prize money £50,000
Less – travel and accommodation expenses £(10,000)
Net profit £40,000
Global endorsement income = £2m
RTPD allocation $15/300 \times £2m$ £100,000
Total income assessable to UK tax £140,000
UK income tax due £49,203 (2023/24 tax rate)

The income tax accounts for almost 100% of the UK prize money, resulting in an effective tax rate exceeding 123% when factoring in expenses against net cash profit. Consequently, the player returns home nearly £10,000 financially worse off than when they arrived.

Sometimes the incurred tax can be offset against local taxes back in the individual's home territory. However, this option proves less beneficial for individuals residing in low-tax regions, like Monaco, where little or no offset is possible and can lead to a considerable waste of foreign tax credits.

Are there tax exemptions for athletes?

In some select scenarios, the UK government will act to ensure that non-residents are not taxed when they come to compete here. This will really only occur when there is clear commercial or financial benefit to the UK in holding the event or tournament, which would outweigh the loss of tax revenue. For example, in 2021, the UEFA Super Cup was held in Belfast, and team officials were made exempt from UK tax on income related to their time in the UK for the game, and a similar income tax exemption was introduced as a condition of the UK's successful bid to host matches during UEFA's 2020 European Championships.

When bidding to host large sporting events, sports bodies like the International Olympic Committee offer full exemption from income tax for the athlete's performances and services provided by other personnel throughout the competition by the host jurisdiction. Whilst there have been no moves to provide competitors at Wimbledon or The Open with tax reliefs anytime soon, the UK may need to offer similar exemptions if it is to be successful at bidding for major one-off tournaments and continue to be known as an international home of sport.

Should athletes seek expert help?

In complicated matters of taxation such as this, it is always best to seek professional advice. If mistakes have happened in the past, it is always advisable to voluntarily come forward and disclose the failure to HMRC, as this can help mitigate penalties and the potential sanctions. Where a player has spotted that they do need to submit a tax return, getting help to complete it accurately the first time is a sound investment.

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