



Legislative Fiscal Bureau

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September 30, 2014

TO: Representative Robin Vos
Room 211 West, State Capitol

FROM: Bob Lang, Director

SUBJECT: Milwaukee Bucks

At your request, this memorandum provides information regarding state individual tax revenues associated with the Milwaukee Bucks National Basketball Association (NBA) franchise. In addition, information is provided on the issuance of state general obligation debt to assist in the construction of a new arena for the Bucks, including the amount of debt that could be supported by the 20-year use of these tax revenues.

State Income Taxes on NBA Players and Other Team Employees

The state individual income tax is imposed on the wages and other income of NBA players and other employees who are residents of Wisconsin, but such individuals may claim a credit for income taxes paid to other states.

In general, for professional athletes and other team employees who are nonresidents, Wisconsin taxes a portion of the individual's total compensation for services rendered as a team member. The portion allocated to Wisconsin is based on the share of the individual's "duty days" in Wisconsin relative to his or her duty days everywhere. However, Wisconsin does not tax the wages of individuals who are residents of states with which Wisconsin has an income tax reciprocity agreement (Illinois, Indiana, Kentucky, and Michigan)

"Total compensation for services rendered" means the total compensation received during the taxable year by the team member for services rendered from the beginning of the official pre-season training period through the last game in which the team competes or is scheduled to compete during that taxable year, and during the taxable year on dates outside this time period. The compensation includes, but is not limited to, salaries, wages, bonuses, and any other type of compensation for services performed in that year. The compensation does not include strike benefits, severance pay, termination pay, contract or option year buy-out payments, expansion or relocation payments or any other payments not related to services rendered for the team. Services

rendered on a date that does not fall within the regular season include participation in instructional leagues and promotional caravans.

In general, "duty days" means all days during the taxable year from the beginning of a team's official pre-season training period through the last game in which the team competes or is scheduled to compete and days on which a team member renders a service for a team on a date outside this time period. Rendering a service includes conducting training and rehabilitation activities at the facilities of the team. Included within duty days are game days, practice days, days spent at team meetings, promotional caravans and preseason training camps, days spent participating in instructional leagues, days spent at special games such as an all-star game, and days served with the team through all post-season games in which the team competes or is scheduled to compete. The following exceptions to this definition apply:

a. Duty days for any person who joins a team after the beginning of its official pre-season training period begin on the day the person joins the team. Conversely, duty days for any person who leaves a team before the last scheduled game end on the day the person leaves. Where a person switches teams during a taxable year, separate duty day calculations are made for the periods the person was with each team.

b. Days for which a team member is not compensated and is not rendering services for the team in any manner, including days when the member has been suspended without pay and prohibited from performing any services for the team, are not treated as duty days.

As an example, assume that an NBA player who is a resident of Florida has 210 total duty days in a year, and two of them are in Wisconsin. In this case, the player's allocation percentage would be 0.95% (2 divided by 210). Therefore, 0.95% of the player's compensation for services rendered as a team member would be taxable by Wisconsin. If the player's total compensation for services rendered to the team was \$2 million, then \$19,000 of that compensation would be taxable in Wisconsin. However, if the player was a resident of one of the four reciprocity states, none of his compensation would be taxable in this state.

This office obtained information regarding NBA players and other employees who were potentially subject to the Wisconsin individual income tax as of December, 2012. After conducting a search of tax returns filed for tax year 2012, the Department of Revenue indicates that these individuals, in the aggregate, paid state income taxes of approximately \$10.7 million in that year.

State Debt Supported by Income Taxes Associated with the Bucks Franchise

Under the Wisconsin Constitution, the state can only issue general obligation debt for internal improvement projects (for example, buildings, roads, and other infrastructure improvements) that have a public purpose. Also, federal tax policy associated with the tax exemption on interest generally limits the exemption to bonds issued for private purposes. However, in the past, the state has issued federally tax exempt, general obligation bonds to assist local governments and nonprofit agencies with facility and infrastructure improvements, including the Bradley Center facility, which is the current home facility for the Milwaukee Bucks.

Legislation authorizing the bonds to be issued for these purposes typically declares that such facilities or improvements have a public purpose. The legislation also declares that if such a facility is not used for that public purpose, the state would retain ownership in the facility equal to the state's commitment for the facility or improvement.

Issuing state general obligation bonds to assist in the construction of a new arena facility would require the annual appropriation of state funds from a sum sufficient appropriation equal to the annual principal and interest due on the bonds. Assuming a flat, 20-year repayment structure on the bonds issued for a new stadium facility for the Milwaukee Bucks, \$10.7 million in annual revenues associated with the estimated amount of existing state income taxes on NBA players and other employees subject to the state's individual income tax could support approximately \$150 million in state general obligation bonding, based on current interest rates. The total 20-year cost to repay the \$150 million in general obligation debt would be \$214 million, which includes \$64 million in interest costs.

I hope this information responds to your request. Please contact me if you have additional questions.

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