

2017 GOP tax plan inadvertently makes player trades more expensive

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Changes resulting from the GOP's 2017 tax act will apparently cause sports teams to pay increased upfront taxes on player trades. The 2017 tax act restricts the use of like-kind exchanges under tax code Section 1031, which taxpayers have historically used to postpone paying tax on the gain of a sale of assets if the proceeds are reinvested in similar property. With respect to the sports industry, sports teams that trade players are seen as effectively trading those players' contracts, which are regarded as assets for tax purposes. As a result and before the 2017 tax act went into effect, teams were able to apply the like-kind exchange exception and avoid recognizing a gain or loss for federal tax purposes on player trades. The new restriction on the use of like-kind exchanges with respect to sports contracts means that teams would have to pay taxes every time they traded players, which effectively would make player trades more expensive and potentially may result in fewer player-for-player trades and more cash deals. However, the likely more consequential result of the restriction on 1031 exchanges is that teams now have to thoughtfully consider their valuation of player contracts as the valuation will directly factor into the amount of gain or loss they will report to the IRS.


<https://www.accountingtoday.com/news/new-tax-reform-law-could-discourage-sports-team-player-trades-prompting-concern-from-major-league-baseball>.

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