

PRO Sports Act (S. 1524)

Summary

The Properly Reducing Overexemptions for Sports Act (PRO Sports Act) would exclude major professional sports leagues from qualifying as tax-exempt organizations.

BACKGROUND SUMMARY

- Organizations can register as 501(c)(6) tax-exempt organizations if they are industry or trade associations promoting the benefit of one or more lines of business, such as logging or realty.
- Major professional sports leagues qualify by stating their purpose is to help their respective sports at large, though they devote most of their activities to promoting their specific brands.
- Currently, a number of professional sports leagues have central offices registered as 501(c)(6) tax-exempt organizations. These include the PGA Tour, National Football League (NFL), National Hockey League (NHL), and Ladies Professional Golf Association (LPGA).
- Several of these leagues channel their primary revenue through the tax-exempt organization, and almost all of this revenue is tax-free.
- Other leagues manage their revenue through teams and subsidiaries, and the league office is essentially paid to manage league operations for teams and players.
- No major professional sports league deserves to have a tax exemption.

WHAT THE BILL WOULD DO

- **Remove** statutory language from the tax code allowing “professional football leagues” to enjoy the same tax-exempt status as industry trade associations.
- **Amend** the tax code to prohibit any professional sports organization substantially involved in running league affairs from qualifying as a 501(c)(6) tax-exempt trade association, typically used by industry organizations or chambers of commerce.
- **Define** a major professional sports league as an organization with gross receipts over \$10 million and involved with fostering sports competitions.

on these activities, since they are not related to fostering professional sports competitions.

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Q&A

The Properly Reducing Overexemptions for Sports Act (PRO Sports Act) would exclude major professional sports leagues from qualifying as tax-exempt organizations.

Q: Which organizations will this bill affect?

A: This bill will likely impact:

- PGA Tour
- National Football League (NFL)
- National Hockey League (NHL)
- Ladies Professional Golf Association (LPGA)
- Professional Golfers Association (PGA, distinct from PGA Tour)
- National Hot Rod Association (drag-racing)
- ATP Tour (professional tennis)
- WTA Tour (professional tennis)
- US Tennis Association
- Professional Rodeo Cowboys Association

Q: Has the PRO Sports Act been scored?

A: Yes. The Joint Committee on Taxation estimates this tax loophole is worth about \$10 million a year to major pro sports leagues, and \$109 million over a decade.

Q: Will the PRO Sports Act hurt the U.S. Olympic Committee (USOC)?

A: No. The USOC is a charitable 501(c)(3) non-profit organization. This bill only focuses on professional sports leagues registered under 501(c)(6).

Q: Has a league ever switched its tax status before?

A: Yes. Major League Baseball was registered as a 501(c)(6) tax-exempt organization for years, but switched to a limited liability corporation in 2008. The league, which is organized similarly to the NFL and NHL, reported the move was tax-neutral.

Q: Wouldn't the NFL be doubled taxed if it had to switch its tax status?

A: No. Under the current revenue structure of the NFL, teams and certain NFL subsidiaries (like NFL Properties, which houses NFL intellectual property) collect revenue. Revenue is split among the teams, and the teams pay membership dues to the NFL league office.

Some may argue the league office should pay taxes on collected income because it is performing a service for the teams. Even if one does not make that argument, membership dues paid by teams are likely already deducted from federal income taxes currently. If the league office were restructured as for-profit, teams would still likely deduct such expenses from their tax returns.

Q: Why should pro sports leagues have to switch tax status when other trade organizations do not?

A: The entire 501(c)(6) sector should be thoroughly examined to understand how businesses may be taking advantage of the tax code in ways unintended by Congress. Professional sports leagues are not traditional trade associations the same way the US Chamber of Commerce is. Leagues claim their main purpose is to promote their respective sports, but most of their activities are dedicated to specific brands that help a limited number of pro players.

Q: Will this impact the teaching certification or charitable activities of a professional sports league?

A: No. Most leagues already have their own 501(c)(3) charitable organizations through which they donate to communities. Leagues and associations will also be able to spin off any teaching certifications operations into separate 501(c)(6) organizations focused