Erik Averill ([00:01](https://www.rev.com/transcript-editor/Edit?token=KL_ZWltvoPAIWuzr3ypkUjyf9eZF2Eo-XM12MBzF7W7wU_Owd5n8RUG4HnhROtOba6SDJRJECsn738nmm-uVFJ3UXCY&loadFrom=DocumentDeeplink&ts=1.98)):

Welcome to the MLB Draft podcast. I'm your host, Erik Avrill, certified financial planner, certified private wealth advisor, former pro athlete and the cofounder of AWM. I'm joined by my cohost, former major league baseball pitcher and certified financial planner Travis Chick. Our goal on the MLB Draft podcast is to provide you with the roadmap to successfully navigate the MLB Draft and becoming a professional athlete. You're going to hear from scouting directors, GMs, agents, former and current players, elite performance coaches, and of course leading financial experts. What is traditionally seemed like a black box we are going to bring to light the critical details you need to know to help you make the decisions that are in your best interest. So with that, let's jump right in.

Erik Averill ([00:56](https://www.rev.com/transcript-editor/Edit?token=LH6pHa3uk1rOGaDfMW87V-wvSn6zbOvRS4rAU-QwKmdifBEYPVyj515-SPJ9k9RDmRzhLHA49wIPVK61hjRAwDyuI2s&loadFrom=DocumentDeeplink&ts=56.12)):

Travis, welcome back to the podcast.

Travis Chick ([00:58](https://www.rev.com/transcript-editor/Edit?token=T9-KFCeYTjSNj1M5h-q-0mAAlt9HuWHj50cS9s78v3uKn-0Aj5pRNU2OhuR-ePUy3acsgXA5prx7huYhXm3EGQ8jhgo&loadFrom=DocumentDeeplink&ts=58.24)):

Yeah, it's exciting to be back on, but obviously we've had a little hiatus with this whole coronavirus deal, but ready to get some good information back out to these people.

Erik Averill ([01:05](https://www.rev.com/transcript-editor/Edit?token=wTrX_BnTVNzmJAq964dcYkGG7ZLn2xTNVHmnLFmiT-yusDbPelwp43bqXq-BlF5647BQvgh4fK9D7cPi-BoknmbQ8x8&loadFrom=DocumentDeeplink&ts=65.96)):

Yeah, we got to give the people something to hope for. We don't know when the draft is going to happen, but we know baseball will be played again. And so this information, hopefully number one is always going to be relevant. But two could also just give us something fun to talk about in the midst of just uncertain times. So definitely the most exciting topic I'm sure that's going to get people fired up is let's talk about taxes.

Travis Chick ([01:32](https://www.rev.com/transcript-editor/Edit?token=QWyIFDW_7k-G99bZm2w7uc_s7m3kXGmRdZIqkqtfS7LOLZchzGPsnXd4FAEo1jJizXJVBqobYztSbfkBWK8fyq0Z63Y&loadFrom=DocumentDeeplink&ts=92.89)):

Aren't they fun?

Erik Averill ([01:35](https://www.rev.com/transcript-editor/Edit?token=iF58lOxWmYYFH23fOvhlZAgX2KSA94HteiFDFpRFE8s3THsFr1mapAfixIkTbbXWBQxffxvgR3X4xaQepmnpZ2HysGw&loadFrom=DocumentDeeplink&ts=95.24)):

Nice. Well I think with that being said, it's actually the sentiment that that why this topic is so important is nobody enjoys paying taxes. We know this is, whether you're a parent listening or an agent or a scout or a player is, we all know when we get paychecks, all of a sudden you look at it and you go, "Oh my goodness, half of my paycheck is missing."

Erik Averill ([01:58](https://www.rev.com/transcript-editor/Edit?token=hwwDleA3NeZRkuxLbw2WMpHz5GfharL49at0hhqDaed722EVeo3853EVV1WsW30K0_tfyEB3Z8JowvHHpGLD5YlGzuU&loadFrom=DocumentDeeplink&ts=118.29)):

And so what we want to tackle today is when it comes to the draft, specifically around your signing bonus, how do we make sure that you pay the least amount of tax? And we've all heard it said that it's not a matter of what you make, it's a matter of what you keep. And so to translate that for the draft player, it's not a matter of what you sign for, but really what you put in your pocket after tax. And so the ultimate goal isn't just the gross amount before taxes, it's the net amount. How much can we actually get in your pocket after taxes? And so Travis, walk us through what are just even the basics of how a signing bonus gets paid out once a player's drafted.

Travis Chick ([02:37](https://www.rev.com/transcript-editor/Edit?token=rtyrCvAGOKjb2SAaUgVp27XCH-hQz2nsd8mnGx6ZVoYNNpdXs88v5M79QO3xSBtTmnu5EfQpQaLPIbXkff5-u8OP4iA&loadFrom=DocumentDeeplink&ts=157.96)):

Well, there aren't really any basics because contrary to what most people think, you can actually negotiate it pretty well. But generally speaking, you receive a gross amount that's part of the negotiation and then it becomes pretty complex in how that number's paid out to you. So we're going to put this link actually in the information, but there's actually a link that gives a real world example of some options on how a $5 million bonus could be paid out. And we're going to use 5 million just to kind of keep it simple. But, taxes can vary greatly based on a number of things. Number one would be contract language, we'll get into that in a little bit. Team assignment, so where you get assigned once you actually signed in both the first year and the second year are very important. Residency, which we'll dig into a little bit.

Travis Chick ([03:23](https://www.rev.com/transcript-editor/Edit?token=ypLP-e27dvbonOOvWtSLDY7t2exWaWrFCDRDqcY5Lv90KZZtjBKJD_ro8hoHTx4RVJoYPG0e5cDCJn_fVHcHdojDi4A&loadFrom=DocumentDeeplink&ts=203.44)):

And then actually the structure of the bonus, which is what I'm going to talk about now. And so if you can kind of pause the podcast for a second, you can click on the link that's going to be in the bio there. You'll see in real time example what we're going to talk about. So this example of $5 million bonus paid out in year one, option two would be two and a half paid in year one, two and a half and paid in year two. Option three would actually be four and a half paid in the first year and then only 500,000 paid in the second year. We're going to assume that the Atlanta Braves take you and give you this $5 million. They assign you to their rookie league team in Florida the first year and then Rome, Georgia the second year, and we're going to assume that you're a Florida resident.

Travis Chick ([04:03](https://www.rev.com/transcript-editor/Edit?token=W1JipNSeZ59aercBJwGtUtkBN4a1obax-BLALR21E4u98wu3XHAQ0Vyk8DQQjXKbm278f0SSSTaU7cHqE8uie3ybxPQ&loadFrom=DocumentDeeplink&ts=243.47)):

So the purpose of that is just to not have to pay the state income tax in Florida, which we'll get into. But what you'll see there is an actual net total tax that's paid in those three examples using those assumptions. Ironically enough, the 50, 50 split, which is probably the most common for people that don't actually plan for taxes, is actually the least advantageous decision that you could make. It results in the most amount of tax that you would pay. So if you split it up, it's just a $5 million bonus in year one, you would pay about 1.934 total tax. If you split it up 50, 50 you'd pay a little over 2 million. So saving almost a hundred thousand dollars, it's a lot of money and it's substantial. $100,000 means a lot to the average person. Right?

Travis Chick ([04:53](https://www.rev.com/transcript-editor/Edit?token=5WitBnA51zUcf2cPsT7Z5cN1oqKtXd-UyyP4-qevdunK6Ov7TxzZodYX2rrt346Yp3jUHUVieKKHeQ9M5I0wnjToIAI&loadFrom=DocumentDeeplink&ts=293.09)):

And then if you do four and a half. You take advantage of some of the graduated tax scales, four and a half in first year 500 and the second year actually reduces that total tax, a few thousand dollars. So yeah, it's a pretty substantial number, but that's the purpose of advanced tax planning. This isn't just filing your taxes, it's actually planning for taxes.

Erik Averill ([05:13](https://www.rev.com/transcript-editor/Edit?token=nt6poA3M8ztod5rk5KiClgxzVvtiCU-F3n91L0egJupE0jOE5Gm33kZgLuIhZMsj3M8tY6Yv0ZzmP9tatQ9jGrIhmY4&loadFrom=DocumentDeeplink&ts=313.74)):

Travis, that was super helpful and I love that we have an example accessible for all the listeners that they could go to our blog and to walk through. And one of the themes throughout the years is we've had these conversations multiple times with families prior to the draft and everybody gets really committed and says, "Hey, yeah, we're going to make sure this happens." But then the draft arrives, it gets emotional, it happens quick, you get drafted and then the team, you guys come to an agreement quickly on the gross amount and then all of a sudden it's like, "Oh, I ended up with a 50, 50 split." Can you talk a little bit about whose role this is when it comes to making sure this after tax planning gets done? Is this something that players should be relying only on their agents for in our experience? Is this something that all 30 teams are open to? Can you shed some light on that?

Travis Chick ([06:11](https://www.rev.com/transcript-editor/Edit?token=YYG6zs-TuuemIAYoRpKiUdxU59g5ym1Xmgx_kfV65WUfg0QalwgzK7VHC4ylxPTB_OyvdUDQWh-ZIVj1Z2SpjwrHfIA&loadFrom=DocumentDeeplink&ts=371.2)):

Yeah, for sure. So you would hope that your agent at least consults with a CPA, a certified public accountant that is actually qualified to make tax recommendations. But it is ultimately not their responsibility and because they're not, they don't have a vested interest in how you're actually paid out in your net amount. Their interest is number one and period hard stop is getting you the very most amount of money on a gross number. So, in that example number one that I talked about, that $5 million bonus, their goal is to maximize that hard number of $5 million. Once they've gotten to that point, they should do the right thing and consult with a CPA that's qualified. And there's really two types of CPA's, right? The two types of CPA's are the ones that file taxes and then the ones that plan for taxes.

Travis Chick ([07:00](https://www.rev.com/transcript-editor/Edit?token=YLuz7d2LuvjGE1uzdG3umKIL0IW2kQ2erO7--b4UcBbyD5Ly3JwvTMtEf0OXzirA1pPtEQJ7cV3mzOBZ0fv4C6I1leU&loadFrom=DocumentDeeplink&ts=420.9)):

And what I mean by that is kind of like I said earlier on another podcast, the people on this podcast are actually very qualified to make the right decisions when it comes to selecting people to give them advice on their money just like they would if they're have an injury, they can go out and source out the best in the industry. It's extremely important to have a CPA that's actually qualified to do planning for the next two years and of course beyond, but planning for this money now, having a CPA that understands multi-state taxation because where you're going to play because of the contract language that's in there, and we'll talk about that in a minute. Having somebody that can be proactive and understand how and where the teams are going to assign the players, but it's not the agent's job to negotiate how the players are going to be taxed. It's the agent's job to help you find the people that are qualified to do that for them.

Erik Averill ([07:54](https://www.rev.com/transcript-editor/Edit?token=BeBcPkwnMqPR43RwFhTGnpO-hftEBtQVTcpyYdbe4eDfjD2tvYMbYKdmer2XysAa527Gk9MlFZyhW1AZo_IhMQT3uFw&loadFrom=DocumentDeeplink&ts=474.62)):

That's great. That's helpful. And what we've seen is the best agents do this, right? They will rely on firms like us. I can't tell you how many times we've actually helped agents with players that aren't even our clients. And that's just because of the great relationship that we have. Over the years we've had an opportunity to, I think last time we checked among our client base, they're represented by 28 different agencies. And so the other thing is we see the good, the bad and the ugly. We know who's actually trying to implement this advice because the next point is there's 30 teams and make no mistake about it, this is a piece of the negotiation. It's not the end all be all, but it is a very important factor. And so from our experience, out of the 30 teams, there's only been three teams that have been putting their heels into the ground saying, absolutely we will not negotiate, the other 27 teams, we've had over 50 first round draft picks that we've done this for.

Erik Averill ([08:55](https://www.rev.com/transcript-editor/Edit?token=xVSWeeRxwIwtqiGh4qr4-yE2aj2JRQctGh0er3NyIeTYlKbuQcsMHmtjOV_g1Virox_krIWqPpIm0rJ1eyCg_SE8K3A&loadFrom=DocumentDeeplink&ts=535.02)):

And so we know which teams do or do not negotiate when it comes to this. And so it's very important that you don't allow someone just to tell you, "Hey, you know we tried but they won't do that." It really becomes the responsibility of the family and the player to drive hard on this. And one of the best ways to do that is to be proactive, to not wait until draft day to say, "Oh what are we going to do about the taxes?" And they, the comment becomes, "Oh I've asked but they won't negotiate." The only way to make sure that this is going to be done is to hire a qualified CPA and financial team well in advance of the draft where you set up a phone conversation between your financial team and your agent to make sure everybody is on the same page and understands their roles.

Erik Averill ([09:45](https://www.rev.com/transcript-editor/Edit?token=_hQSwv3IOZUHK13lwYGDFFfNstkTICw9ZQL4qhM2PvLlClUIA6KHlEXt_DPg70uis6mVIsyhPRNAyhrofx2HDiP3HxA&loadFrom=DocumentDeeplink&ts=585.18)):

Because at the end of the day, we all work for you, the player. You as the player are the one who are paying us, you are going to pay 5% of your signing bonus to your agent. So in that example where you signed for $5 million, you are going to stroke a check for $250,000 to your agent. They work for you. Same way on the financial side is you pay for our services. And so it's very important and it's a hard shift for a young player or a family to have, but ultimately we're in service to you to help you get the best result and I think that's super important. Travis, I want to jump into some of the nitty gritty detail before we end this podcast. Specifically around team assignment and residency. This is the one area where there's the most confusion. How is my bonus taxed? Is it where I live? Or where I get assigned to? And how important are those individual tax rates in those States? Can you shed some light on that for me?

Travis Chick ([10:44](https://www.rev.com/transcript-editor/Edit?token=hovhnL1rz39gh1IUD5YOeq-vFk2KtlSUlJQp7T3-jzW_hKuGXo98GiIhjNN0xnU5tYEmcbPxqILbhaQtGrdbbzYBOEo&loadFrom=DocumentDeeplink&ts=644.28)):

Yeah. For sure. But I think also, you know what's actually very interesting, I'd like to start this part of the conversation on is the fact that despite how this is framed as a bonus, it's actually not considered a bonus as it pertains to the IRS. And what I mean by that is, so to constitute a true signing bonus, it has to meet basically three criteria, three conditions. Number one, it can't be conditional on the playing any games for the team. Number two, it has to be payable separate from any other compensation. And then number three, it is not a refundable payment. And so unfortunately because of the way the contract is framed, one, there's what's called an abandonment clause. And so what that says is that if a player fails to report for or abandons a club without permission and is absent from the club for a material portion or for at least two weeks of any playing season during that minor league uniform contract, the player shall relinquish or forfeit any right to and the club shall be not obligated to pay.

Travis Chick ([11:46](https://www.rev.com/transcript-editor/Edit?token=UTDABNFnpZxHuVwtQnIAgXILXNENKa4f3vw6S6YnmoXAx0UONEmtMhQ0DEaOxLkTNiq2Qc1UPEcK2tBxG6FKeKIUWWk&loadFrom=DocumentDeeplink&ts=706.46)):

And the player shall immediately return and refund to the club and it goes on to a little bit more language. So basically two of three conditions immediately are excluded from being able to be taxed as a true signing bonus. And those are, they're conditional on playing games and that they're not refundable. And so because of that, now you have three very important issues that come up. Right? Number one is team assignments. So because they are conditional, so many of the rookie league teams now are actually assigned in some of these very high state income tax States as an example would be Oregon, which has 9.9% state income tax. New York is about 8.8, Vermont 8.95, New Jersey 8.97. So this comes into that New York, Penn League and the most of the Northeast is well over 5% so you can see right away how navigating through the complexity of the structure of the bonus.

Travis Chick ([12:40](https://www.rev.com/transcript-editor/Edit?token=hduTP50sVaYoHlqYTimHOfKL0f_RIF7d-X4KldZlW0IWdJ0BaWYonGCESJRzWdD_MAU3EhhlZoA9avCgGtMjCZmvqiU&loadFrom=DocumentDeeplink&ts=760.41)):

If you get assigned to one of these short season teams in these high state income taxes, having advanced tax planning is extremely important. The next part of that, because it's not a true signing bonus, your state residency is actually going to come into factor when you go to file your income taxes and where you can have a dramatic impact on the overall taxation is under that new tax cut jobs act despite the reduction in what's called the salt deduction. Now having, which is now that tax of jobs acts, property and sales taxes limited to $10,000 where you're a resident. So despite that reduction of the ordinary standard income tax of 37% from 39% if you have that residency or that team assignment in some of those higher state income taxes, you could actually result in a higher tax rate than what you had before. And so a lot goes into planning for not only where you're going to be taxed, but when you're going to be taxed in some of those States.

Erik Averill ([13:42](https://www.rev.com/transcript-editor/Edit?token=60KJRWCSH3kj2IRecSyBAxbOtkrYupc8T7BSzfI541DCHaHmnatHzJHtOXxbqYVTWujzNe9IvPZweCDNZY-0YiqCUhM&loadFrom=DocumentDeeplink&ts=822.25)):

That's great Travis, and super helpful. And so just to summarize, the takeaway there is where you're a resident of it absolutely matters. We had an example last year, right? Of the first overall pick who was an Oregon resident. We're able to plan him out of Oregon. His agent did a fantastic job of making sure that he was assigned to Florida in both years ended up saving him I think North of $700,000 and so that's real money on the residency thing. We're not going to jump too much into detail today, we'll do a separate podcast on that. But that's probably one of the topics where there's the most misinformation and it's something you don't want to screw up because there's penalties and interests that come along with it if you don't do it the right way. But where you're assigned is going to be one of the biggest determinants on how you're taxed.

Erik Averill ([14:31](https://www.rev.com/transcript-editor/Edit?token=hhhkUoXZRTspFJxH4EOZIKy3lLhsp0ia_6_JmRJHN0EAjeLpyW4F8emCHqsowL6bvLYjCLhy6NN2xrawXSek5wj4iOo&loadFrom=DocumentDeeplink&ts=871.25)):

And so with all of that being said, as Travis just broke down, is it takes proactive planning. There is a lot at stake here, right? This is real money and back to Travis's example, that hundred thousand dollars that you save off of your signing bonus based off of your age. It's really the opportunity costs. It's not just a hundred thousand dollars, if we use the simple rule of 72 where that money doubles every decade at a 7.2% return, you're talking a hundred thousand turns into 200, 200 turns into 400, 400 turns into 800, 800 turns into $1.6 million if you take that money and save it for retirement. And so this is powerful decisions that should be proactively made. And so what we'll leave you for the takeaways is first and foremost is the great news is if you're listening to this podcast, you have plenty of time to get the right players in place on your team.

Erik Averill ([15:27](https://www.rev.com/transcript-editor/Edit?token=SJiUJyp2LvI1LDCwcbe48_mN9KBCTUwySZczcQzqk13L6v1crMa7jsww3bZWev4VPHbtXta6LtV21ZGRBL_vNt03ZhM&loadFrom=DocumentDeeplink&ts=927.65)):

So first you need a certified public accountant. You need a financial team that has experience doing this and your agent should have no issue working with an independent financial team. If they give you pushback or they say, "Hey, I've got a guy." That should be a red flag that flips up and goes, wait a second, why is there an issue with me wanting to hire a independent financial expert to help me and be a part of my team? And so just remember that. And what I would say is to Travis's point, and it's like the medical profession. Nobody can be an expert in everything. It doesn't mean somebody not great in their specific field, but you want to have specialized expertise. And so we love the saying around here that you should trust but always verify and the best way to verify is to request from both your agent and from the financial team and say, "Can I please see a copy of a contract from last year's draft where you guys actually negotiated this signing bonus and structured it in the most tax efficient way."

Erik Averill ([16:29](https://www.rev.com/transcript-editor/Edit?token=wWCa4BaLbflmaCilToJqitdlH6DTBHUz93BELu4Nc01BjL7oLm-EdEchOsJa3GZfepK5-m2ls5euLHtvHR0ejw07h3M&loadFrom=DocumentDeeplink&ts=989.33)):

And so we've got an example on our blog of what that would look like. And if they're not willing to produce that, that should be another red flag that really how important is this type of planning in that agency situation. And so we really appreciate the time that you guys have spent with us today. I know this is a super complex topic. Like I said, we have resources on our blog and I know Travis and I both would love to hear from you guys to walk you through your specific situation and so until next time, stay happy, stay hungry and we'll catch you on the next episode of the MLB Draft podcast.

Erik Averill ([17:11](https://www.rev.com/transcript-editor/Edit?token=VTN1Dy0gkswn0Pcy5cFBR0ImsQXnMjnHbqCRJ7jmLiBYXdrBlQVuGUEJud0yc53VLSlgHoDNT7O-helNOjI3EwEvslQ&loadFrom=DocumentDeeplink&ts=1031.13)):

Hey, thanks so much for listening to today's show. We hope that you enjoyed it. Our goal here with the MLB Draft podcast is to make this the go to resource for all families and athletes looking to take their career to the next level. And so this show really is all about you and we would love to hear from you. Are there any questions you have, topics that you would love for us to cover? Please do reach out. You can shoot us an email at Erik@athletewealth.com or Travis@athletewealth.com. Of course you can find us on social. We're on all the major platforms @athletewealth and if you'd like to set up a phone call with us, you can reach us by going online to athletewealth.com and you'll see right at the top of the page, there's a button where you can schedule a call directly with us. And so we would love to hear from you and until next time, stay focused, stay hungry, and be a pro.