



CESTNICK

TAX MATTERS

Personal finance tips for athletes to consider

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Whether you're an athlete or have a child or grandchild who is a budding athlete, there are a few things I'd like to share today about taxes and financing the cost of these activities – which I know can be expensive.

Prizes are generally taxable. Do our Olympic athletes receive any money for winning their medals? The answer is yes – but not much. The Canadian Olympic Committee has an [Athlete Excellence Fund](#) that awards \$20,000 for each gold medal, \$15,000 for each silver, and \$10,000 for each bronze. Our tax law exempts some prizes from tax (lottery winnings, for example), but prizes that are awarded based on skill are taxable, so our athletes pay tax on their winnings. This is true of any winnings – Olympic or otherwise. The crazy thing is, our athletes can't claim a deduction for any costs they incur in the process of earning these winnings (coaching costs, for example), unlike employees who can deduct certain costs not reimbursed by their employers. This isn't fair.

Consider an Amateur Athletic Trust. For an athlete to preserve eligibility to compete at an amateur level, some international sports federations require funds earned or won by the athlete to be held in trust by certain qualifying organizations. In Canada, our tax law recognizes Amateur Athletic Trusts (AATs). Any earnings that are contributed to an AAT are not taxed in the athlete's hands until they are distributed to the athlete. Canadian amateur athletes who qualify can opt to use an AAT even if they're not required to by their international sports federation.

Revenues that qualify to be contributed include income from endorsements, prizes, speaking engagements, and other remuneration related to the athlete's participation in international sporting events. These amounts will be taxed on the earlier of the date the funds are distributed to the athlete, or eight years after the creation of the AAT (or eight years after the last year in which the athlete was eligible to compete as a Canadian national team member in an international sporting event, if this

comes first). To be honest, AATs are not very common even among high-level athletes because the athlete has to be earning enough that they can afford to put away money for some years before needing it.

Establish a formal trust. If you're hoping to find a tax-efficient way to help fund the athletic endeavours of your child, consider holding investments in a formal trust. Setting up a trust involves visiting a lawyer experienced in trusts to draft a trust agreement. You can then lend money to the trust and charge the prescribed rate of interest under our tax law (currently just 1 per cent – and the rate can be locked in indefinitely). You'll face tax on the interest paid to you by the trust each year on the loan. But the funds in the trust can then be invested in a portfolio to earn passive income. The income of the trust can be taxed in the hands of your child or grandchild – which may mean that little or no tax is paid if the child has little other income. The income can then be used to fund the athletic pursuits of your child. Effectively, you could be using pretax dollars to pay for those activities. Make sure you get the advice of a tax professional when setting up a trust because there are a number of tax laws that come into play here.

Pay your young athlete wages. If you're a business owner, consider paying the athlete in your family to work in the business. Your business will be entitled to a tax deduction for reasonable wages paid, and your child will pay no tax on the first \$13,808 he or she earns in 2021 (\$14,398 in 2022, and \$15,000 in 2023). These earnings can then be used to help fund the athletic activities of your young athlete. Your child will also create RRSP contribution room in the process, which can save them tax later when they make contributions to their registered retirement savings plan. If your child does use an AAT, contributing the funds distributed from an AAT to an RRSP can defer the tax on those amounts even longer.

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