

## IS MY LOTTERY AWARD TAXABLE? - NOTES FOR ATHLETES

***The following are guideline notes on taxation as it affects your Lottery award. Please read them carefully. Make sure you understand them fully.***

***If the notes are unclear, please contact your Athlete Investment Officer for clarification, but bear in mind that they should be read as broad guidance only. Taxation is a very complex area. If you want detailed information on your personal circumstances, you should contact your local tax office. Further information is also to be found on the Inland Revenue website at***

***<http://www.inlandrevenue.gov.uk/manuals/bimmanual/BIM50650.htm>***

### *Will My Lottery Award Be Taxed?*

The Inland Revenue (IR) will seek to tax your Lottery Award if they consider you to be a professional athlete.

### *What Do They Mean By A Professional Athlete?*

Whether or not you are a professional athlete is not about how much time you spend doing your sport. For example, if you're a full-time athlete it doesn't follow that you are a professional athlete.

In the eyes of the Inland Revenue, you're a professional athlete if your sporting activities amount to carrying out a trade or profession through your sport. In other words, broadly speaking, if you're trying to make a profit out of your sporting activities.

### *I'm Still Not Sure Whether That Makes Me A Professional Athlete Or Not?*

The Inland Revenue has decided that: **If your sole income from sporting activities is your Lottery Award, you normally won't be considered a professional athlete and so your Award will not be taxable.**

### *But If I Get Some Income From My Sport Other Than My Lottery Award. Does This Make Me A Professional Athlete?*

If you actively seek and earn an income from competing in your sport (e.g. through sponsorship, prize money, playing contract, appearance fees, etc), then you are likely in the eyes of the Inland Revenue to be a professional athlete and your Lottery award will therefore be taxable. This would be the case even if you didn't make a profit every single year.

If you are not seeking to make a profit out of your sporting activities, any minor income, especially if unsolicited or a gift, which does not exceed your personal sporting outgoings is unlikely to be enough to categorise your activities as professional for tax purposes. In this event your Lottery award would not be taxable.

### *What If My Sporting Income Exceeds My Sporting Expenses?*

If your income from your sport exceeds your sporting expenses, then it is likely that in the eyes of the Inland Revenue you are carrying on a profession as a sports person. This means that all your income from your sporting activities, including your Lottery Award, is taxable.

### *Do My Sporting Activities Mean I Need To Complete A Tax Return?*

If your sole income from sporting activities is the Lottery Award, your Award will not normally be taxable. Therefore you would not have to complete a tax return because of your Lottery

award. However, there are many different reasons why a tax return needs to be completed, for example you may want to claim specific allowances. Generally you need to complete a tax return if you have any taxable income. This means that even if you consider that your Lottery award is not taxable, you may still need to complete a tax return if you have other income such as savings or part time earnings unrelated to your sporting activities.

But remember, tax returns are an issue between yourself and the Tax Office. These notes are only to help you make your decision and are concerned only with your sporting activities. If you think you need more help you can contact your tax office - look under 'Inland Revenue' in your local telephone book. Offices are open Mondays to Fridays 8.30am to 4.30pm. Outside office hours you can get general advice on a Helpline on 0645 000444 (local rates).

### *What Should I Declare On My Tax Return?*

The first and most important thing to say is that when completing your tax return, you must declare all your income, including all the money you receive in your Lottery Award. You may wish to submit a copy of your Lottery Award letter with your tax return.

### *If I Am Taxed On My Lottery Award, Are Any Of The Expenses Made With The Award Tax Deductible?*

The costs you incur directly relating to your sport (this might include for example purchasing personal sports equipment, training, personal sports travel costs, travel to your physio, sport related phone calls to your coach) are allowable deductions against income for tax purposes.

In the case of substantial equipment (e.g. large pieces of gym equipment), tax relief is available through the capital allowances code. The Inland Revenue's tax return Notes and Helpsheets give more information and examples on what expenses you can claim allowances for or how to work out capital allowances.

But remember, as with all the Lottery Award money you spend, you must be able to prove to the Tax Office that the money was spent on those things for which you were given the award.

### *What If I'm Not Happy With The Tax Decisions Made About My Lottery Award By The Inland Revenue?*

Decisions on your personal tax situation are entirely down to the Inland Revenue (though it is of course open to you and/or your accountant to argue your case with the Inland Revenue). Your first priority should therefore be to contact your tax office to query, discuss or seek clarification on any decisions they have made about your personal tax.

### *What If I Think My Tax Office Has Treated Me Less Favourably Than I'd Expected From Reading These Guidance Notes?*

You can tell your local tax office that their decision doesn't seem to you consistent with these guidance notes. You could also mention BIM 50650 (the new Inland Revenue rules on Lottery Awards). But these notes are only Lottery officers' interpretation of these rules and of advice from Inland Revenue and other experts. The local tax office may disagree with our interpretation. **The bottom line is that the Inland Revenue's decision on the taxation of your income, including whether or not you are a professional athlete, is the one that matters.**

## **HOW DOES MY LOTTERY AWARD AFFECT MY TAX POSITION?**

### **ATHLETE CASE STUDIES**

***The athletes in the case studies below are fictitious. Although their circumstances are unlikely to be exactly the same as your own, the studies are intended to cover a range of typical tax situations which many athletes on the World Class Programme find themselves.***

***But bear in mind that they should be read as broad guidance only. Taxation is a very complex area. If you want detailed information on your personal circumstances, you should contact your local tax office.***

#### **Example 1**

Joe is an established international athlete in a high-profile sport. He regularly gets income from his sport in the form of prize money. Occasionally he gets paid for public appearances and advertising products. A kit company also gives him free kit and footwear and cash bonuses for exceptional performances.

Joe is clearly trading as a professional athlete because he is seeking to make a profit out of his sporting activities. This means that all of the income he receives from any of these activities is treated as taxable. Any Lottery awards made to him will also be treated as part of his professional receipts and will therefore also be taxable.

Because he is a professional athlete, Joe is allowed to deduct from his taxable sporting income any expenses or payments incurred while pursuing his profession as a sportsman (e.g. travel to training, gym fees, equipment, etc.).

#### **Example 2**

Despite being ranked in the world Top 10, Helen is in a sport where it's generally very difficult for even top athletes to attract sporting income. The physiological demands of her event mean she can't work while training at the level required to be world class. Her only source of income is therefore currently her Lottery award. The award is not taxable because her sporting activities do not amount to carrying out a professional activity through her sport.

#### **Example 3**

Lloyd is in a team on the World Class programme. Like Helen, in his sport it is generally very difficult for athletes to attract sporting income. He has however been given some sporting kit as a gift by a local manufacturer. Moreover in his sport it's possible to compete at world level and still hold down a part-time job. Lloyd works part-time as an admin assistant. However, Lloyd's *sporting* activities do not amount to carrying out a profession. Lloyd's Lottery award will therefore not be taxable.

#### **Example 4**

Sam has been competing as a full-time athlete at the elite level for four years. Last year she was approached by her local garage. They wanted to support the 'local girl' and offered her a free annual car service (valued at £150) and an award of £500. The

local press did an article on the garage to tell the public about their support to local achievers. She also got a £7,000 Lottery award but this was still not enough to cover her personal sporting expenses for the year of £10,000. To help make ends meet her aunt gave her £2,000. Because Sam was not seeking to make a professional profit out of her sporting activities, she was not considered to be a professional for tax purposes and her Lottery grant of £7,000 was therefore not taxable.

This year at the world championships Sam wins gold. Suddenly she has become a marketable proposition. She gets a sponsorship deal from a major kit company , makes an advert for a sports drink company, and gets a little bit of TV work. She moves up from a C to an A athlete in the World Class programme and, even after means-testing, her Lottery award increases. Her income from her sport for this year exceeds her sporting expenses. Sam is now actively seeking to exploit her sporting success and earn money from it so, like Joe in Example 1, all of the income she receives from her sporting activities is treated as taxable. Her Lottery award will also be treated as part of her professional receipts and therefore be taxable.