



OLYMPIC MEDALIST INCOME TAX DEDUCTION

EVALUATION SUMMARY | JANUARY 2022 | 2022-TE2

TAX TYPE	Income	REVENUE IMPACT	Too few taxpayers
YEAR ENACTED	2017	(TAX YEAR 2018)	to report
REPEAL/EXPIRATION DATE	None	NUMBER OF TAXPAYERS	Too few taxpayers to report

KEY CONCLUSION: The Olympic Deduction has not provided significant support to Olympic and Paralympic athletes because few eligible athletes have used it. However, 2018 was the first tax year it was available; therefore, it may provide a more significant benefit in the future if more athletes become aware of it.

WHAT DOES THE TAX EXPENDITURE DO?

The Olympic Medalist Income Tax Deduction allows Olympic and Paralympic medalists to deduct income earned as a direct result of winning an Olympic or Paralympic medal while competing for the United States when calculating their Colorado taxable income. Income earned as a direct result of winning a medal includes any monetary award given by the U.S. Olympic and Paralympic Committee (USOPC), to the extent included in federal taxable income; any monetary award given by a sport-specific national governing body or Paralympic sport organization, to the extent included in federal taxable income; and the monetary value of the medal, regardless of whether it is included in federal taxable income. The deduction is limited to taxpayers with \$1 million or less in federal adjusted gross income, or \$500,000 or less if married filing separately.

WHAT IS THE PURPOSE OF THE TAX EXPENDITURE?

Statute does not explicitly state a purpose for the Olympic Deduction; therefore, we could not definitively determine the General Assembly's original intent. Based on our review of the legislative history and testimony from the bill sponsor for the enacting legislation [House Bill 17-1104], we considered a potential purpose: to support Olympic athletes in Colorado who win medals at the Olympic and Paralympic Games.

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

The General Assembly may want to consider amending statute to establish a statutory purpose and performance measures for the deduction.

OLYMPIC MEDALIST INCOME TAX DEDUCTION

EVALUATION RESULTS

WHAT IS THE TAX EXPENDITURE?

The Olympic Medalist Income Tax Deduction (Olympic Deduction) [Section 39-22-104(4)(x), C.R.S.] allows Summer and Winter Olympic and Paralympic medalists to deduct income earned as a direct result of winning an Olympic or Paralympic medal while competing for the United States when calculating their Colorado taxable income. Income earned as a direct result of winning a medal includes:

- Any monetary award given by the U.S. Olympic and Paralympic Committee (USOPC), to the extent included in federal taxable income.
- Any monetary award given by any sport-specific national governing body or Paralympic sport organization, to the extent included in federal taxable income.
- The monetary value of the medal, regardless of whether it is included in federal taxable income.

Taxpayers cannot deduct endorsement income or nonmonetary benefits. Additionally, taxpayers with more than \$1 million in federal adjusted gross income (AGI), or more than \$500,000 AGI if married filing separately, are not eligible to claim this deduction.

There is a federal income exclusion for certain monetary awards for Olympic and Paralympic medal winners and the value of the Olympic or Paralympic medals that has some interaction with Colorado's Olympic Deduction. Specifically, federal law [26 USC 74(d)] excludes

from federal income any monetary award given by the USOPC and the value of the medal won at the Olympic or Paralympic Games. Like the Colorado Olympic Deduction, the federal exclusion only applies to taxpayers with \$1 million or less in AGI or \$500,000 or less in AGI if married filing separately.

Since Colorado uses federal taxable income as the starting point for calculating Colorado taxable income, if a taxpayer excludes a monetary award given by the USOPC and the value of the medal from federal taxable income, this income will also be excluded from Colorado income. Therefore, because statute [Section 39-22-104(4)(x)(I), C.R.S.] allows the Olympic Deduction only for monetary awards *included* in federal taxable income, any monetary award to medal winners from the USOPC that has been excluded from the taxpayers' federal taxable income would already be excluded from Colorado taxable income and taxpayers would not qualify for the Olympic Deduction.

However, current federal law [26 USC 74(d)] does not allow for deductions of monetary awards from sport-specific national governing bodies, and, therefore, medalists are only eligible to deduct monetary awards from sport-specific national governing bodies at the state level under the Olympic Deduction. Finally, the value of any medal won while competing in the Olympics or Paralympics is allowed to be deducted under the Olympic Deduction regardless of whether the monetary value of the medal is included in federal taxable income. Because of this, taxpayers are able to reduce their Colorado taxable income by twice the value of their medals (once at the federal level and again at the state level). EXHIBIT 1 summarizes the implications of the interaction between the federal Olympic medalist income exclusion and Colorado's Olympic Deduction:

EXHIBIT 1. INTERACTION BETWEEN THE FEDERAL OLYMPIC MEDAL EXCLUSION AND THE COLORADO OLYMPIC DEDUCTION		
Type of Income	Federal	Colorado
U.S. Olympic and Paralympic Committee Monetary Award	Deduction allowed	Deduction allowed only if the athlete did not deduct at the federal level
Sport-specific National Governing Body Monetary Award	No deduction allowed	Deduction allowed
Value of the Medal	Deduction allowed	Deduction allowed regardless of whether the athlete already deducted it at the federal level

SOURCE: Office of the State Auditor analysis of 26 USC 74(d) and Section 39-22-104(4)(x), C.R.S.

The General Assembly created the Olympic Deduction in 2017 with House Bill 17-1104. It has remained unchanged since its enactment.

Taxpayers claim the Olympic Deduction on Line 19 of the Subtractions from Income Schedule (Form DR 0104AD), which taxpayers must attach to the Colorado Individual Income Tax Return (Form DR 0104).

WHO ARE THE INTENDED BENEFICIARIES OF THE TAX EXPENDITURE?

Statute provides that the intended beneficiaries of the Olympic Deduction are Olympic and Paralympic medal winners living in Colorado whose federal adjusted gross income is \$1 million or less, or \$500,000 or less if married filing separately. According to news sources, Colorado has the third most Olympic athletes of any state. The U.S. Olympic & Paralympic Training Center is located in Colorado Springs and provides housing and training facilities to more than 500 athletes at a time on the complex. While we were unable to determine how many athletes list Colorado as their place of residence, many athletes come to Colorado to train at the Training Center and take advantage of the weather and altitude. In the 2018 Winter Olympic and Paralympic Games, 13 Colorado athletes won 15 medals, and in the 2020 Summer

Olympic and Paralympic Games, which were delayed until summer 2021 due to the COVID-19 pandemic, 15 Colorado athletes won 17 medals.

WHAT IS THE PURPOSE OF THE TAX EXPENDITURE?

Statute does not explicitly state a purpose for the Olympic Deduction; therefore, we could not definitively determine the General Assembly's original intent. Based on our review of the legislative history and testimony from the bill sponsor for the enacting legislation [House Bill 17-1104], we considered a potential purpose: to support Olympic athletes in Colorado who win medals at the Olympic and Paralympic Games. Specifically, the bill sponsor indicated that athletes are supported by the privately funded USOPC, but are not supported monetarily by the government during training, so the deduction serves as a way to provide some financial support to athletes and make Colorado an attractive place for athletes to live and train. Though this deduction significantly overlaps with the federal exclusion available to Olympic medal winners, the bill sponsor also stated that it was intended to help preserve the income tax benefit for Colorado Olympians at the state level in case the federal tax law changes.

IS THE TAX EXPENDITURE MEETING ITS PURPOSE AND WHAT PERFORMANCE MEASURES WERE USED TO MAKE THIS DETERMINATION?

We could not definitively determine whether the Olympic Deduction is meeting its purpose because no purpose is provided for it in statute or its enacting legislation. However, we found that it has not yet met the potential purpose that we identified in order to conduct this evaluation because, at the time of the evaluation, it had only been used by a very small number of eligible taxpayers. However, because the deduction was first available to taxpayers for Tax Year 2018, which was the only year for which we had data for our analysis, it may provide a benefit and support to Colorado Olympians in future years if awareness of it increases.

Statute does not provide quantifiable performance measures for this deduction. Therefore, we created and applied the following performance measure to determine the extent to which the deduction is meeting its potential purpose:

PERFORMANCE MEASURE: To what extent does the Olympic Deduction support Olympic athletes in Colorado?

RESULT: As of October 2021, when we conducted our evaluation of the Olympic Deduction, there had only been one Olympic Games competition—the 2018 Winter Olympics—in which Colorado athletes won medals and filed income tax returns since the deduction was enacted in 2017. We examined the tax returns of the 13 athletes with Colorado hometowns who won medals at the 2018 Winter Olympics and Paralympics and found that too few eligible athletes (i.e., Olympic and Paralympic medalists with \$1 million or less AGI) claimed the Olympic Deduction for us to report the number who claimed it without revealing confidential taxpayer information. However, Tax Year 2018 was the first year in which the deduction was available, and, in general, the number of taxpayers using tax expenditures tends to be lower in the initial years that an expenditure is in place, with more taxpayers using them as they become aware of the expenditure. We talked to organizations that represent Olympic athletes, and they reported that athletes may not have been aware of the deduction in 2018. However, the organizations reported that, in recent years, they have publicized the Olympic Deduction to athletes training for the Olympics, so it is possible that more athletes will claim the deduction for medals and monetary awards won in future Olympic Games.

In addition, the organizations representing Olympic athletes reported that tax benefits, such as the Olympic Deduction, are important for athletes because many of them are not able to obtain other employment due to their intensive training schedule, but they incur numerous expenses for equipment, competition fees and travel, and coaching when training for the Olympic Games. Stakeholders also conveyed that athletes use monetary awards from winning medals in the Olympics to

pay down debt or to cover basic living expenses. Tax benefits, like the Olympic Deduction, help athletes to further offset these costs when they medal since they reduce their tax liability and increase their after-tax income.

In future years, if more athletes become aware of the deduction, it may provide a financial benefit for Olympic medalists who live in Colorado, but how substantial the benefit is, varies depending on (1) whether the athlete wins a bronze, silver, or gold medal and (2) whether the athlete's sport-specific national governing body provides a monetary award and the amount of the monetary award. For example, at the Winter or Summer Olympics, the deduction could provide a reduction in tax liability of as little as \$0.15 for a bronze medal athlete who does not receive a monetary award from a sport-specific national governing body (calculated as the \$3.22 value of a bronze medal multiplied by the state income tax rate of 4.55 percent). In contrast, the largest reduction in tax liability the deduction could provide would be about \$11,400 based on gold medal awards from USA Wrestling, which consistently provides the largest monetary awards among Olympic sports. Since 2016, the USA Wrestling award has been \$250,000 for a gold medal, to which we added the value of the gold medal (\$606) and multiplied this total amount by the state income tax rate of 4.55 percent to calculate the potential tax benefit provided by the deduction.

WHAT ARE THE ECONOMIC COSTS AND BENEFITS OF THE TAX EXPENDITURE?

We estimated that in Tax Year 2018, the deduction had a minimal revenue impact to the State. As discussed below, the Department of Revenue (Department) was not able to provide data on the deduction. Therefore, we used publicly available information from news sources and the Team USA website to identify 2018 Winter Olympic medal winners that live in Colorado and examined their income tax returns in GenTax, the Department's tax processing and information system. Although too few eligible medal winners claimed the deduction for us to report the revenue impact without revealing confidential taxpayer

information, based on the eligible taxpayers' returns, the deduction had a less than \$5,000 impact on state revenue in Tax Year 2018.

Additionally, even if more Olympic athletes become aware of the deduction and claim it in future years, the revenue impact would still likely be small due to the relatively low value of the medals and the limited number of athletes who win a medal and become eligible for monetary awards. Exhibit 2 shows the potential state revenue impact and corresponding tax benefit of the deduction for the value of a gold, silver, and bronze medal:

EXHIBIT 2. OLYMPIC MEDAL VALUE AND TAX IMPACT



SOURCE: Office of the State Auditor analysis of publicly available information on the value of the medals from the Olympics website, and investment and economics news sources.

Additionally, according to stakeholders, as many as two-thirds of all sport-specific national governing bodies offer additional monetary awards to Olympic and Paralympic medalists. Because the monetary awards are dependent on the individual funding that goes to each of the national governing bodies and their annual budgeting, most bodies fluctuate widely from year-to-year on how much they are able to provide athletes for winning medals. As discussed, based on our review of monetary awards provided by governing bodies, the maximum potential revenue impact for an individual is about \$11,400. Therefore, if Coloradans were to win 17 medals every 2 years, as occurred in 2021,

the maximum possible revenue impact that we identified would be \$194,000, every 2 years, or about \$97,000 per year.

WHAT IMPACT WOULD ELIMINATING THE TAX EXPENDITURE HAVE ON BENEFICIARIES?

While we identified few Olympic medalists who claimed the Olympic Deduction in Tax Year 2018, the first year this deduction was available, athletes may have since become aware of this deduction, and organizations that represent Olympic athletes reported that eliminating it would impact athletes negatively. For medalists receiving monetary awards from sport-specific national governing bodies, eliminating this deduction would prevent the athletes from deducting these awards from their Colorado taxable income. However, since Olympic and Paralympic medalists are allowed to exclude their monetary awards from the USOPC and the value of their medals from their federal taxable income, if the Olympic Deduction were eliminated, eligible medal winners would still not have to pay Colorado income tax on the value of their Olympic and Paralympic medals or the monetary awards from the USOPC if the deduction were eliminated.

Although the tax benefit provided by the deduction varies based on an athlete's sport and medal won, eliminating it could have a substantial impact to some taxpayers. While prize money can provide an athlete with significant income in one year, organizations that represent Olympic athletes reported that athletes use the prize money to help pay down debt incurred from training or to cover basic living expenses. Therefore, eliminating the deduction would increase the amount of taxes the athletes have to pay, which could increase financial strain on eligible athletes.

ARE THERE SIMILAR TAX EXPENDITURES IN OTHER STATES?

We identified four states that have similar income tax deductions for Olympic medalists: Maryland, Pennsylvania, Virginia, and Wisconsin. All four states allow for a deduction of the value of the medal and monetary awards from the USOPC for competition in the Olympic or

Paralympic Games. Like Colorado, Wisconsin and Virginia only allow the deduction if an athlete has \$1 million or less in adjusted gross income or \$500,000 in adjusted gross income if married filing separately. Maryland allows a deduction for medals and monetary awards from any Special Olympic or Deaflympic Games, in addition to prize money from the USOPC. However, none of the other four states have a deduction for monetary awards from sport-specific national governing bodies, like Colorado's deduction allows.

ARE THERE OTHER TAX EXPENDITURES OR PROGRAMS WITH A SIMILAR PURPOSE AVAILABLE IN THE STATE?

We did not identify any other tax expenditures or programs with a similar purpose in the state.

WHAT DATA CONSTRAINTS IMPACTED OUR ABILITY TO EVALUATE THE TAX EXPENDITURE?

The Department was not able to provide tax data for the individuals who claimed the Olympic Deduction. Eligible taxpayers claim the deduction on the Other Subtractions line (Line 19) of the Subtractions from Income Schedule (Form DR 0104AD). Taxpayers use this line of the form to report the combined value of several unrelated deductions, which cannot be disaggregated for analysis. Although taxpayers are required to submit explanations for the deductions taken on this line, GenTax, the Department's tax information and processing system, does not capture the explanations in a format that can be extracted for comprehensive analysis. To determine the revenue impact and use of the deduction, we identified potentially eligible athletes using publicly available sources, including the Team USA website and news articles, and looked at those athletes' tax returns in GenTax to estimate the revenue impact. However, these public sources listing Colorado resident medal winners may not include all athletes who file income taxes in Colorado or could include some who do not, since athletes tend to travel frequently for training and competitions and may earn income in several states or countries. Therefore, to the extent that the publicly

available information does not reflect the athletes' residency for tax purposes, the actual revenue impact and usage of the deduction may vary from our estimates.

If the General Assembly determines that more information on this deduction is necessary, it could direct the Department to collect information specifically for the Olympic Medal Deduction. To more accurately determine how many taxpayers took the deduction and its revenue impact, the Department would have to create a new reporting line on the Subtractions from Income Schedule (Form DR 0104AD) and make changes in GenTax to capture and extract this information, which would require additional resources (see the Tax Expenditures Overview section of the *Office of the State Auditor's Tax Expenditures Compilations Report* for additional details on the limitations of Department data and the potential costs of addressing the limitations). However, because of the limited number of eligible taxpayers and intermittent use of this tax expenditure (i.e., potentially only every 2 years), it may not be practical or cost-effective to add a line to the form and capture the data.

WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

THE GENERAL ASSEMBLY MAY WANT TO CONSIDER AMENDING STATUTE TO ESTABLISH A STATUTORY PURPOSE AND PERFORMANCE MEASURES FOR THE OLYMPIC DEDUCTION. As discussed, statute and the enacting legislation for the deduction do not state the deduction's purpose or provide performance measures for evaluating its effectiveness. Therefore, in order to conduct our evaluation, we considered a potential purpose for the deduction: to support Olympic athletes in Colorado who win medals at the Olympic and Paralympic Games. We identified this purpose based on legislative history and testimony from the bill sponsor for the enacting legislation [House Bill 17-1104]. We also developed a performance measure to assess the extent to which the deduction is meeting its potential purpose. However, the General Assembly may want to clarify its intent for the deduction by providing

a purpose statement and corresponding performance measure(s) in statute. This would eliminate potential uncertainty regarding the deduction's purpose and allow our office to more definitively assess the extent to which the deduction is accomplishing its intended goal(s).