

## Tax Preferences for Collegiate Sports

**C**olleges and universities generally qualify for preferential treatment under the federal income tax. The income of nonprofit private and public postsecondary schools is exempt from taxation, and gifts to those schools are generally tax-deductible to the donor. Those tax preferences stem from the schools' educational mission. But concerns have arisen that some activities undertaken by colleges and universities are only loosely connected to educating students and might be viewed as unrelated to the schools' tax-favored purpose.

One such activity is intercollegiate sports. Long viewed as an integral component of higher education, sports in many universities have become highly commercialized. Successful athletic programs are very rewarding financially: The National Collegiate Athletic Association (NCAA) men's basketball tournament alone garnered about \$143 million in revenue for athletic departments in 2008, and college football bowl games generated a similar amount.

Such large sums raise the questions of whether those sports programs have become side businesses for schools and, if they have, whether the same tax preferences should apply to them as to schools in general. This Congressional Budget Office (CBO) paper compares athletic departments' share of revenue from commercial sources with that of the rest of the schools' activities to assess the degree of their commercialization. It also discusses some of the issues that might arise if the Congress decided to alter the treatment of intercollegiate sports programs in the tax code.

This analysis focuses on the athletic programs of colleges and universities in the NCAA's Division I—those that

have the largest sports programs and, consequently, are most likely to engage in commercial activities. Broadly defined, commercial activities provide a good or service in exchange for a fee in a market that also includes taxed businesses; in sports, those activities include ticket sales, shared revenue from championship games, sales of media rights, and advertising. In conducting this study, CBO relied on two sources of data on the revenue generated by the athletic programs of Division I schools: budget reports from the athletic departments of NCAA schools collected in 2006 by the *Indianapolis Star* newspaper under the Freedom of Information Act and data on total revenue for those schools from the Department of Education.

The study also examines the issues that might arise if policymakers decided that some or all of the activities of the schools' athletic programs were primarily commercial rather than educational—a decision that would greatly reduce or eliminate the rationale for giving those activities preferential tax treatment. The Congress could change the tax treatment of revenue from those activities in several ways, for example, by limiting the deduction for contributions, limiting the use of tax-exempt bonds, or limiting the exemption from income taxation.

On the basis of its analysis, CBO concludes the following:

- Athletic departments in NCAA Division I schools derive a considerably larger share of their revenue from commercial activities than do other parts of the universities.

- In the case of Division IA schools (a subset of schools in Division I that meet NCAA requirements for football programs), 60 percent to 80 percent of athletic departments' revenue comes from activities that can be described as commercial. That proportion is seven to eight times that for the rest of the schools' activities and programs, suggesting that their sports programs may have crossed the line from educational to commercial endeavors. Revenue from commercial activities accounts for a much smaller share of athletic department revenue (20 percent to 30 percent) for schools in the rest of Division I.
- Nonetheless, removing the major tax preferences currently available to university athletic departments would be unlikely to significantly alter the nature of those programs or garner much tax revenue even if the sports programs were classified, for tax purposes, as engaging in unrelated commercial activity. As long as athletic departments remained a part of the larger nonprofit or public university, schools would have considerable opportunity to shift revenue, costs, or both between their taxed and untaxed sectors, rendering efforts to tax that unrelated income largely ineffective. Changing the tax treatment of income from certain sources, such as corporate sponsorships or royalties from sales of branded merchandise, would be more likely to affect only the most commercial teams; it would also create less opportunity for shifting revenue or costs.