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# Even the IRS Can't Keep Tom Brady From Winning

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Football is a game that requires personal sacrifice for the good of the team, and, much like life generally, it also requires good advice and careful planning.

As the unquestioned leader of the New England Patriots, Tom Brady often steps directly into the path of a blitzing linebacker to complete a difficult pass, but he's been quite adept at avoiding those linebackers. Last week, he proved that he is equally adept at avoiding unnecessary taxation, probably because he is well advised and because, well, he's just so good at so many things – even tax planning.

Tom realized that if, as he wanted to do, he gave his Super Bowl MVP prize – a 2015 Chevy Colorado pickup truck – to rookie cornerback Malcolm Butler, he'd step directly into a potential gift tax liability from the blitzing IRS, not to mention the hefty federal income tax bill he'd owe on winning the truck (a taxable prize).

Much has been written about the inevitable gift tax consequences associated with giving the truck to Butler, but, when considering the bigger picture from an economic perspective, Tom realized that he would pay far more than gift taxes.

Consider the somewhat unfortunate situation of winning a non-cash prize in that the associated income tax liability cannot necessarily be taken out of the prize itself, but rather must be paid exclusive of the prize. For many Americans that win prizes, they are forced to sell the prize in order to cover the tax liability. In Tom Brady's case, the Chevy Colorado truck had a fair market value of $34,000, and, when taxed at the highest ordinary rate of 39.6%, this "prize" would generate a federal income tax liability of $13,464. If Tom had won cash, he likely would have paid the tax out of the cash winnings and would have been left with a net amount of $20,536.

Yet, left with an item worth $34,000 and the intention to award his teammate, Tom would have entered the other area of tax where liabilities are paid exclusive of taxable value – the gift tax. A gift tax is imposed on the grantor (Tom), and the entire gift is subject to tax. There is, however, an annual exclusion of $14,000, which would leave the taxable value of this gift at $20,000. At a 2015 gift tax rate of 40%, the gift tax liability would have amounted to $8,000.

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So not only would Tom have given away an item worth $34,000, he would be paying an additional gift tax of $8,000 and therefore be parting with $42,000 in economic value. After considering the additional $13,464 of income taxes that that Tom would owe upon receiving the truck, we're looking at an out-of-pocket tax cost of $21,464, plus the foregoing of an asset valued at $34,000. In total, Tom's MVP performance and subsequent generosity would have cost him $55,464.

Tom Brady, however, is known for his great decision-making, which is why he arranged for the truck to be awarded directly by Chevrolet to Malcolm Butler, effectively waiving the prize that he otherwise earned. Tom thereby saved $21,464 in combined gift and income taxes while also awarding the truck to his teammate.

Plus, by walking away from a brand new vehicle, Tom was able to unload a rapidly depreciating asset with a high maintenance cost. It's true – he is the best.

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