

# SHUTOUT



## *How High Taxes are Keeping the Stanley Cup out of Canada*

**Taxpayer.com**  
Stand Up. Be Heard!

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## About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in 1990 when the *Association of Saskatchewan Taxpayers* and the *Resolution One Association of Alberta* joined forces to create a national taxpayers organization. Today, the CTF has more than 84,000 supporters from coast-to-coast.

The CTF maintains a federal office in Ottawa as well as provincial and regional offices in British Columbia, Alberta, the Prairies, Ontario and Atlantic Canada. Provincial and regional offices conduct research and advocacy activities specific to their provinces in addition to acting as local organizers of nation-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences, utilize social media like twitter, facebook, youtube and the CTF blog, as well as issuing regular news releases, commentaries and publications to advocate on behalf of CTF supporters. The CTF's flagship publication, *The Taxpayer* magazine, is published four times a year. *Action Update* e-mails on current issues are sent to CTF supporters regularly. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationwide.

CTF representatives speak at functions, make presentations to government, meet with politicians and organize petition drives, events and campaigns to mobilize citizens to affect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.

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# Introduction

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What are the ingredients for making a deep Stanley Cup playoffs run? Good management and scouting, strong coaching and a goaltender that performs well under pressure are a recipe for success. And when it comes down to the Stanley Cup Finals, a couple bounces or a blown call can win or lose you the Cup (just ask Dominek Hasek and the 1999 Buffalo Sabres).

Equally important is the business side of the equation. Big market teams with strong fan bases like the New York Rangers and Chicago Blackhawks that can spend the maximum allowed under the salary cap will always have a distinct advantage over their smaller market rivals.

But missing from the conversation about why some teams win and other teams lose is the issue of taxes; primarily the income taxes paid by the most important employees of an NHL organization – the players.

This report will show the gross disparity in income taxes paid by NHL players depending on which of the 22 provincial or state jurisdictions that host NHL teams. The results reveal that the Montreal Canadiens, Ottawa Senators and Toronto Maple Leafs are three of the least financially attractive destinations for NHL players, with income taxes costing players millions more over the course of a contract, when compared with other teams. Are the confiscatory tax rates of Ontario and Quebec a factor in Canada's 20 year Stanley Cup drought? Well, they certainly aren't helping.

In fact, the governments of Ontario and Quebec have actually made it more difficult for their NHL franchises to compete in recent years. Ontario's Liberal government added a new income tax bracket in the 2012 budget, taxing income over \$500,000 at 12.16 per cent. That number jumped up to 13.16 per cent in 2013. Meanwhile Quebec's Marois government created a new bracket that sees income over \$135,000 taxed at 49.97 per cent including federal taxes.<sup>1</sup>

**Note:** This paper only looks at NHL players' salaries and income taxes from a hypothetical standpoint. Various state taxes that are charged to players when they play individual games within those states are not factored in, nor are any two-way contracts, where players spend their off-season or how they have structured their finances. The paper also intentionally ignores property taxes, sales taxes, business taxes paid by the team owners or any other form of taxation that may be paid by these players. US/Canadian exchange rates were also assumed to be \$1 to \$1, as the true exchange rate has hovered around par since 2009.

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<sup>1</sup> "Personal Income Tax Rates for Canada and Provinces/Territories for 2012 and 2013." *Tax Tips*. Web. 19 Sept. 2013.

## Canada's Stanley Cup Drought

Long suffering Canadian hockey fans have been waiting 20 years for the Stanley Cup to be hoisted by one of the country's six NHL franchises. Not since Patrick Roy led the Montreal



Patrick Roy led the 1993 Montreal Canadiens to Canada's last Stanley Cup. Photo Credit: www.dreamstime.com

Canadiens to their second Cup victory in seven years has professional sports' most iconic trophy been won by a Canadian team.

Canadian teams were at a perennial disadvantage during the 1990s with the weak Canadian dollar forcing the Winnipeg Jets and Quebec Nordiques to migrate south. The Ottawa Senators, Calgary Flames and Edmonton Oilers also all went through periods of financial distress, with Sens owner Rod Bryden unable to make payroll for his players in 2003.<sup>2</sup>

But over the last ten years some Canadian teams have fared better than others. Perhaps coincidental, perhaps not, teams in jurisdictions with lower income taxes have performed better than teams in high tax jurisdictions. Calgary, Edmonton and Vancouver all rank among the best teams to play for from a financial perspective, while Montreal, Ottawa and Toronto rank among the worst teams to play for because of high provincial tax rates as shown in Table 1.

**Table 1: Ranking of NHL franchises by after tax income of players<sup>3</sup>**

Rank	Team	Rank	Team	Rank	Team
1 (t)	Calgary Flames	11	Detroit Red Wings	21	Montreal Canadiens
1 (t)	Edmonton Oilers	12	Colorado Avalanche	22	Washington Capitals
3 (t)	Nashville Predators	13	Winnipeg Jets	23 (t)	Buffalo Sabres
3 (t)	Dallas Stars	14	Chicago Blackhawks	23 (t)	New York Islanders
3 (t)	Florida Panthers	15	Boston Bruins	23 (t)	New York Rangers
3 (t)	Tampa Bay Lightning	16	St. Louis Blues	26	New Jersey Devils
7	Vancouver Canucks	17	Columbus Blue Jackets	27	Minnesota Wild
8	Phoenix Coyotes	18 (t)	Ottawa Senators	28 (t)	Anaheim Ducks
9 (t)	Philadelphia Flyers	18 (t)	Toronto Maple Leafs	28 (t)	Los Angeles Kings
9 (t)	Pittsburgh Penguins	20	Carolina Hurricanes	28 (t)	San Jose Sharks

<sup>2</sup> Warren, Ken. "Senators still owe Yashin money." *National Post*. Web. 4 January. 2003.

<sup>3</sup> Note: The team with lowest tax bill ranks first. The team with the highest tax-bill ranks last. American tax bills calculated using the [ADP Paycheck Calculator](#). Canadian tax bills calculated using the [Ernst and Young Personal tax calculator](#).<sup>3</sup> Calculation based on average 2011-12 NHL salary of \$2.4 million.

## Do NHLers make decisions based on taxes?

While many fans hold romantic visions of athletes making decisions solely based on their desire to win championships or their loyalty to their team – considerations that certainly do come into play when choosing a team – they are also professionals looking to make a living.

Numerous studies show that the higher an income an individual earns, the more likely they are to migrate for tax purposes. This is especially true of professional athletes, who are young, wealthy and extremely mobile. A London School of Economics study of the labour market for



The best golfer and soccer player in the world have both moved to avoid high taxes. Tiger Woods left California for Florida while Cristiano Ronaldo migrated from UK's Manchester United for Spain's Real Madrid. Photo Credit: Wikipedia.org

professional soccer players in Europe found that these athletes were very sensitive to the tax implications of the different teams for which they would consider playing. “Both approaches show that the level of top earnings tax rates has a large and significant impact on the migration decisions of football players.”<sup>4</sup>

On this side of the pond, we recently saw NBA star Dwight Howard choose not to re-sign with the Los Angeles Lakers and instead sign with the Houston Rockets. He signed a

four-year, \$87.6 million (\$21.9 mil/yr) contract in Houston despite the Lakers offering Howard a five-year, \$118 million (\$23.6 mil/yr) contract.<sup>5</sup> California’s high income taxes made the Houston Rocket’s lower offer more attractive.

The life of a professional athlete is one of great uncertainty. Half of all NHL players play less than 100 games with the average career lasting only five years.<sup>6</sup> An unexpected injury or sudden drop of performance means that every time they step on the ice, it may be their last. They are also extremely competitive individuals, the best in the world, and are eager to make the most money possible. Additionally, they work in an industry where the competition for talent is fierce and labour is mobile. Few industries operate in a labour environment where there are 30 different options for highly-skilled employees to choose from, where their skills are 100 per cent transferable.

<sup>4</sup> Kleven, Henrik Jacobsen, Camille Landais and Emmanuel Saez. “Taxation and International Mobility of Superstars: Evidence from the European Football Market.” *London School of Economics*. December 2009.

<sup>5</sup> Wood, Robert W. “Dwight Howard Joins Rockets, Rejects Lakers Higher Offer.” *Forbes*. Web. Sept 9. 2013.

<sup>6</sup> “NHL Players Career Length.” *Quant Hockey*. Web. 4 September. 2013.

## Unrestricted Free Agency 2014: A Taxing Time for GMs

Nowhere are the effects of taxes and the decision-making of NHLers felt more strongly than during Unrestricted Free Agency (UFA). As a UFA, players are able to hold discussions and ultimately sign with any of the 30 teams in the NHL.

**Table 2: Potential tax bills of top 2014 Unrestricted Free Agents if signing identical contract to current one (in millions of \$USD)**

Rank	Team	Sedin twins (\$36.6 million, 6 year contract each)		Henrik Lundqvist (\$41.25 million, 6 year contract)		Joe Thornton (\$21 million, 3 year contract)		Effective Tax Rate
		Tax Bill (Contract)	Take Home Pay (Contract)	Tax Bill (Contract)	Take Home Pay (Contract)	Tax Bill (Contract)	Take Home Pay (Contract)	
1 (t)	Calgary	\$14.2m	\$22.4m	\$16.0m	\$25.2m	\$8.1m	\$12.9m	39%
1 (t)	Edmonton	\$14.2m	\$22.4m	\$16.0m	\$25.2m	\$8.1m	\$12.9m	39%
3 (t)	Nashville	\$15.1m	\$21.5m	\$17.1m	\$24.2m	\$8.7m	\$12.3m	41%
3 (t)	Dallas	\$15.1m	\$21.5m	\$17.1m	\$24.2m	\$8.7m	\$12.3m	41%
3 (t)	Florida	\$15.1m	\$21.5m	\$17.1m	\$24.2m	\$8.7m	\$12.3m	41%
3 (t)	Tampa Bay	\$15.1m	\$21.5m	\$17.1m	\$24.2m	\$8.7m	\$12.3m	41%
7	Vancouver	\$15.9m	\$20.7m	\$17.9m	\$23.3m	\$9.1m	\$11.9m	43%
8	Phoenix	\$16.1m	\$20.5m	\$18.2m	\$23.1m	\$9.3m	\$11.7m	44%
9 (t)	Philadelphia	\$16.3m	\$20.3m	\$18.4m	\$22.9m	\$9.4m	\$11.6m	45%
9 (t)	Pittsburgh	\$16.3m	\$20.3m	\$18.4m	\$22.9m	\$9.4m	\$11.6m	45%
11	Detroit	\$16.7m	\$19.9m	\$18.8m	\$22.4m	\$9.6m	\$11.4m	46%
12	Colorado	\$16.8m	\$19.8m	\$19.0m	\$22.3m	\$9.7m	\$11.3m	46%
13	Winnipeg	\$16.9m	\$19.7m	\$19.0m	\$22.2m	\$9.7m	\$11.3m	46%
14	Chicago	\$17.0m	\$19.6m	\$19.1m	\$22.1m	\$9.7m	\$11.3m	46%
15	Boston	\$17.0m	\$19.6m	\$19.2m	\$22.0m	\$9.8m	\$11.2m	47%
16	St. Louis	\$17.3m	\$19.3m	\$19.5m	\$21.7m	\$10.0m	\$11.0m	47%
17	Columbus	\$17.4m	\$19.2m	\$19.7m	\$21.6m	\$10.0m	\$11.0m	48%
18 (t)	Ottawa	\$17.9m	\$18.7m	\$20.2m	\$21.0m	\$10.3m	\$10.7m	49%
18 (t)	Toronto	\$17.9m	\$18.7m	\$20.2m	\$21.0m	\$10.3m	\$10.7m	49%
20	Carolina	\$18.0m	\$18.6m	\$20.3m	\$21.0m	\$10.3m	\$10.7m	49%
21	Montreal	\$18.2m	\$18.4m	\$20.5m	\$20.8m	\$10.4m	\$10.6m	50%
22	Washington	\$18.4m	\$18.2m	\$20.7m	\$20.5m	\$10.6m	\$10.4m	50%
23 (t)	Buffalo	\$18.6m	\$18.0m	\$21.0m	\$20.2m	\$10.7m	\$10.3m	51%
23 (t)	NY Islanders	\$18.6m	\$18.0m	\$21.0m	\$20.2m	\$10.7m	\$10.3m	51%
23 (t)	NY Rangers	\$18.6m	\$18.0m	\$21.0m	\$20.2m	\$10.7m	\$10.3m	51%
26	New Jersey	\$18.6m	\$18.0m	\$21.0m	\$20.2m	\$10.7m	\$10.3m	51%
27	Minnesota	\$18.7m	\$17.9m	\$21.1m	\$20.1m	\$10.8m	\$10.2m	51%
28 (t)	Anaheim	\$20.3m	\$16.3m	\$23.0m	\$18.3m	\$11.7m	\$9.3m	56%
28 (t)	Los Angeles	\$20.3m	\$16.3m	\$23.0m	\$18.3m	\$11.7m	\$9.3m	56%
28 (t)	San Jose	\$20.3m	\$16.3m	\$23.0m	\$18.3m	\$11.7m	\$9.3m	56%

Vancouver's Daniel and Henrik Sedin, Ranger's net-minder Henrik Lundqvist and San Jose's Joe Thornton are four of the highest profile players to be hitting the 2014 free agent market. A look at the taxes they would pay if they were to sign an identical contract to their current one illustrates the massive financial implications for which team they eventually decide to lace up the skates with. Lundqvist and Thornton would save \$2.6 million in taxes were they to sign with an Albertan team compared to re-signing with their current clubs. The Sedin's would stand to lose as much as \$4.4 million if they were to leave Vancouver for any of California's three NHL clubs.

## Case Study: 2013 free agent frenzy

**Table 3: After tax income changes for top 30 UFAs from 2013 if signing with Leafs/Sens, Canadiens or Jets (millions of \$USD)**

Player	Contract Size <sup>7</sup>	Current Team	Leafs/Sens	Canadiens	Jets
Mike Smith	\$34.0m/6 years	Phoenix	-\$2.55m	-\$2.81m	-\$1.62m
Valtteri Filppula	\$25.0m/5 years	Tampa Bay	-\$1.90m	-\$2.10m	-\$1.22m
Andrew Ference	\$13.0m/4 years	Edmonton	-\$1.28m	-\$1.41m	-\$0.95m
Mike Ribeiro	\$22.0m/4 years	Phoenix	-\$1.08m	-\$1.25m	-\$0.47m
Vincent Lecavalier	\$22.5m/5 years	Philadelphia	-\$1.00m	-\$1.19m	-\$0.40m
Mark Streit	\$21.0m/4 years	Philadelphia	-\$0.94m	-\$1.10m	-\$0.36m
Viktor Stalberg	\$12.0m/4 years	Nashville	-\$0.91m	-\$1.04m	-\$0.62m
Boyd Gordon	\$9.0m/3 years	Edmonton	-\$0.88m	-\$0.97m	-\$0.66m
Stephen Weiss	\$24.5m/5 years	Detroit	-\$0.82m	-\$1.02m	-\$0.15m
Eric Nystrom	\$10.0m/4 years	Nashville	-\$0.76m	-\$0.88m	-\$0.53m
Sergei Gonchar	\$10.0m/2 years	Dallas	-\$0.76m	-\$0.84m	-\$0.49m
Pascal Dupuis	\$15.0m/4 years	Pittsburgh	-\$0.67m	-\$0.81m	-\$0.28m
Rob Scuderi	\$13.5m/4 years	Pittsburgh	-\$0.60m	-\$0.73m	-\$0.27m
Matt Hendricks	\$7.4m/4 years	Nashville	-\$0.57m	-\$0.67m	-\$0.41m
Matt Cullen	\$7.0m/2 years	Nashville	-\$0.53m	-\$0.60m	-\$0.35m
Nathan Horton	\$37.1m/7 years	Columbus	-\$0.47m	-\$0.76m	-\$2.36m
Bryan Bickell	\$16.0m/4 years	Chicago	-\$0.42m	-\$0.56m	\$0.00m
Daniel Alfredsson	\$5.5m/1 years	Detroit	-\$0.18m	-\$0.23m	-\$0.03m
Jarome Iginla	\$6.0m/1 years	Boston	-\$0.14m	-\$0.19m	\$0.03m
Drew Miller	\$4.1m/3 years	Detroit	-\$0.14m	-\$0.21m	-\$0.07m
Grant Clitsome	\$6.2m/3 years	Winnipeg	-\$0.13m	-\$0.21m	\$0.00m
Michal Rozsival	\$4.4m/2 years	Chicago	-\$0.12m	-\$0.17m	-\$0.02m
Jordan Leopold	\$4.5m/2 years	St. Louis	-\$0.08m	-\$0.13m	\$0.03m
Matt Cooke	\$7.5m/3 years	Minnesota	\$0.01m	-\$0.07m	\$0.19m
Niklas Backstrom	\$10.3m/3 years	Minnesota	\$0.02m	-\$0.08m	\$0.28m
Michael Ryder	\$7.0m/2 years	New Jersey	\$0.13m	\$0.06m	\$0.31m

<sup>7</sup> "Player contracts." *Capgeek.com*. Web. 9 Sept. 2013.

Danius Zubrus	\$9.3m/3 years	New Jersey	\$0.16m	\$0.07m	\$0.39m
Patrik Elias	\$16.5m/3 years	New Jersey	\$0.33m	\$0.20m	\$0.79m
Robyn Regehr	\$6.0m/2 years	Los Angeles	\$0.37m	\$0.31m	\$0.52m
Ryane Clowe	\$24.3m/5 years	New Jersey	\$0.47m	\$0.28m	\$1.13m
<b>Total take home pay differential for top 30 UFAs</b>			<b>-\$15.44m</b>	<b>-\$19.07m</b>	<b>-\$7.59m</b>

Note: Table indicates change in after tax income if signing with the Leafs, Sens, Jets or Canadiens. For example, Mike Smith would lose \$2.55 million due to a larger tax bill if he had signed the same deal with the Leafs or Sens, as opposed to the Coyotes. The list excludes UFAs who signed with the Leafs, Sens, Jets or Canadiens.

Table 3 illustrates the overwhelming disadvantage faced by Canada's four high-tax jurisdiction teams. Twenty-three of the top 30 off-season free agents would have paid more taxes had they decided to don the jersey of the Toronto Maple Leafs or Ottawa Senators. The Winnipeg Jets fall closer to the middle of the pack in tax competitiveness, but 19 of the 30 players would have faced a higher tax bill. The Canadiens would have left all but five players with less money in their pocket.

The additional tax bill to play for an Ontario team for all 30 players rings in at over \$15 million, \$19 million for the Montreal Canadiens and nearly \$8 million for the Winnipeg Jets.



Montreal Canadiens' GM Marc Bergevin's interest in former Tampa Bay Lightning captain Vincent Lecavalier was "pretty high." But the former Olympian and Quebec native eventually signed with the Philadelphia Flyers. Was the \$1.2 million in extra taxes he would have paid with the Habs a factor in his decision? Photo Credit: Wikipedia.org

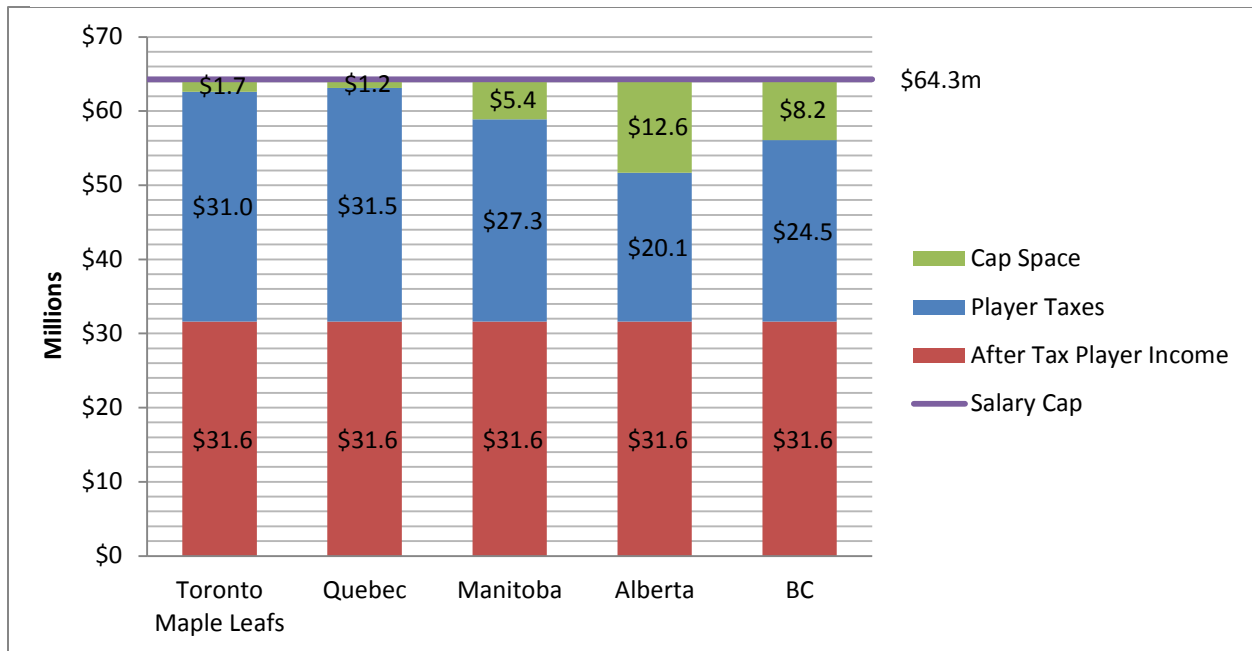
## Cody Franson contract talks

As the Toronto Maple Leafs enter the pre-season, they are missing a key element of their back-end with defenceman Cody Franson sitting out as a restricted free agent. The holdout underlines the difficulties that comparatively high tax rates cause for NHL teams. With GMs forced to award larger contracts to UFAs to account for the corresponding drop in take home pay, less room is left over under the salary cap.

Chart 1 illustrates that if the Toronto Maple Leafs exact payroll was transferred to other Canadian teams in lower tax jurisdictions, the team would have room under the salary cap to sign Franson.



Chart 1: Toronto Maple Leafs' payroll if transferred to other jurisdictions



Note: Take home pay of team salary calculated using Ernst and Young personal tax calculator.

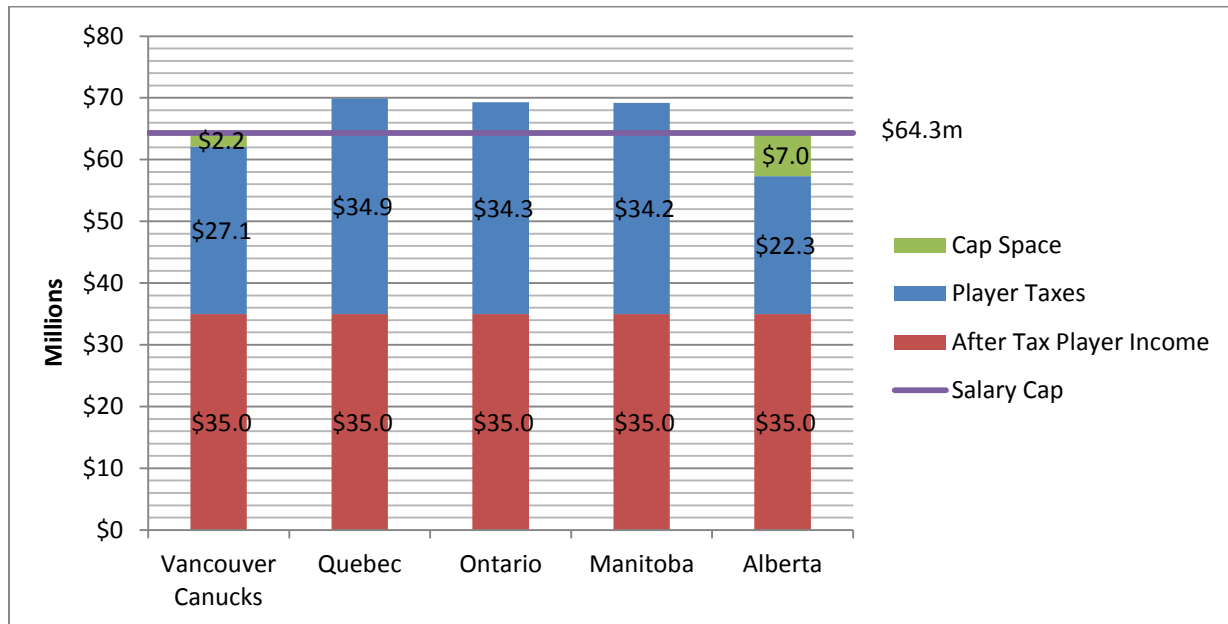
To grasp Chart 1, it is important to understand the context of contract negotiations. Unlike most people, players are actively weighing working in different jurisdictions, each with their own tax rates. What this means is that the salary they are offered is actually irrelevant. What matters most is take home pay after taxes.

With this in mind, Chart 1 illustrates what would happen if the Leafs were to have been operating in a different province. The total take home pay of the entire Leafs' 2013-14 roster is \$31.6 million. Because what matters is after tax income, this would stay the same regardless of what province they call home.

Why? Because this means the take home pay on the players paycheques stays the exact same. But if tax rates are lower, that means the team can reach that take home pay level for their players while paying them less money overall. For instance, the Leafs would have \$12.6 million in cap space in Alberta, \$8.2 million in B.C. and \$5.4 million in Manitoba. With that extra money, they could comfortably sign Cody Franson, and potentially an additional star player.

Of course there are two sides to this coin. What happens if the Vancouver Canucks were operating with the same players and payroll in a different province? In Alberta, more cap room opens up.

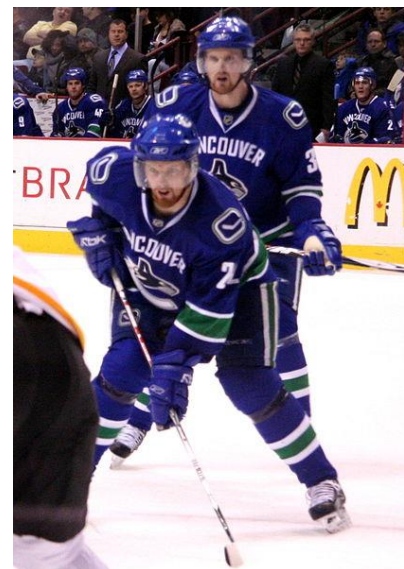
**Chart 2: Vancouver Canucks' payroll if transferred to other jurisdictions**



Note: Take home pay of team salary calculated using Ernst and Young personal tax calculator.

But the Canucks would simply not be able to ice the same team if they were to move into a higher tax jurisdiction. They would be forced to shed some significant talent off their roster to give their players the same take home pay they enjoyed in Vancouver. In Quebec, they would have to shave at least \$5.6 million off their payroll to stay under the cap. In Ontario, the figure is \$5 million, while in Manitoba it sits at \$4.9 million. And remember, shedding those payroll numbers would leave the team right at the ceiling of the salary cap, with zero room to operate. In reality, they would have to cut significantly more salary in order to sign a less expensive player to fill the roster.

What would these cuts mean? If the Canucks only wanted to lose one player, the only option to give themselves some room under the salary cap would be to get rid of one of the Sedin twins. If they were deemed non-expendable, then the team would have to scrap a Ryan Kesler or Alex Edler calibre player along with an additional mid-range player like Chris Higgins. And because there would be so little room under the cap after these cuts, their replacements would have to be low-paid talent pulled directly from the AHL or junior ranks.



If the Canucks played in a higher tax jurisdiction, they would have to give up one of the Sedins to stay under the NHL's salary cap. Photo Credit: Wikipedia.org

## Conclusion

Why do the tax bills of highly paid professional athletes matter? The point of this paper was not to make a moral argument that professional athletes are too highly paid or shouldn't pay taxes. No one disputes the fact that they are extremely fortunate to play a sport for a living and get rich doing it.

But the evidence is clear that taxes matter – not just for NHL hockey players, but for any highly-paid, sought-after professional who is willing to move. Doctors, engineers, CEOs of companies are all highly-paid and in short supply.

But for the NHL, if you are a hockey fan whose team is in a lower-tax jurisdiction, your team holds a major advantage over its rivals. This paper does not claim that lower taxes will automatically lead to a successful NHL franchise. A zero tax rate would not make up for poor management decisions like the Maple Leafs trading Tuukka Rask for Justin Pogge. And it most certainly won't save small-market teams like the Edmonton Oilers or Winnipeg Jets if the Canadian dollar were to drop by half. But it's impossible to ignore taxes as a key contributing factor when professional athletes, especially star athletes who can play anywhere they choose, enter contract negotiations.

Governments in the past have provided funding for arenas or even bailed out professional sports teams. But if they really want to give Canada's NHL franchises a break, providing competitive income tax levels would be the best start. Surely helping to bring the Stanley Cup back to Canada is a reward too good for any politician to pass up.