

MAY 2026

Low-tax Paths to the Stanley Cup

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Four of the last six seasons in the National Hockey League (excluding the ongoing 2025-26 season) have seen the Stanley Cup Championship won by teams from Florida – a state with no personal income tax. Might the state’s lower tax rates have had a hand in those victories? More generally, do income taxes affect the competitive edge of professional sports teams?

SPORTS ECONOMICS AND TAX RATES

Professional athletes in competitive sports such as hockey, baseball, soccer, basketball and football are what economists call “superstars.” They have unique talents and skills that are in high demand.¹ This leads to such high incomes that their average tax rates are at or near the top marginal tax rates in the areas where they reside. Two forces conspire to push these athletes toward low-tax jurisdictions.

Firstly, athletes’ incentives to seek out low-tax areas are a good deal stronger than average. Because they are at or close to the top marginal tax rate, the potential savings from a tax rate even one percentage point lower can be quite substantial. Moreover, athletes generally see their peak earnings concentrated in a short time window, and once out of that window, their salaries tend to fall significantly. The high uncertainty they face due to the risk of injury combines with all this to create a strong incentive to maximize after-tax earnings, while possible, in order to maximize post-career income.

Secondly, sports franchises have strong incentives to seek out top athletes and tend to care only about the total compensation needed to attract elite talent. In lower-tax districts, a club can offer the same after-tax compensation at a lower gross cost.

All else being equal, these forces will synergize such that tax rates will have a sorting effect: low-tax areas will attract the highest-ability players while pushing out players with less ability. For example, a study of major league soccer players in 14 European countries (in which clubs could recruit internationally with relatively few restrictions) since 1958 shows that migration decisions were

largely driven by tax rates: a 1% increase in the net-of-tax rate in one place increased the supply of foreign players by 1.22%.² The same study found that this affected club performance, as countries with lower tax rates tended to have better performing teams (as proxied by the number of points earned by all the country’s teams in the Union of European Football Association).

Similar findings have been made for other sports leagues including golfing,³ Major League Baseball (MLB),⁴ and the National Basketball Association (NBA). The same results obtained for soccer teams⁵ for whom tax rates affect the ability to recruit high talents, especially in the presence of free agency.⁶ Sports leagues understand this mechanism all too well. Professional leagues need to preserve competitive balance in order to prevent a small subset of teams from winning a disproportionate share of the time as a result of access to more resources. These efforts to achieve parity are why leagues in North America (e.g., the NHL, MLB, NBA and NFL) have drafts, salary caps, “luxury taxes” on high-spending teams (e.g., the MLB), and revenue sharing agreements. Some of these rules are explicitly or implicitly designed to deal with byproducts of tax competition.

THE NHL EXAMPLE

Despite these attempts to achieve parity, however, we still see tax-related incentives working in various ways. Take, for example, the NHL, a league whose salary cap is based on payroll rather than net pay, and which has a draft that (theoretically) limits the effect of tax competition on competitive balance.⁷

The fiscal rules that apply say that players must pay income taxes in the jurisdictions where they earn income, whether from home games, away games or practices. Some states apply what are known as “jock taxes,” whereby players from other districts have to pay taxes on away games played in that district. In the United States, there are no jock taxes in Florida, Tennessee, Washington, the District of Columbia, and Texas.⁸ However, a player from those states playing in California (which has the highest

jock tax at 13.3%) will incur tax liabilities in that state despite not living there. For players who are free agents (i.e., players who are either above 27 years of age, have accrued 7 NHL seasons, or have expired contracts) and who are unaffected by the draft, these differences in tax rates have considerable influence on the decision of where to play. Since the payroll cap in the NHL is on gross, rather than net, salary, teams in low-tax states can make smaller offers of gross pay and still match the net pay available in other states, while seemingly equivalent offers of gross pay constitute higher bids in terms of net pay. This allows teams in low-tax states to attract players more easily.

As Table 1 illustrates, even a conservative assessment of tax differences across teams shows significant advantages for the Florida Panthers, Dallas Stars, Nashville Predators and Tampa Bay Lightning, where players pay tax rates of 31.27% on a \$750,000 salary. Contrast this with the 48.57% tax rate levied on a Montreal Canadiens player with the same gross pay. These are significant tax differentials to be exploited.

Interestingly, differential tax rates have an effect on team performance even with respect to players acquired in the draft. In the NHL draft, teams select players one at a time over several rounds with priority going to the teams with worse records in the past season. Once a team drafts a player, it retains the exclusive NHL rights to negotiate with that player for a certain period. Thus, a player cannot “pick” a team based on the tax rates in the province or district. Moreover, entry-level contracts are pretty uniform. These features might lead one to think – incorrectly – that income tax differences only affect free agents. However, hockey team owners internalize the tax advantage when valuing players. An owner knows that players value playing in low-tax districts and are more likely – if drafted – to re-sign with the team after their rookie contracts expire. In other words, downstream tax competition changes the expected returns to developing draft talent by making it easier to keep this talent on the team (i.e., easier retention). As such, even with respect to the draft, teams in lower-tax states and provinces have slight advantages.

This theory is borne out by the data. One study looking at winning percentages between 1980 and 2017 found that income taxes on net adversely affect the ability of teams to win. The authors found that tax rates have strong effects on winning percentages via free agents, with a one percentage point increase in tax rates reducing rates of victory by between 0.65 and 0.83 percentage points.⁹ This effect was noticeably larger for the NHL specifically, with reductions in winning rates of 1.55 to 1.57 per cent per percentage point increase in income tax.¹⁰

CONCLUSION AND BROADER IMPLICATIONS

One should be careful not to ascribe a team’s performance to tax differences alone, but it is necessary to understand that these rates do matter. Athletes are people who invest significant resources into improving their performance, beginning many years before they start playing for professional teams in the major leagues. These efforts are partly motivated by the potential payoffs.¹¹ This means that we cannot dismiss the role of tax policy in attracting and retaining talent.

In fact, the discussion above has similar ramifications for every other kind of top talent: researchers, doctors, painters, professors, actors, inventors, musicians, managers, etc.¹² What applies to athletes applies to them too.

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TABLE 1

Estimated Effective Tax Burden Across NHL Teams Based on a \$750,000 Salary

Team	Tax Rate (%)	Annual Taxes (\$)
Dallas Stars	31.27	234,520
Florida Panthers	31.27	234,520
Nashville Predators	31.27	234,520
Seattle Kraken	31.27	234,520
Tampa Bay Lightning	31.27	234,520
Vegas Golden Knights	31.27	234,520
Pittsburgh Penguins	35.34	265,045
Colorado Avalanche	35.67	267,520
Carolina Hurricanes	35.76	268,195
Utah Mammoth	35.82	268,645
Chicago Blackhawks	36.22	271,645
Boston Bruins	36.27	272,020
Washington Capitals (MD)	36.8	276,030
St. Louis Blues	36.95	277,099
Washington Capitals (VA)	36.98	277,387
Columbus Blue Jackets	37.07	278,054
Buffalo Sabres	37.8	283,496
New York Islanders	37.8	283,496
Detroit Red Wings	37.92	284,395
Philadelphia Flyers	38.09	285,670
New Jersey Devils	38.22	286,668
Washington Capitals (DC)	40.22	301,670
Minnesota Wild	40.38	302,826
Anaheim Ducks	41.17	308,766
Los Angeles Kings	41.17	308,766
San Jose Sharks	41.17	308,766
New York Rangers	41.66	312,441
Calgary Flames	42.63	319,758
Edmonton Oilers	42.63	319,758
Winnipeg Jets	46.03	345,241
Vancouver Canucks	46.74	350,550
Ottawa Senators	47.61	357,104
Toronto Maple Leafs	47.61	357,104
Montreal Canadiens	48.57	364,312

Source: Cardinal Point Athlete Advisors, Calculators, NHL Tax Calculator, "Tax Calculator," consulted May 25, 2026.



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