

THE AUSTRALIA INSTITUTE

Funding Sport Fairly

An income-contingent loans scheme for elite sports training

Background

Australian taxpayers spent more than \$97 million on elite sportspeople in 2001-2002 (ASC 2002). A significant proportion of this expenditure went on providing Australian Institute of Sport (AIS) 'scholarships' to 673 athletes and grants to national sporting bodies for their elite athlete programs (ASC 2002). Major expenses associated with assistance to elite sportspeople include the provision of training facilities (such as swimming pools and playing fields), coaching, medical advice and international and domestic travel costs associated with competition.

While there is no doubt that the Commonwealth Government has a role to play in encouraging excellence in all fields of human endeavour, be they sporting, educational or artistic, there is an important equity issue associated with providing taxpayer funded training to individuals who go on to earn millions of dollars per year from their sporting prowess.

As shown in Table 1, sportspeople who make it to the top of some sports earn extremely high incomes. For some, sporting success while young can also be translated into high incomes in later life either through sponsorship, public speaking or commentary positions.

Many would question the fairness of a system that delivers huge incomes to a handful of elite sporting stars; but that is how the sports market works. However, there are good grounds for taking action to recover some of the publicly funded costs of training sportspeople who go on to earn very high incomes.

In order to address this issue it is proposed that the Government introduce a HECS-type scheme whereby those sportspeople who go on to earn high incomes would be required to repay the costs incurred in the public provision of their training and development. Such a scheme could be called the Elite Sporting Education Contribution Scheme (ESECS).

The ESECS scheme would be consistent with the approach taken to the provision of education more generally. The rationale behind HECS is that low incomes should not be a deterrent to entering the higher education system. However, if having received an education an individual achieves the capacity to repay the cost of their education, then they should do so via regular payments made through the tax system.

Table 1 Top 50 Australian sports earners 2002 (AIS athletes in bold)

Ranking	Name	Sport	Estimated gross earnings (\$A)	Period of AIS support
1	Greg Norman	Golf	\$24,600,000	
2	Lleyton Hewitt	Tennis	\$18,800,000	1993-1994
3	Harry Kewell	Soccer	\$18,000,000	
4	Mark Viduka	Soccer	\$7,500,000	1992-1993
5	Mark Bosnich	Soccer	\$6,500,000	
5	Costya Tszyu	Boxing	\$6,500,000	
7	Graeme Lloyd	Baseball	\$5,500,000	
8	Robert Allenby	Golf	\$3,920,000	
9	Ian Thorpe	Swimming	\$3,800,000	
10	Craig Moore	Soccer	\$3,750,000	1992-1993
11	Stuart Appleby	Golf	\$3,240,000	
12	Mark Schwarzer	Soccer	\$3,200,000	
13	Craig Parry	Golf	\$3,080,000	
14	Marco Bresciano	Soccer	\$3,000,000	1997
14	Anthony Mundine	Boxing	\$3,000,000	
14	Josip Skoko	Soccer	\$3,000,000	1992-1993
17	Peter Leonard	Golf	\$2,900,000	
18	Adam Scott	Golf	\$2,680,000	
19	Karrie Webb	Golf	\$2,250,000	
20	Steve Elkington	Golf	\$2,050,000	
21	John Aloisi	Soccer	\$2,000,000	not known
21	Eddy Bosnar	Soccer	\$2,000,000	
21	Robbie McEwen	Cycling	\$2,000,000	1994-1996
21	Danny Tiatto	Soccer	\$2,000,000	
21	Steve Waugh	Cricket	\$2,000,000	
26	Stephen Leaney	Golf	\$1,920,000	
27	Stewart Ginn	Golf	\$1,850,000	
28	Geoff Ogilvy	Golf	\$1,800,000	
29	Cathy Freeman	Athletics	\$1,720,000	1992-1995
30	Shane Warne	Cricket	\$1,700,000	1990-1992
31	Paul Agostino	Soccer	\$1,500,000	
31	Taj Burrow	Surfing	\$1,500,000	
31	Joey Didulica	Soccer	\$1,500,000	
31	Grant Hackett	Swimming	\$1,500,000	
31	Glenn McGrath	Cricket	\$1,500,000	1992-1993
31	Kevin Muscat	Soccer	\$1,500,000	not known
31	Lucas Neil	Soccer	\$1,500,000	1992-1995
31	Rod Pampling	Golf	\$1,500,000	
39	Peter O'Malley	Golf	\$1,420,000	
40	Adam Gilchrist	Cricket	\$1,300,000	1991
40	Brett Lee	Cricket	\$1,300,000	1995-1996
42	Roger Davis	Golf	\$1,240,000	
43	Stan Lazaridis	Soccer	\$1,200,000	
44	Greg Chalmers	Golf	\$1,180,000	
45	Scott Laycock	Golf	\$1,090,000	
46	Rachel Teske	Golf	\$1,040,000	
47	Brett Emerton	Soccer	\$1,000,000	1995-1996
47	Hayden Foxe	Soccer	\$1,000,000	1994
47	James Hird	AFL	\$1,000,000	
47	Zeljko Kalac	Soccer	\$1,000,000	
47	Michael Klim	Swimming	\$1,000,000	1994-2000
47	Paul Okon	Soccer	\$1,000,000	

47	Tony Vidmar	Soccer	\$1,000,000
47	Mark Waugh	Cricket	\$1,000,000

Source: Shoebridge 2002

The High Education Contribution Scheme (HECS) came into operation in 1989. Although the original concept was that the repayment threshold be set at average weekly earnings, the repayment schedule was never set that high. The Coalition introduced 'differential' payments for different degrees in 1996 as well as significantly lowering the income threshold at which repayments began. In 2003, students begin to repay their HECS liability when their annual taxable income exceeds \$24,365. For a discussion of the HECS system see Chapman (2001).

The income thresholds and repayment rates for income earned during the 2002-03 income year are shown in Table 2.

Table 2 Current HECS repayment schedule

Income in the range	Percentage rate to be applied to HECS repayment income
Below \$24 365	Nil
\$24 365 - \$25 694	3.0%
\$25 695 - \$27 688	3.5%
\$27 689 - \$32 118	4.0%
\$32 119 - \$38 763	4.5%
\$38 764 - \$40 801	5.0%
\$40 802 - \$43 858	5.5%
\$43 859 and above	6.0%

Source: DEST 2003

It is important to note that the objective of requiring elite sportspeople to repay the cost of their training is not to discourage individuals from pursuing sport at the highest levels but to ensure that those who go on to make significant personal gains from public assistance repay those whose help they benefited from. As the Commonwealth Government says about the HECS scheme:

The Higher Education Contribution Scheme (HECS) is a fair and equitable way of ensuring that students contribute to the cost of their higher education. It is considered reasonable that students who directly benefit from higher education should pay part of the cost of their studies, while the Commonwealth pays the major part of the costs involved (DEST 2003).

The sports scholarship system

AIS scholarships are available to Australian citizens and those whose citizenship is pending. The scholarships are advertised annually in national newspapers. While selection criteria vary for individual sports, the expectation is that applicants are already competing at the national championship level.

Successful applicants are required to agree to terms and conditions dictated by the AIS. These conditions include:

- compliance with accommodation requirements specified by the Institute;
- undertaking public relations activities as requested;
- participation in drug testing; and
- abiding by the AIS code of ethics (AIS 2003).

In return, athletes receiving an AIS scholarship may benefit in a number of ways, including:

- access to world class facilities;
- high performance coaching;
- personal training and competition equipment;
- sports medicine and sports science services;
- competition, travel, accommodation and living allowances for events chosen by the Institute;
- full board at the Institute's residences, or living out allowances, as appropriate; and
- reimbursement of education expenses up to a limit that depends on the type of study undertaken (AIS 2003).

While training, competition and travel costs differ between athletes, the average cost of each scholarship appears to be at least \$23,000 per year. This figure was estimated by dividing the total amount of grants made to the Australian Institute of Sport from the ASC (\$15.3 million) by the 673 scholarships offered in 2001-2002 (ASC 2002).

The estimate of \$23,000 is a conservative one. In addition to grants made to the AIS to support individual sports, the Australian Sports Commission also provides a much larger amount of money to national sporting bodies to support 'high performance' sports programs. In 2002, grants provided to national sporting bodies for the development of elite sportspeople totalled \$42.9 million, nearly three times more than the grant to the AIS.

While in some cases funding is provided directly to sporting bodies rather than the AIS (due to the absence of a relevant AIS program), this is frequently not the case.

Table 3 provides examples of the sums of money provided to support a range of sports, both directly and through the AIS. In some instances, the AIS grants and the 'High Performance Program' grants support the same group of athletes, as in the case of volleyball, as the AIS team is also the national team.

As information is not available on the number of non-AIS scholarship holders who benefit from the High Performance Program grants, it is not possible to determine the average amount of support given to each beneficiary.

Table 3 Grants made by the Australian Sports Commission to support elite athletes (2001-2002)

Sport	AIS	High Performance Program (national sporting bodies)	Total ^a (\$)
Athletics	1,008,071	2,370,000	3,378,071
Basketball	923,676	2,295,000	3,218,676
Cricket	475,738	360,612	836,350
Cycling	1,116,846	2,280,000	3,396,846
Golf	348,632	441,751	790,383
Hockey	896,800	3,265,000	4,161,800
Rugby league	200,000	95,009	295,009
Rugby union	200,000	110,612	310,612
Soccer	950,065	1,097,924	2,047,989
Swimming	956,083	3,265,000	4,221,083
Tennis	419,998	165,000	584,998
Volleyball	858,687	1,060,000	1,918,687

a. Total refers to total elite expenditure. Other grants are made to individual sports to cover programs such as encouraging community involvement.

Source: ASC 2002, Extract from Appendix 4, pp. 137-138

There is no doubt that the performance of elite athletes is based on the effort and skill of the sportspeople themselves. But access to world-class training and coaching facilities, subsidised accommodation, provision of accommodation and food and access to medical and sports science advice provides significant benefits to those sportspeople chosen for inclusion.

While there are no published data on the actual cost of individual scholarships and grants paid out by the AIS to support elite athletes, some data do exist. According to the ASC's *Annual Report 2001-2002*, the program outcome entitled 'Excellence in sports performance by Australians' had a total cost of \$108.007 million, of which \$97.272 million came from the Commonwealth Government.

The performance indicators for the 'Excellence in sports performance by Australians' are:

- 1) team and individual world placings and rankings; and
- 2) representation of AIS former and current scholarship holders.

Other publicly available evidence also suggests a high annual cost of providing assistance to elite athletes. For example, Tennis Australia is reported to have invested

more than \$500,000 in the formerly Australian tennis player Jelena Dokic (Hodgkinson 2002). This suggests that Tennis Australia invested an average of more than \$80,000 per year in Dokic from the time she was 13 years old. It would be difficult to argue that such a large investment in training throughout the formative years of her tennis career had no impact on her eventual success.

How would the HECS for sport scheme work?

The important issues in the design of any income contingent loan scheme are:

- determining the cost of the service provided to individuals;
- choosing the interest rate, if any, at which the payments owed will grow;
- selecting the level of income at which repayments should begin; and
- specifying the size of payments once the income threshold has been reached.

These issues are discussed in Chapman and Ryan (2002). The most important design feature of a contribution scheme to help fund the cost of assisting elite athletes is that it should not discourage athletes from striving to reach the highest level of performance. This can be done by ensuring that only sportspeople who go on to earn very high incomes are required to contribute towards the cost of their training and development.

A sporting contribution scheme should be broadly modelled on the existing HECS scheme for university education. The AIS would advise the Government of the cost of training each sportsperson. The Government would decide how much of the cost should be repaid, with the remainder being paid for out of general revenue on the basis that Australian society derives some benefit from elite sports.

In order to ensure that athletes are not discouraged from pursuing the large investment of time and money associated with elite sport it is preferable that the level at which repayments begin be set at a high level. We propose setting the repayment threshold at a taxable income of \$100,000 per annum. Any person with an annual income of \$100,000 is among the top 10 per cent of households in Australia.

As shown in Table 2, the HECS scheme has several thresholds and repayment rates in order to make the increases in repayments associated with small changes in income as smooth as possible. We propose the following schedule of repayment levels.

Table 4 Proposed repayment thresholds for ESECS

Income threshold	Rate of repayment
Income under \$100,000 per annum	Zero repayments
\$100,000 to \$120,000	1.0 per cent of income
\$120,000 to \$140,000	1.5 per cent of income
\$140,000 to \$160,000	2.0 per cent of income
\$160,000 to \$180,000	2.5 percent of income
\$180,000 to \$200,000	3 per cent of income
Above \$200,000	3.5 percent of income

The adoption of the above repayment schedule would mean that a sportsperson earning \$110,000 per year would be required to pay \$1,100 towards the cost of taxpayer funded investment in training and development.

One of the highest paid graduates of the AIS in the list of top 50 incomes earners is Mark Viduka. He was funded by the AIS in 1992-93 and last year earned \$7.5 million (Table 1). Under the proposed scheme Viduka would be required to repay 3.5 percent of his salary towards the investment made in him by Australian taxpayers. This would amount to an annual payment of around \$260,000. However, given that Mark Viduka spent only two years at the AIS it is highly unlikely that he would have incurred such a large obligation and he would be able to repay his debt in less than a year at that income. Actual repayments by players would be capped by the level of investment they benefited from. Some elite athletes would, therefore, repay their outstanding sports training loans within a year or two.

An important issue that would need to be resolved is associated with the probability that substantial earnings from sport may accrue outside Australia. A significant number of Australian sportspeople have taken up residency in other countries. The effect of such decisions is that income earned escapes Australian taxation. Pat Rafter's decision to reside in the tax haven of Bermuda, for example, means that while he pays income tax on prize money in the country where it is won, he does not have to pay the Australian rate of tax on his winnings.

That is, income earned by sportspeople is deemed to be earned in the country where the tournament takes place. However, where the tax rate in the country in which the tournament is held is lower than the tax rate in Australia, Australian residents are required to pay the difference between the amount of tax paid overseas and the amount of tax that is payable under Australian tax law.

To overcome this problem it would be necessary to require athletes to sign a contract with the AIS or another Australian body. Such a contract would require the repayment

of the relevant amounts of money based on the actual earnings of the sportsperson, regardless of the country in which income is earned.

Sport or occupation?

While Table 1 shows that the top 50 sports earners all earn more than \$1 million dollars per year, a large number of sportsmen and women earn salaries that are, by the standard of average weekly incomes, high.

For example, the average AFL player now earns more than \$100,000 per year from his club alone (The Advertiser 1999). The average salary paid to a member of the Rugby Union Players Association (covering Wallaby, Super 12 and State Union academy players) is more than \$138,000 (RUPA 2003). The minimum retainer offered to a cricketer selected for a contract with the Australian Cricket board is \$110,000 per year (Hanlon 2002).

The Australian Institute of Sport states in its 2001-2002 annual report that 'AFL clubs selected 20 scholarship holders in the 2001 national draft' (ASC 2002, p. 55). The report also states that 'of the 17 man squad selected for the Ashes Tour in 2001, 12 (70 per cent) were graduates of the Commonwealth Bank Cricket Academy which is a program of the AIS' (ASC 2002, p. 56). Similarly, 16 members of the 2001 Wallabies team were former AIS scholarship holders.

In Australia, cricket, AFL and rugby are highly professionalised sports, with the average player earning more than double average weekly earnings. It is unclear why the Australian taxpayer should invest tens of thousands of dollars into the development of players who, in all likelihood, will go on to achieve much higher personal incomes than would have been the case without the provision of such training.

Conclusion

The purpose of developing the HECS-style scheme for sport is both to increase the funds available for assisting up-and-coming athletes and to make the current funding arrangements fairer. Athletes who receive substantial financial benefits from their sporting achievements and who have benefited from the assistance provided by the AIS should be willing to repay some of the costs associated with their development in order to increase the opportunities available for the next generation of athletes.

While little information is publicly available on the costs of assisting individual athletes, it is clear that Australian taxpayers make a major financial contribution to the development of many of Australia's elite sportspeople. By designing the ESECS scheme in such a way that only athletes earning high incomes are required to make a contribution towards the cost of their training and development, it is anticipated that there would be no detrimental effect on the willingness of individuals to commit themselves to the pursuit of sporting excellence.

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