


***IT 2307 - Income Tax : Assessability of lump sum payment made under contract to play football: covenant in contract that taxpayer not engage in competitive footrunning during term of contract.***

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TAXATION RULING NO. IT 2307

INCOME TAX : ASSESSABILITY OF LUMP SUM PAYMENT MADE  
UNDER CONTRACT TO PLAY FOOTBALL: COVENANT IN CONTRACT  
THAT TAXPAYER NOT ENGAGE IN COMPETITIVE FOOTRUNNING  
DURING TERM OF CONTRACT.

F.O.I. EMBARGO: May be released

REF H.O. REF: 80/6213 DATE OF EFFECT: Immediate

B.O. REF: DATE ORIG. MEMO ISSUED: 25 March 1986

F.O.I. INDEX DETAIL

| REFERENCE NO: | SUBJECT REFS:     | LEGISLAT. REFS: |
|---------------|-------------------|-----------------|
| I 1137397     | ASSESSABLE INCOME | 25 (1)          |
|               | FOOTBALLER        | 26 (e)          |
|               | LUMP SUM PAYMENT  |                 |

PREAMBLE This ruling deals with the decision of Taxation Board  
of Review No. 3 reported as Case R123, 84 ATC 791;  
Case 4 28 CTBR 13.

FACTS 2. Since schooldays the taxpayer was an outstanding  
footballer and runner. In 1971 he became a professional runner  
and in 1976 he abandoned senior football in Melbourne to  
concentrate on his running career.

3. In early 1978 the taxpayer won a major running race.  
Shortly thereafter he entered into a contract to play  
professional football with a V.F.L. Club. Under the terms of  
the contract the taxpayer agreed, inter alia, "not to engage or  
participate in any track or other running professionally or as  
an amateur, whether for reward or not". A further term of the  
contract provided that he would tie himself to the club and not  
engage in activities likely to incapacitate him from playing  
football.

4. The taxpayer received a lump sum payment of \$11,000  
under the contract which sum was, on assessment, included as  
income for the year ended 30 June 1978. The taxpayer objected  
on the basis that the payment was made in consideration for his  
agreeing not to pursue his running activities during the term of  
the contract and this constituted a capital payment. The  
objection was disallowed and the taxpayer subsequently sought a  
reference to a Board of Review.

5. Evidence before the Board established that sign-on fees  
for contracted V.F.L. players are the norm; however a figure of  
\$11,000 was unusual and in excess of that normally paid. The  
Board accepted the taxpayer's evidence that he demanded payment  
by way of compensation for the sterilization of his promising  
foot-running career and as a result, the sum of  
\$11,000 was agreed upon based on an estimation of potential

prize money foregone over the relevant period. There was no evidence to suggest the payment was related to anything other than his foot-running career. Accordingly the Chairman and Dr. Gerber held that the sum of \$11,000 was a payment for the sterilization of the taxpayer's professional foot-running career and did not constitute assessable income. Dr Beck construed the contract to include a distinct restraint on the taxpayer's foot-running and as such constituted a restrictive covenant. On the authority of *Beak v Robinson* [1943] A.C. 352 he concluded that consideration for a restrictive covenant is not assessable income.

6. The Commissioner initially sought to appeal from the decision of the Board on the basis that the payment did include some factor relating to a sign-on fee which, in the view of the Commissioner, constitutes assessable income. However, this approach was contrary to the findings of the Board on the evidence before it and with the effluxion of time no better evidence was available to support the Commissioner's contention on appeal. Accordingly, the appeal was withdrawn.

RULING

7. The Commissioner regards the decision as one confined to its own peculiar facts and evidence. Lump sum payments made to sportsmen under 'sign-on' agreements are considered, in the absence of evidence to the contrary, to constitute assessable income in the hands of sportsmen and should be treated as such.

COMMISSIONER OF TAXATION

23 May 1986

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