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PLATTE CHAT

Lessons for Nebraska From New York's Failure to Snatch LeBron James

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By Alex West
Platte Institute

Everyone knows that the second most electrifying subject after economics is professional sports! So when LeBron James' recent selection of Miami narrowly fell into the purview of the Platte Institute's economic mandate the temptation to amalgamate these two exhilarating topics was too much. As most are well aware, immediately prior to James' decision, speculation about what factors would ultimately play into the star basketball player's choice began to dominate the news cycle. One of these factors in particular ought to be of interest to any policy buff/sports fan in Nebraska. That is, the varying tax burdens found in each state with teams courting James' favor, and how these taxes, or lack thereof, likely influenced James' final decision.

Though a number of teams seriously pursued James, a Wall Street Journal analysis narrowed down the leading competitors to Miami, New York, Chicago, and Cleveland^[1] - rating Miami and New York as the top two of the four. The New York Knicks offered LeBron James a five year contract of \$96 million, an offer nearly identical to the bid presented by the Miami

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If you would like to contact someone at the Platte Institute, you are always welcome to give us a call, drop us an email or stop by the office. Our telephone number is 402.452.3737. We are located at 10050 Regency Circle – Suite 120 – in Omaha. Below is a list of staff email address:

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Heat,^[2] and with both teams' potential, as well as, the amenities each city has to offer similar to a great degree, James' final decision may very well have come down to the proverbial 'fine print.' Therefore, the issue of state and city taxes may have played a tie-breaking role in influencing LeBron James' final selection, a concern the New York Post expressed several days before his announcement.^[3]

Specifically, the Post's concern was that for LeBron James, choosing the Knicks meant never seeing \$12.34 million of his contract thanks to city and state taxes which siphon off up to 12.85% from millionaires in New York City.^[4] On the other hand, if LeBron James were to choose Miami, his take-home pay would be substantially higher because Florida has no state income tax. As things turned out, James chose the Miami Heat, and though clearly, his final decision was not determined by the almighty dollar alone (James' home team of seven years, the Cleveland Cavaliers, could offer \$30 million more than any other team due to salary cap regulations)^[5] to say that the initial \$12 million hit along with a possible 12.85% off of any future income from endorsements or play-off runs had no impact at all on a man who publicly admits he wants to become a billionaire is untenable.^[6]

Ironically, in 2009, a policy debate around elements applicable to James' considerations occurred in New York City over the question of whether or not raising taxes on the wealthy would encourage millionaires and their money to leave the city. During the build up to the eventual passage of the so-called "millionaire's tax," political partisans in New York City drew up battle lines, drawing on decades old divisions between the atypical American left and right. Unfortunately, nearly a year after its passage, those searching for affirmation for their partisan positions find that in this instance hindsight is not 20/20. That is, quantifying how many millionaires are in an area at one time when compared to another should be relatively simple; merely check the tax returns for a given region. The trouble slips in when any attempt is made to determine what exactly caused the number of millionaires to rise or fall. The absence of this information makes it difficult to construct a conclusive statistic, making coming to any verifiable conclusion complicated. Thus, the debate remains unresolved, relegating to speculative anecdotes and incomplete statistics the heavy lifting in swaying public opinion. One thing is for certain,

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however, with LeBron James' decision to play for Miami, opponents to the "millionaire's tax" can now persuasively add discouraged millionaire immigration to their original concern of millionaire emigration.

The lesson Nebraska ought to learn from this is that higher tax rates in a state relative to other comparable alternatives drives money and talent to those substitutes. A timely message for a state where leaders may begin considering raising taxes due to budget shortfalls,^[7] unexpectedly low tax revenues,^[8] and demands for improved or increased government services. Nebraska's city and state leaders should remember, however, that though they may feel confident that businesses and individuals already geographically committed to the state will not migrate to new markets, and avoiding the debate over whether or not such a position is fully justifiable. They also need to consider those businesses and entrepreneurs looking to start or expand, but who have the flexibility of choosing which market to grow their business. If a sports star like LeBron James is going to make a decision based on economic factors such as tax burdens, how much more so a savvy business professional? Presently, Nebraska finds itself comfortably positioned in the regional median when it comes to taxes, but still has to mind the competition of two bordering states which have no state income tax, South Dakota and Wyoming.^[9] Hopefully, Nebraska's lawmakers manage the state's latest series of obstacles while thoughtfully preserving the state's business and entrepreneurial all-star recruiting potential.

^[1] Biderman, David and Ben Cohen. 2010. "To Be Young, Rich and in South Beach." *WSJ.com*. July 9. <http://online.wsj.com/article/SB10001424052748704111704575355004221820036.html> (July 9, 2010).

^[2] 2010. "LeBron James Would Suffer Local Penalty." *New York Post*. July 1. http://www.nypost.com/p/pagesix/local_penalty_gKjEuLeOZg4ot9W5yzxzDL (July 9, 2010).

[3] Ibid.

[4] Ibid.

[5] 2010. "LeGone: LeBron James Dumps Cleveland for Miami." *CBSnews.com*. July 9 <http://www.cbsnews.com/stories/2010/07/08/ap/national/main6659445.shtml?tag=mncol;lst;9> (July 14, 2010).

[6] Isidore, Chris. 2007. "LeBron: The next Buffet?" *CNNMoney.com*. June 15. <http://money.cnn.com/2007/06/14/commentary/sportsbiz/index.htm> (July 13, 2010).

[7] Jordan, Joe. 2010. "State Budget Mess = Cuts/Taxes/Shifts?" *Nebraska.Watchdog.org*. July 12. <http://nebraska.watchdog.org/7047/state-budget-mess-cutstaxesshifts/> (July 12, 2010).

[8] Ibid.

[9] Goss, Ernie. 2008. "Nebraska's Tax Competitiveness: Should I Live in Nebraska?" *Platte Institute for Economic Research*. April http://www.platteinstitute.org/docLib/20100405_Should_I_Live_in_Nebraska.pdf (July 12, 2010).

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