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Notable Effect on European Football by ‘Beckham Law’

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The Beckham Law, which allows foreign footballers to pay a flat tax rate of 24% on their income in Spain, has made the country an attractive destination for footballers. However, the law has also faced criticism for contributing to the issue of tax evasion in football. The cases of Lionel Messi and Cristiano Ronaldo have highlighted the need for stronger measures to prevent tax evasion and the use of complex tax structures to avoid paying taxes. Messi and his father were found guilty of tax fraud in 2016, relating to the player's image rights, while Ronaldo was fined €18.8 million for tax evasion in 2019. These cases have led to greater scrutiny and regulatory changes aimed at increasing transparency and eliminating the potential for tax avoidance in football. Ultimately, this research discusses the cases of Messi and Ronaldo which have served as a wake-up call for the world of football, highlighting the need for greater accountability and ethical behavior in the management of finances in the sport.

Keywords: *beckham law, ronaldo, messi, Spain, tax evasion.*

INTRODUCTION

Spain's tax regime has significantly impacted European football, especially the transfer of players. Firstly, Spain's tax laws allow foreign footballers to pay a flat tax rate of 24% on their income, known as the "Beckham Law," named after the footballer David Beckham, who was one

of the first to benefit from this law.¹ This law has made Spain an attractive destination for footballers, as they can benefit from a lower tax rate than other European countries.

Secondly, Spain's tax laws have also impacted the transfer market. Football clubs in Spain must pay a 35% withholding tax on transfer fees for non-resident players.² This has led to a situation where clubs in Spain are often reluctant to sell players, as they would have to pay a high tax rate on the transfer fee. This has also led to a situation where clubs in other European countries are often willing to pay higher transfer fees to acquire players from Spain, as they do not have to pay the same level of tax.

Thirdly, Spain's tax laws have also led to high-profile legal cases involving footballers. For example, in 2016, Barcelona's Lionel Messi and his father were found guilty of tax fraud relating to the player's image rights. The case highlighted the complex nature of Spain's tax laws and the challenges that footballers and their advisors face in navigating them. In summary, Spain's tax regime has significantly impacted European football, affecting player transfers and club finances and leading to high-profile legal cases.

BECKHAM LAW

The Beckham Law is a tax regime in Spain that has attracted foreign workers, including footballers, by offering a flat tax rate of 24% on their income. The law was named after David Beckham, one of the first high-profile footballers to benefit from the law. This paper will explore the history and impact of the Beckham Law on European football, including the reasons for its implementation, the benefits and drawbacks of the law, and the controversies that have arisen around it. The Beckham Law was introduced in 2005 as part of a package of economic reforms to attract foreign investment and highly skilled professionals to Spain.³ The law was designed

¹ Austin Trummel, 'Moving the Goal Posts: How Spain's Tax Regime Impacted European Football' (2022) 30 Michigan State International Law Review

² 'The 'Beckham' Law - Spain's Favorable Personal Tax Regime' (*Foresight Consultancy*) <<https://www.foresightconsultancy.com/wp-content/uploads/2016/04/Article-on-the-Beckham-law-2015.pdf>> accessed 02 April 2023

³ Austin Trummel (n 1)

to provide a simplified tax system for non-residents who are highly skilled and have high incomes.

Before the Beckham Law, foreign workers in Spain were subject to a complicated tax system that often resulted in high tax bills. The new law simplified the tax system for non-residents, offering a flat tax rate of 24% on their income. The law applies to foreign workers who have not been resident in Spain in the ten years before their arrival. Once they have been residents in Spain for six years, the tax rate increases to the standard rate for Spanish taxpayers, which can be up to 45%.

The Beckham Law was introduced to attract wealthy foreign investors and highly-skilled professionals to Spain. The law was designed to provide a simplified tax system for non-residents who are highly skilled and have high incomes. The law was also designed to incentivize foreign workers to move to Spain, as the country was struggling to compete with other European countries in attracting foreign investment and highly-skilled professionals. The Spanish government hoped that the Beckham Law would attract foreign workers to Spain, which would help to boost the country's economy. The law was also designed to attract foreign footballers to Spain, as Spain struggled to compete with other European countries to attract high-profile footballers.

The Beckham Law has made Spain an attractive destination for footballers, as they can benefit from a lower tax rate than other European countries. For example, in the United Kingdom, footballers can face a tax rate of up to 45% on their income, while in France, the tax rate can be as high as 49%.⁴ The lower tax rate in Spain can make a significant difference to the earnings of footballers, particularly those who earn high salaries.

The Beckham Law has also impacted the transfer market in European football. Clubs in Spain must pay a 35% withholding tax on transfer fees for non-resident players. This has led to a situation where clubs in Spain are often reluctant to sell players, as they would have to pay a

⁴ 'A Pro Guide to the Beckham Law and Expat Taxes in Spain' (*INS Global Consulting*, 24 March 2022) <<https://ins-globalconsulting.com/news-post/beckham-law/>> accessed 02 April 2023

high tax rate on the transfer fee.⁵ This has also led to a situation where clubs in other European countries are often willing to pay higher transfer fees to acquire players from Spain, as they do not have to pay the same level of tax.

The Beckham Law has been used by many high-profile footballers who have moved to Spain, including Cristiano Ronaldo, Gareth Bale, and Neymar Jr. The law has enabled these players to benefit from a lower tax rate, making it easier for clubs to attract high-profile players. The lower tax rates in Spain have also made it easier for clubs to retain players who might otherwise have been tempted to move to other countries with higher tax rates. While the Beckham Law has benefited footballers and the Spanish economy, it has also had some drawbacks. One of the main criticisms of the law is that it creates a two-tier tax system in Spain, with non-residents paying a lower tax rate than residents. This has led to accusations of unfairness, with some critics arguing that it is unfair that non-residents can benefit from a lower tax rate than Spanish citizens.

The complexity of the tax system in Spain has also led to some high-profile legal cases involving footballers. For example, in 2016, Lionel Messi and his father were convicted of tax fraud and sentenced to 21 months in prison.⁶ Messi was accused of using a complex network of shell companies to avoid paying taxes on his image rights. The case highlighted the challenges of enforcing tax laws in Spain and dealing with complex tax structures. Another criticism of the Beckham Law is that it can lead to a brain drain of highly-skilled workers from other countries. Some critics argue that the law encourages highly-skilled professionals to move to Spain, where they can benefit from a lower tax rate. This can be seen as unfair to other countries, who may lose out on the skills and expertise of these workers.

The Beckham Law has also been criticized for contributing to Spain's tax avoidance culture. Some footballers have been accused of using the law to avoid paying their fair share of taxes. For example, in 2018, Cristiano Ronaldo was fined €18.8 million for tax evasion. Ronaldo was

⁵ Austin Trummel (n 1)

⁶ Ed Aarons and Kale Stockwell, 'Football's biggest transfers under scrutiny in latest leak of secret documents' (*The Guardian*, 02 December 2020) <<https://www.theguardian.com/football/2020/dec/11/football-transfers-rife-with-illegality-and-exploitation-report-money-laundering-third-party-ownership-uefa>> accessed 02 April 2023

accused of using a complex network of companies to hide his income from tax authorities.⁷ The case highlighted the need for more robust measures to prevent tax avoidance and evasion in Spain. The Beckham Law has been controversial since its introduction in 2005. The law has been criticized by some politicians and commentators, who argue that it is unfair and discriminatory. Some critics argue that the law provides a tax break for the wealthy while ordinary citizens are left to pay higher taxes. Others argue that the law has led to a brain drain of highly-skilled professionals from other countries, who are attracted to Spain by the lower tax rate.

The law has also been controversial because of its impact on the transfer market in European football. The 35% withholding tax on transfer fees for non-resident players has led to a situation where clubs in Spain are often reluctant to sell players, as they would have to pay a high tax rate on the transfer fee.⁸ This has also led to a situation where clubs in other European countries are often willing to pay higher transfer fees to acquire players from Spain, as they do not have to pay the same level of tax. This has led to accusations of unfairness and has raised concerns about the law's impact on the competitiveness of European football.

The Beckham Law has significantly impacted European football, making Spain an attractive destination for high-profile footballers.⁹ The law has enabled footballers to benefit from a lower tax rate, making it easier for clubs to attract and retain high-profile players. However, the law has also been controversial, with some critics arguing that it creates a two-tier tax system in Spain and contributes to a brain drain of highly-skilled professionals from other countries. The law has also been criticized for its impact on the transfer market in European football, with some arguing that it has led to unfairness and a lack of competitiveness in the sport. Overall, the Beckham Law has had benefits and drawbacks for European football and the Spanish economy, and its impact will continue to be debated for years.

⁷ Austin Trummel (n 1)

⁸ *Ibid*

⁹ The 'Beckham' Law - Spain's Favorable Personal Tax Regime (n 2)

THE CR7 SAGA

In 2018, Cristiano Ronaldo was fined €18.8 million for tax evasion by the Spanish authorities.¹⁰ The case highlighted the need for more robust measures to prevent tax avoidance and evasion in Spain, and it also sheds light on the complex tax structures used by footballers and other high-profile individuals to minimize their tax liabilities. The investigation into Ronaldo's tax affairs began in 2015 and focused on his image rights income from 2011 to 2014.¹¹ The Spanish tax authorities accused Ronaldo of using a complex network of companies based in Ireland, the British Virgin Islands, and Switzerland to hide his income from tax authorities. Ronaldo denied any wrongdoing and argued that his tax affairs were in order.

The case was trialed in Madrid in July 2018, and Ronaldo appeared in court to give evidence. During the trial, Ronaldo admitted to using a company based in the British Virgin Islands to manage his image rights income, but he argued that he had not broken any laws.¹² Ronaldo's lawyers also argued that he had paid all the taxes he owed and had not deliberately evaded tax. Despite Ronaldo's arguments, the court found him guilty of four counts of tax fraud and sentenced him to a two-year prison sentence, which was later suspended. Ronaldo was also fined €18.8 million and ordered to pay €5.7 million in back taxes and interest.

The case had a significant impact on Ronaldo's reputation and his future career prospects. Ronaldo had been playing for Real Madrid at the time of the investigation but later moved to Juventus in Italy. The case also highlighted the need for more robust measures to prevent tax evasion in sports and the wider business world. One of the critical issues in the case was the use of complex tax structures by high-profile individuals to minimize their tax liabilities. Ronaldo's case was not an isolated incident, and many other footballers and high-profile individuals have been accused of using similar structures to avoid paying taxes.¹³ One of the most common ways footballers and other high-profile individuals avoid paying taxes is by using companies based

¹⁰ Steven A Bank, 'When Did Tax Avoidance Become Respectable' (2017) 71 *Tax Law Review* <<https://ssrn.com/abstract=3014985>> accessed 02 April 2023

¹¹ *Ibid*

¹² Austin Trummel (n 1)

¹³ 'Ronaldo Fined €18.8m over Tax Evasion' (*BBC*, 22 January 2019) <<https://www.bbc.com/news/world-europe-46957605>> accessed 04 April 2023

in low-tax jurisdictions to manage their income. These companies are often shell companies that have no actual business operations but are used to move income between different jurisdictions to minimize tax liabilities.

Another common tactic used by footballers and other high-profile individuals is to use image rights companies to manage their income. Image rights are the rights to use a person's name, image, and likeness for commercial purposes. By transferring their image rights to a separate company, footballers and other high-profile individuals can reduce their tax liabilities by paying lower tax rates on this income. The use of complex tax structures by footballers and other high-profile individuals has been a controversial issue for many years, and it has led to calls for more robust measures to prevent tax avoidance and evasion.¹⁴ The Spanish authorities have been particularly active in pursuing tax evaders and have targeted several high-profile individuals in recent years. The case of Cristiano Ronaldo highlighted the need for footballers and other high-profile individuals to be more transparent about their tax affairs. It also highlighted the need for more robust measures to prevent tax evasion and the use of complex tax structures to avoid paying taxes.

In response to the Ronaldo case and other high-profile tax evasion cases, the Spanish authorities have introduced some measures to prevent tax avoidance and evasion.¹⁵ These measures include more significant transparency requirements for high-profile individuals and stricter penalties for those who are found to have evaded taxes. To sum up, the case of Cristiano Ronaldo has brought attention to the pressing issue of tax evasion and the use of complex tax structures by high-profile individuals to reduce their tax liabilities. The situation highlights the need for increased transparency, accountability, and more robust measures to prevent tax avoidance and evasion.¹⁶ As governments worldwide continue to address this issue, individuals must comply with tax laws and regulations to avoid legal consequences.

¹⁴ Steven A Bank (n 10)

¹⁵ *Ibid*

¹⁶ 'Messi's Spanish Jail Sentence for Tax Fraud to Stand' (BBC, 24 May 2017)

<<https://www.bbc.com/news/world-europe-40026827>> accessed 04 April 2023

LEO MESSI'S CASE

In 2016, a Spanish court found Barcelona's star player Lionel Messi and his father Jorge Messi, guilty of tax fraud. The charges were related to the player's image rights and the failure to pay taxes on income earned from these rights. The case brought to light the issues surrounding football players' use of image rights and the complexity of tax laws governing them. The case started in 2013 when Spanish tax authorities discovered that Messi and his father had failed to declare around €4.16 million in income related to Messi's image rights from 2007 to 2009.¹⁷ The authorities claimed that Messi and his father created a complex web of shell companies in Uruguay, Belize, Switzerland, and the United Kingdom to hide the income and avoid paying taxes in Spain. They were accused of using these companies to transfer the money from Messi's image rights to tax havens, evading taxes.

The case was initially dismissed in 2014 by a Spanish court, which claimed that Messi was unaware of his father's actions and, therefore, could not be held responsible. However, the public prosecutor's office appealed the decision, and the case was reopened. In 2016, a Spanish court found Messi and his father guilty of three counts of tax fraud and sentenced them to 21 months in prison.¹⁸ However, the sentence was later reduced to a fine of €2 million for Messi and €1.5 million for his father.

The case sparked a massive public debate about football players' use of image rights and the complexity of tax laws governing them. Using image rights is common among football players, allowing them to control their image and earn money from endorsements, sponsorships, and other commercial deals. However, the case of Messi highlighted the potential for abuse and the difficulty of enforcing tax laws in this area. Using image rights allows football players to receive income from their image and likeness, separate from their salary as a player. This income is subject to tax, but the laws governing its taxation can be complex and vary between countries. In Spain, for example, income earned from image rights is subject to a 47% tax rate, compared

¹⁷ Bruce Zagaris, 'International Tax Enforcement Cooperation' (2022) 38(3) IELR 386

¹⁸ Messi's Spanish Jail Sentence for Tax Fraud to Stand (n 16)

to a top rate of 45% for income earned as a player.¹⁹ However, using shell companies and tax havens can allow players to avoid paying taxes on this income, as was alleged in Messi's case.

The complexity of tax laws governing image rights has also created loopholes allowing players to reduce their tax liabilities legally. In some countries, players can donate a portion of their image rights income to charity, which is tax-deductible. They can also use their image rights to pay for personal expenses, such as travel and accommodation, which can reduce their taxable income. These practices are legal but have also been criticized for exploiting the tax system. The case of Messi highlighted the need for greater transparency and accountability in the use of image rights by football players.²⁰ The use of shell companies and tax havens to hide income from image rights undermines the tax system's integrity and contributes to the perception that high-profile individuals can avoid paying their fair share of taxes. The case also highlighted the need for more robust measures to enforce tax laws and prevent tax fraud.

In response to the Messi case, the Spanish government introduced new measures to prevent tax evasion and increase transparency in the use of image rights by football players. The new rules require players to provide a detailed breakdown of their image rights income and expenses, including the use of shell companies and tax havens.²¹ They also require players to pay taxes on image rights income at the same rate as their salary as a player, eliminating the potential for tax avoidance.

The case of Lionel Messi and his father is a stark reminder of the complexity and potential for abuse in the use of image rights by football players. The allegations of tax fraud and the use of shell companies and tax havens to evade taxes have undermined the tax system's integrity and contributed to a public perception that high-profile individuals can avoid paying their fair share. The case has brought about calls for greater transparency and accountability in using image rights and stricter measures to prevent tax evasion. The Spanish government's introduction of new rules to increase transparency and eliminate the potential for tax avoidance is a step in the

¹⁹ Bruce Zagaris (n 17)

²⁰ Juan Martin Queralt, 'The Messi Case: The Criminal Risks of Tax Advisors' (2017) 7 *Studi Tributari Europei* <<https://doi.org/10.6092/issn.2036-3583/8779>> accessed 04 April 2023

²¹ Austin Trummel (n 1)

right direction.²² However, the issue of tax evasion in football remains a complex and ongoing challenge that requires continued attention and action. Ultimately, the Messi case warns football players and other high-profile individuals that they cannot use complex tax structures to avoid paying taxes. It highlights the need for greater awareness and adherence to tax laws and the importance of ethical behavior in the world of sports and beyond.

IMPACT ON EUROPEAN FOOTBALL

The cases of Cristiano Ronaldo and Lionel Messi have significantly impacted the world of football, prompting greater scrutiny and debate around the issue of tax evasion and the use of complex tax structures to avoid paying taxes. Firstly, these cases have raised questions about the ethics of tax avoidance in football. As high-profile sports figures, Ronaldo and Messi have been seen as role models and ambassadors for the game. Their involvement in tax evasion and using shell companies and tax havens have undermined their reputation and that of the sport more broadly.²³ The public backlash against these cases has highlighted the need for greater accountability and transparency in football.

Secondly, these cases have prompted greater regulatory scrutiny of tax structures in football. In response to the Messi case, the Spanish government introduced new rules to increase transparency and eliminate the potential for tax avoidance. These measures include requirements for football clubs to disclose information about their use of image rights and to provide evidence to support the valuation of these rights. Similar measures have been introduced in other countries, such as the UK, to prevent tax evasion in football.

Thirdly, these cases have led to increased media attention on the issue of tax evasion in football. The involvement of high-profile players such as Ronaldo and Messi has captured the public's imagination and led to widespread coverage in the press. This media attention has raised awareness about the issue of tax evasion and the need for greater accountability and

²² Ed Aarons and agencies, 'Lionel Messi Handed 21-Month Tax Fraud Sentence but Is Unlikely to Serve Time' (*The Guardian*, 06 July 2016) <<https://www.theguardian.com/football/2016/jul/06/lionel-messi-barcelona-prison-21-months-tax-fraud>> accessed 04 April 2023

²³ Juan Martin Queralt (n 20)

transparency in football. Finally, these cases have prompted greater public scrutiny of the finances of football clubs. The involvement of high-profile players in tax evasion has raised questions about the role of football clubs in facilitating these practices. This has increased public pressure on clubs to disclose information about their finances and be more transparent about their tax arrangements.

Lastly, the cases of Cristiano Ronaldo and Lionel Messi have had a significant impact on the world of football, prompting greater scrutiny and debate around the issue of tax evasion and the use of complex tax structures to avoid paying taxes.²⁴ These cases have highlighted the need for greater accountability and transparency in football and have prompted regulatory changes to prevent tax evasion in the sport. The media attention and public scrutiny generated by these cases have raised awareness about the issue of football tax evasion and have pressured clubs to be more transparent about their finances. Ultimately, these cases have been a wake-up call for the football world, highlighting the need for more ethical behavior and responsible financial management.

CONCLUSION

In short, the Beckham Law has had a significant impact on the world of football, with foreign footballers flocking to Spain to take advantage of the country's lower tax rate. However, the law has also faced criticism for contributing to the issue of tax evasion in football, with cases such as those of Lionel Messi and Cristiano Ronaldo exposing the extent of the problem. These cases have prompted greater scrutiny and debate around the issue of tax evasion and led to regulatory changes aimed at increasing transparency and eliminating the potential for tax avoidance in football.²⁵ Ultimately, the cases of Messi and Ronaldo have served as a wake-up call for the world of football, highlighting the need for greater accountability and ethical behavior in the management of finances in the sport. The impact of these cases is likely to be felt for years to

²⁴ Steven A Bank (n 10)

²⁵ Austin Trummel (n 21)

come, as football authorities and clubs work to address the issue of tax evasion and ensure greater transparency in financial management.