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Here's the Tax Beat broadcast for June 3

Subject Line: A Sliver of Air

Last week the Wall Street Journal ran a piece on a house for sale that made us do a double-take. The seller? David Falk. The address? 86 Surfsong Road on Kiawah Island, South Carolina. The asking price? Roughly $25 million for an oceanfront spread with a private boardwalk to the Atlantic, a covered infinity pool, a summer kitchen that probably grills better steaks than your favorite restaurant, and — we're not making this up — a life-size chess set on the lawn.

If the name David Falk doesn't ring a bell, here's the scoop. Falk is the sports agent who signed a skinny kid out of North Carolina in 1984, marched him into Beaverton, Oregon, and walked out with the Nike deal that launched Air Jordan. The original terms — $500,000 a year for five years plus royalties — were a record at the time and look, in retrospect, like the deal of the century. (If you saw the 2023 movie Air, that's Chris Messina playing Falk.) Over the next four decades he represented Patrick Ewing, Alonzo Mourning, Dikembe Mutombo, and roughly a hundred other NBA players. He negotiated the first $100 million contract in professional sports. Somewhere along the way, he also sold his agency for around $100 million.

Here's the part that should stop you cold. Michael Jordan earned about $94 million in NBA salary. But he's worth a whopping $3.5 *billion* thanks to that Nike royalty stream Falk negotiated. Now the agent who took a small percentage off the top is now listing a $25 million beach house. How does the agent end up with the Kiawah estate? He took a small percentage. Year after year. For forty years.

Standard agent commissions in basketball run 3 to 4 percent on playing contracts and 15 to 20 percent on endorsements. That sounds modest until you apply it to Jordan's Nike royalties (still flowing today, by the way, decades after he last laced up). A sliver of a very big number, taken consistently and compounded across a career, becomes its own very big number. That's the entire story of Falk's wealth in one sentence.

Now look at your own income. The IRS is also taking a percentage off the top — except theirs isn't 4 percent. On your top dollars it's as high as 37 percent, plus another 3.8% in self-or net investment income surtax. On a million dollars of business income, Washington can quietly walk off with over $400,000. Every year. Forty years of that is a number that'd make David Falk blush.

The good news is the IRS has no Falk-style exclusivity contract on your money. Smart entity structuring, optimized retirement plans, cost segregation and accelerated depreciation, §199A planning, charitable trusts, captive insurance, executive compensation design — each one claws back a few percentage points. None of them feels dramatic in any single year. That's the point. Falk didn't get rich on one Nike deal; he got rich on a small percentage taken faithfully for four decades. The business owner who saves $75,000 a year in taxes and invests the difference at 7 percent is sitting on roughly $3.3 million after twenty years and over $7.5 million after thirty. That's the agent's-cut model, running in your favor instead of Uncle Sam's.

We can't get you a five-time MVP for a client, and we can't promise you the second-best view on Kiawah. But we can absolutely keep the IRS from claiming the percentage that could fund your beach house. Just don't ask us about the life-size chess set — for that part you're on your own.

Kevin