

## Navigating the salary cap in the NBA: Los Angeles Lakers

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It is being [reported](#) that the Los Angeles Lakers have filed a career-ending injury application with the NBA in relation to Luol Deng's contract. Luol Deng signed a [four-year, \\$72 million](#) contract for the Los Angeles Lakers in 2016. In 2018, the Lakers agreed a [buyout](#) with Deng, which allowed the Lakers to renegotiate the structure of Deng's salary, waive the player so he is no longer on the team roster and spread his salary over several years to create more space under the salary cap per season. This means that, despite not playing for the Lakers since 2018, Deng has received and will receive \$5 million per season from [2019 until 2021](#).

### The salary cap

Each year, the NBA sets the salary cap for its teams, which is the amount of money that teams can spend on player contracts. The salary cap is calculated based on projected Basketball Related Income. The Collective Bargaining Agreement (CBA) provides that the salary cap is calculated by identifying 44.74% of projected Basketball Related Income for that season and this number is divided by thirty (the number of teams in the league). Basketball Related Income is defined in the CBA as any income related to basketball operations received by the NBA, including, but not limited to, ticket revenue, broadcasting rights, concession sales at arenas and sponsorship revenue.

The 2019-20 season has just come to a close and included a salary cap of [\\$109,140,000](#) per team. This is known as a soft cap, which allows teams to exceed the cap for a limited number of exceptions. A team, therefore, must navigate around this salary cap when signing new players. Teams that operate within the cap earn certain benefits whilst teams that operate over the cap lose such benefits.

### Luxury tax

There is a luxury tax threshold that is designed to control team spending so that, if a team is overspending on player salaries, they are taxed on the amount of money over the threshold. According to the CBA, the threshold is calculated by taking 53.51% of projected Basketball Related Income and dividing that number by thirty. The luxury tax for the 2019-20 season was [\\$132,627,000](#).

There is a buffer between the salary cap and the luxury tax threshold. Teams under the salary cap are non-taxpaying and teams above the luxury tax threshold are taxpaying. In the 2018-19 season,

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there were [five taxpaying teams](#): OKC Thunder (\$61.6M in tax), Golden State Warriors (\$51.5M in tax), Toronto Raptors (\$25.2M in tax), Portland Trail Blazers (\$15M in tax) and Boston Celtics (\$3.4M in tax). Up to half of the tax is given to non-taxpaying teams who operated within the salary cap and the rest is allocated to league purposes each season.

The salary cap and luxury tax for the upcoming NBA season could be significantly impacted by Coronavirus and its effect on Basketball Related Income.

## **Back to Luol Deng and the Lakers**

The most recent move by the Los Angeles Lakers seeks to remove the Lakers' obligation to pay Deng the two payments of \$5 million that he is owed in the 2020-21 and 2021-22 season. As it currently stands, the Lakers have committed \$5 million of their salary budget for the upcoming season to Deng but hope to remove this obligation by filing a career-ending injury application. The organisation is essentially hamstrung by this, as it is effectively operating on a cap of \$5 million less than its counterparts.

According to Section 4 of Article VII of the NBA's Collective Bargaining Agreement:

*“Any player who suffers a career-ending injury or illness, and whose Contract is terminated by the Team in accordance with the NBA waiver procedure, will be excluded from his Team’s Team Salary”.*

This is the career-ending injury application described above, which allows a team to remove a contract from applying to its salary cap if the following conditions are met:

- the player played in fewer than ten NBA games in the last season in which he played for that team;
- the career-ending injury or illness either (i) prevents the player from playing NBA level basketball for the duration of his career, (ii) substantially impairs his ability to play NBA level basketball, or (iii) materially elevates risk of death;
- even if the above conditions are met, if the player then goes on to play 25 or more NBA games in any season for an NBA team, the excluded salary shall be reinstated in the applicant team's salary cap.

This is where the Lakers may stumble. In his last season with the Lakers, Deng played one game but, as far as we know, Deng did not suffer an injury that was known publicly. Deng moved onto the Minnesota Timberwolves in 2018 and only played 22 games so this is good news for the Lakers as it is not enough to invoke the exception to defeat their case. So the Lakers do have a case but it is questionable unless they can prove that Deng's absence in his last season at the Lakers was due to injury.

The Lakers look to repeat their championship winning season next year and Luol Deng's contract could make the difference in who they sign and whether they enter luxury tax territory.

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