



# A Guide to NIL Taxation of Collegiate Athletes

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# INTRODUCTION

## Overview of NIL

### (Name, Image, Likeness) Rights

In recent years, the landscape of collegiate athletics in the United States has undergone a significant transformation. A pivotal development has been the recognition of athletes' rights to their Name, Image, and Likeness (NIL). Historically, the NCAA (National Collegiate Athletic Association) imposed strict regulations prohibiting athletes from profiting from their NIL through the application and implementation of the so-called 'Amateurism criterion'.

However, a series of legal challenges and public pressure led to a seismic shift in policy, allowing collegiate athletes to monetize their NIL as of July 1, 2021.

This newfound opportunity has opened up a myriad of income streams for athletes, including endorsement deals, sponsorships, social media promotions, merchandise sales, and appearances. These opportunities, while financially rewarding, also introduce a complex array of tax implications. With athletes now navigating contracts, managing income from diverse sources, and meeting tax obligations, the importance of understanding NIL taxation cannot be overstated.





# INTRODUCTION

This presentation aims to provide a general guide on NIL taxation for collegiate athletes in the United States. By delving into the nuances of taxable income, deductions, credits, and tax planning strategies, this guide will equip athletes with the basic knowledge needed to navigate their tax obligations effectively.

Whether athletes are high-profile athletes with significant endorsement deals or mid-level athletes, earning modest NIL income, understanding these tax principles is crucial for their financial success and compliance.



# UNDERSTANDING NIL INCOME

## Definition and Examples of NIL Income

NIL income refers to the earnings athletes receive from leveraging their personal brand.  
This income can come from various sources, including:



# UNDERSTANDING NIL INCOME

## Examples of NIL Income (Cont.)

Fees for public appearances, signings, and events.

- This can include being paid to attend events, sign autographs, or give speeches.

### Royalties

Royalties or fees earned through licensing or merchandizing agreements or NFTs.

### Appearances and Autographs

### Free products or services

that an athlete receives in exchange for endorsing a brand or business.

Payments received from NIL Collectives

### Payments received from NIL Collectives

Each of these income streams has unique tax implications that athletes must consider. Properly categorizing and reporting this income is essential for compliance and optimizing tax benefits.





## UNDERSTANDING NIL INCOME

# How NIL Income is earned

Athletes enter into contracts with businesses and organizations to earn NIL income. These agreements outline the terms, including payment amounts, duration, and scope of the partnership. For example, a contract might specify that an athlete must post a certain number of social media posts per month or make a set number of public appearances. The income can vary significantly based on the athlete's popularity, performance, and marketability. High-profile athletes might secure lucrative deals with major brands, while others might earn income through local businesses and smaller-scale promotions.

Understanding the terms of these contracts and the nature of the income earned is important for accurate tax reporting.

**Athletes should keep detailed records of all contracts and payments received to ensure they are prepared for tax filing.**



# BASICS OF U.S. TAXATION



## Federal Income Tax

The United States operates a progressive federal income tax system, meaning the tax rate increases as income rises. Federal income tax rates and brackets are established by the Internal Revenue Service (IRS) and are subject to change annually.

All U.S. citizens and residents are required to file a federal income tax return if their income exceeds certain thresholds. Tax returns are typically due by April 15th each year.





# BASICS OF U.S. TAXATION

## Single Filers Personal Tax Rates - 2024

- 10% on income **up to** \$11,600
- 12% on income **over** \$11,600
- 22% on income **over** \$47,150
- 24% on income **over** \$100,525
- 32% on income **over** \$191,950
- 35% on income **over** \$243,725
- 37% on income **over** \$609,350

## Married filing jointly Personal Tax Rates - 2024

- 10% on income **up to** \$23,200
- 12% on income **over** \$23,200
- 22% on income **over** \$94,300
- 24% on income **over** \$201,050
- 32% on income **over** \$383,900
- 35% on income **over** \$487,450
- 37% on income **over** \$731,200

Understanding these brackets helps athletes estimate their tax liability  
and plan accordingly

# BASICS OF U.S. TAXATION

## State Income Tax

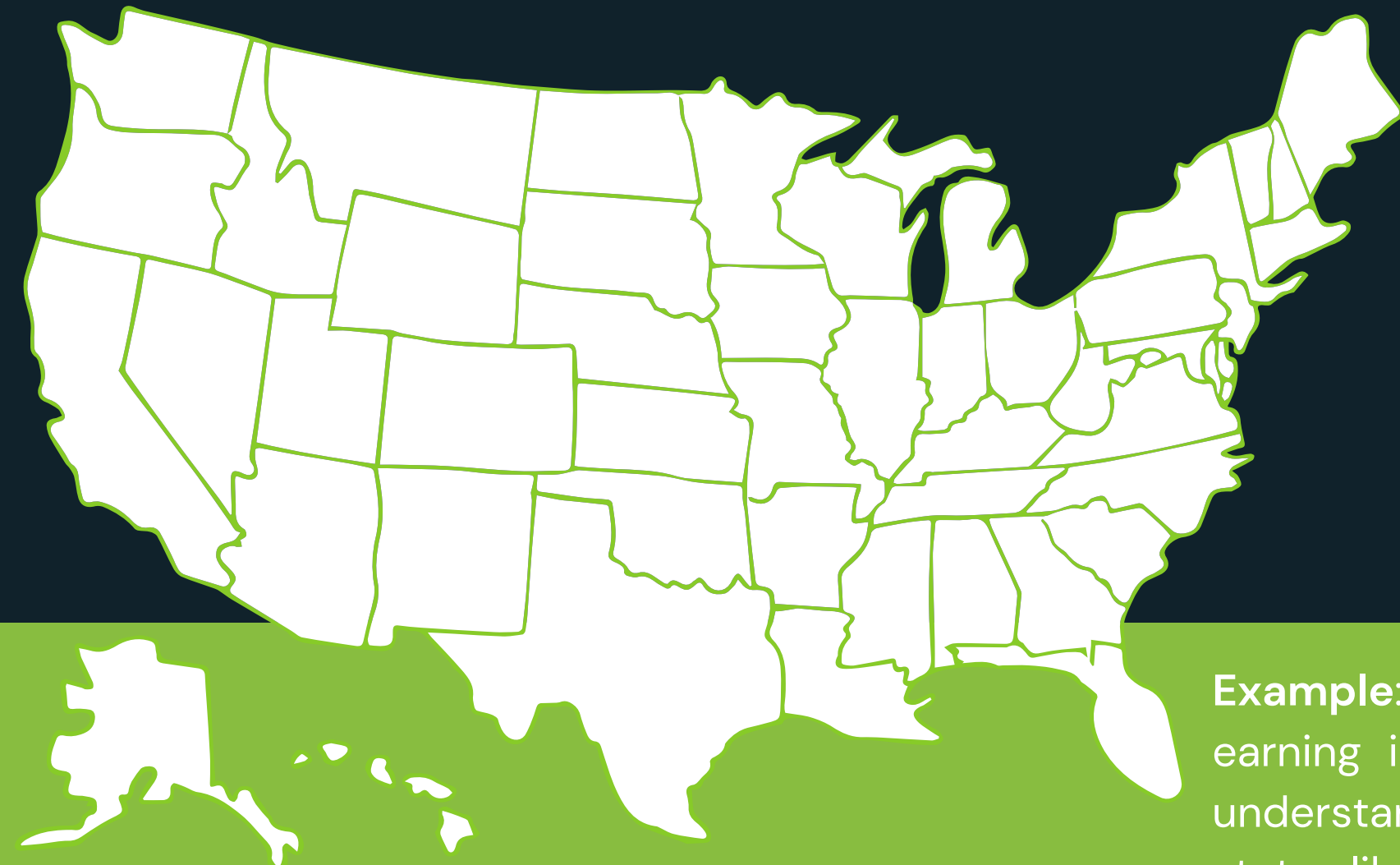
In addition to federal taxes, many states impose their own income tax.

State tax rates and brackets vary widely, and some states, such as **Florida, Texas, and Washington**, do not have a state income tax.

**Athletes must file state tax returns based on their residency and where their income is earned.**

**This can become complex for athletes earning income in multiple states.**

**Example:** An athlete residing in **California** (which has a progressive state income tax) but earning income from events in **Texas** (which has no state income tax) would need to understand the tax implications in both states. States like California have high tax rates, while states like Texas have none, which can significantly impact an athlete's net income.





# BASICS OF U.S. TAXATION

## State Income Tax



It is very important for student athletes to determine where their tax residence is.



States that impose a personal income tax, generally tax residents on all of their income regardless of its source.

The state of residence of students is usually where they grew up and where their family resides. Usually, the various states consider a college student to be a temporary resident while attending college and recognize that their state of tax residency is their home state.

➡ Therefore, student athletes earning NIL revenue have a tax obligation in their home state.

However, even if student athletes file a state tax return in their home state, they may still be liable to file additional tax returns in other states as well, depending where their NIL income has been earned. States that tax residents on their income, often tax non-residents on income earned within their borders.




Of course, to avoid double taxation, the state of residence will provide a credit for taxes paid to other states on the same income.

**Student athletes should bear in mind that usually income earned from NIL deals results from performing some kind of personal service.**

**Personal service income is usually sourced where the service is performed. In the case of licensing income though, such income is usually deemed to be sourced in the state of the student athlete's tax domicile.**

# BASICS OF U.S. TAXATION

## Local Taxes

 Some cities and counties also levy local taxes.   
 For example, New York City imposes a local income tax on residents.

Athletes must be aware of these additional tax obligations, particularly if they reside or earn income in areas with local taxes.

Local taxes add another layer of complexity.

An athlete living in New York City, for instance, must pay federal, state, and city income taxes.

Understanding the specific tax rates and filing requirements for each locality is critical to avoid penalties and ensure compliance.



# TAX OBLIGATIONS OF COLLEGIATE ATHLETES

## Taxable vs Non-Taxable Income

NIL income is generally considered taxable by the IRS. This includes payments from endorsements, sponsorships, social media promotions, merchandise sales, and appearance fees. Non-taxable income might include scholarships and grants used for tuition and educational expenses, provided they meet IRS criteria.

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Under IRS rules, some athletes are required to file a federal return to report self-employment income and pay federal taxes if they have net earnings of \$400 or more in self-employment income from NIL deals, or if their income exceeds the standard deduction. Self-employment income of \$600 or more is reportable on Form 1099.



# TAX OBLIGATIONS OF COLLEGIATE ATHLETES

If a student is filing a tax return to report NIL income from self-employment, they'll need to complete the following:



**Schedule C**, Profit or Loss from Business



**Schedule E**, Supplemental Income and Loss, if they earned money from royalty payments

These forms will need to be attached to the student's Form 1040 to determine their taxable income for the year. Once a student athlete's income from NIL deals exceeds a certain threshold, they can no longer be claimed as a dependent on their parents' tax return.

It's important for athletes to distinguish between **taxable** and **non-taxable** income.

For example, a scholarship covering tuition is typically non-taxable, but a stipend for living expenses may be taxable. Understanding these distinctions helps in accurate tax reporting and compliance.



# TAX OBLIGATIONS OF COLLEGIATE ATHLETES

## Self-Employment Tax

Many collegiate athletes earning NIL income will be classified as self-employed for tax purposes. This means they are responsible for paying self-employment tax, which covers Social Security and Medicare contributions. As of 2024, the self-employment tax rate is 15.3%, consisting of 12.4% for Social Security and 2.9% for Medicare. Athletes must report self-employment income on Schedule C (Form 1040) and pay self-employment tax using Schedule SE (Form 1040).

Self-employment tax can significantly impact an athlete's tax liability.

**For instance, an athlete earning \$10,000 in net NIL income would owe \$1,530 in self-employment tax alone. Proper planning and quarterly estimated tax payments can help manage this burden.**





# TAX OBLIGATIONS OF COLLEGIATE ATHLETES

## Quarterly Estimated Taxes

Athletes with substantial NIL income must make quarterly estimated tax payments to avoid penalties. The IRS requires these payments to cover both income tax and self-employment tax. Estimated tax payments are due on April 15th, June 15th, September 15th, and January 15th of the following year.

Athletes can use Form 1040-ES to calculate and make these payments. If athletes expect to have to owe more than \$1,000 in taxes, they should make estimated tax payments.

Failing to make quarterly payments can result in penalties and interest charges. Athletes should estimate their annual income and divide the total tax liability into four payments. Keeping up with these payments ensures compliance and avoids surprises during tax season.

Athletes should usually set aside about 25% to 30%  
of their NIL income to cover these quarterly  
payments.





# DEDUCTIONS AND CREDITS

Athletes can deduct ordinary and necessary business expenses related to their NIL activities. Common deductible expenses include:

## BUSINESS EXPENSES

### Travel



Costs for travel to events, appearances, and meetings. This includes airfare, lodging, and meals.

### Marketing



Expenses for promoting the athlete's brand, including social media advertising, website costs, and promotional materials.

### Training



Costs for training, coaching, and related activities. This can include gym memberships, personal trainers, and specialized training camps.

### Equipment & Supplies



Purchases of sports equipment and other supplies needed for training and performance.

**Accurate record-keeping is essential to substantiate these deductions. Athletes should maintain receipts, invoices, and detailed records of all business-related expenses.**

*For example, if an athlete travels to an event, they should keep records of flight costs, hotel bills, and meal receipts.*

## DEDUCTIONS AND CREDITS

# Education-Related Deductions and Credits

Athletes may also be eligible for education-related tax benefits, such as:



### **Student Loan Interest Deduction**

Deduct up to \$2,500 of interest paid on student loans. This deduction can reduce taxable income and lower overall tax liability.



### **American Opportunity Tax Credit (AOTC)**

A credit of up to \$2,500 per eligible student for qualified education expenses, including tuition, fees, and course materials. The AOTC is partially refundable, meaning athletes can receive a refund.



### **Lifetime Learning Credit**

A credit of up to \$2,000 per tax return for qualified tuition and related expenses. This credit is available for any year of post-secondary education and can be used for an unlimited number of years.

*Understanding these credits and deductions can help athletes minimize their tax burden and make the most of their educational investments.*



# DEDUCTIONS AND CREDITS

## Other Relevant Deductions and Credits

Additional deductions and credits that may apply include:



### HEALTH INSURANCE PREMIUMS

Self-employed athletes can deduct premiums paid for health insurance.

This deduction can significantly reduce taxable income.



### RETIREMENT CONTRIBUTIONS

Contributions to retirement accounts, such as a Simplified Employee Pension (SEP) IRA, are deductible.

Athletes can contribute up to 25% of their net earnings from self-employment, up to a maximum limit. This not only reduces current taxable income but also helps in long-term financial planning.





# TAX PLANNING STRATEGIES

## Choosing the Right Business Structure

Athletes should consider the most appropriate business structure for their NIL activities.

Options include:



### Sole Proprietorship:

This is the simplest structure, but offers no liability protection. Income is reported directly on the individual's tax return, on Schedule C – Profit and Loss from a business and it is taxed at individual tax rates.



### Limited Liability Company (LLC):

Provides liability protection and flexibility in taxation. An LLC can choose to be taxed as a sole proprietorship, partnership, or corporation. This structure is usually used by mid to high profile student athletes with a regular flow of NIL revenue.



### S Corporation:

Offers potential tax benefits but requires more administrative work. S corporations can provide savings on self-employment taxes by allowing owners to take a salary and dividends. High profile student athletes with considerable revenue may opt for this type of business structure.

**Each structure has pros and cons, and athletes should consult with a tax professional to determine the best fit.**

*For example, an LLC might offer flexibility and protection, while an S corporation could provide tax advantages.*



# TAX PLANNING STRATEGIES



## RECORD KEEPING AND ACCOUNTING

Maintaining accurate records is important for managing NIL income and expenses. It is advisable that athletes use tools and software to track income, expenses, and tax obligations as well as generate the reports needed for tax filing. Proper accounting practices will help ensure compliance and facilitate efficient tax filing. Keeping detailed records also helps in case of an IRS audit.



# TAX PLANNING STRATEGIES



## WORKING WITH TAX PROFESSIONALS

Given the complexities of NIL taxation, working with a Certified Public Accountant (CPA) or tax advisor can be highly beneficial. A tax professional can provide personalized advice, assist with tax planning, and ensure accurate and timely tax filings.

A CPA can help athletes navigate the intricacies of self-employment tax, quarterly estimated payments, and deductions. They can also provide strategic advice to minimize tax liability and ensure compliance with all tax laws.





# CASE STUDIES AND EXAMPLES

Let's look into three different cases, to demonstrate how taxes apply to three broad categories of NIL-earning athletes.

## Case Study 1: High-Profile Athlete

A high-profile collegiate athlete, such as a star quarterback, may earn significant NIL income from endorsements, sponsorships, and appearances. This athlete would need to:

- File federal and state tax returns, as well as local tax returns if applicable.
- Pay self-employment tax.
- Make quarterly estimated tax payments.
- Deduct business expenses such as travel and marketing.
- Consider creating an LLC or an S Corporation
- Consult with a tax professional to optimize tax planning strategies.

*For example, if the athlete earns \$500,000 from various endorsements and appearances, they must carefully track all income and expenses, pay estimated taxes quarterly, and ensure compliance with state and federal tax laws.*

*A tax professional can help them maximize deductions and credits to reduce their overall tax liability.*

# CASE STUDIES AND EXAMPLES

## Case Study 2: Mid-Level Athlete

A mid-level athlete might earn a moderate amount of NIL income through social media promotions and smaller endorsement deals. This athlete should:

- Track all income and expenses meticulously.
- Deduct eligible business expenses.
- Ensure compliance with federal, state, and local tax laws.
- Consider forming an LLC for liability protection.

*For instance, if this athlete earns \$75,000 annually, they should keep detailed records of all income and related expenses, such as travel and marketing. Forming an LLC might offer liability protection and potential tax benefits. Consulting with a tax professional can help ensure all deductions are claimed correctly.*



# CASE STUDIES AND EXAMPLES

## Case Study 3: Lower-Profile Athlete

A lower-profile athlete might have minimal NIL income, perhaps from a few local sponsorships. This athlete should:

- Report all NIL income on their tax return.
- Deduct any business-related expenses.
- Stay informed about their tax obligations to avoid penalties.

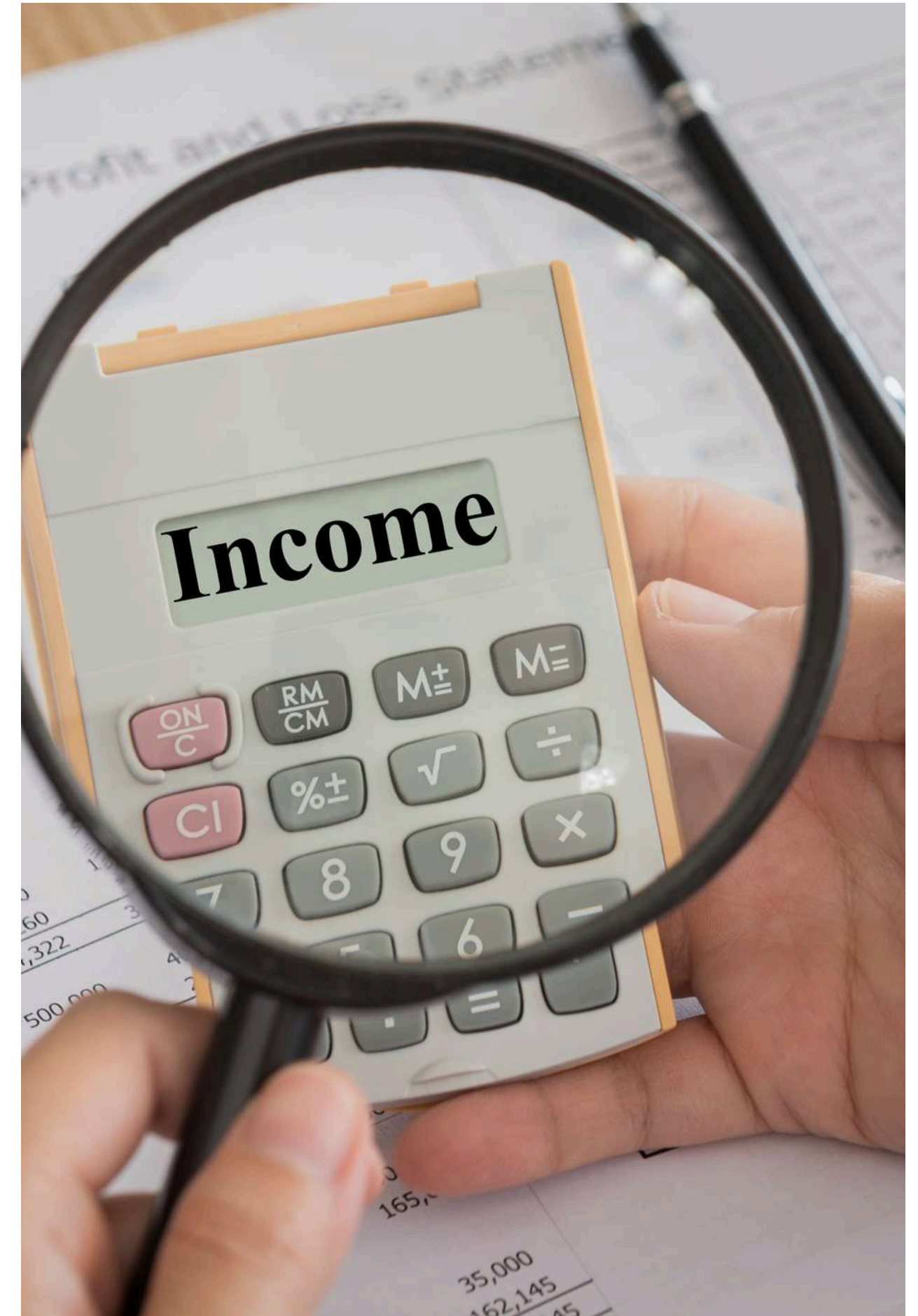
***Even with smaller earnings, accurate reporting and record-keeping are essential.***

*For example, an athlete earning \$10,000 from local endorsements should track all income and expenses and ensure timely tax filings. This ensures compliance and avoids potential penalties.*

# POTENTIAL PITFALLS AND COMMON MISTAKES

## Failure to Report Income

- Failing to report NIL income can lead to severe consequences, including penalties and interest charges. Athletes must ensure all income is accurately reported on their tax returns.
- For instance, if an athlete receives payments through PayPal or other online platforms, they must report this income to the IRS.
- Keeping detailed records and reporting all earnings prevents issues with the IRS and ensures compliance. In addition, if the athlete receives products or other non-monetary compensation such as paid trips or free meals, these are considered taxable at their fair market value.
- Normally, if the fair market value exceeds \$600, the student athlete will receive a form 1099 that reports the value of such products or services.

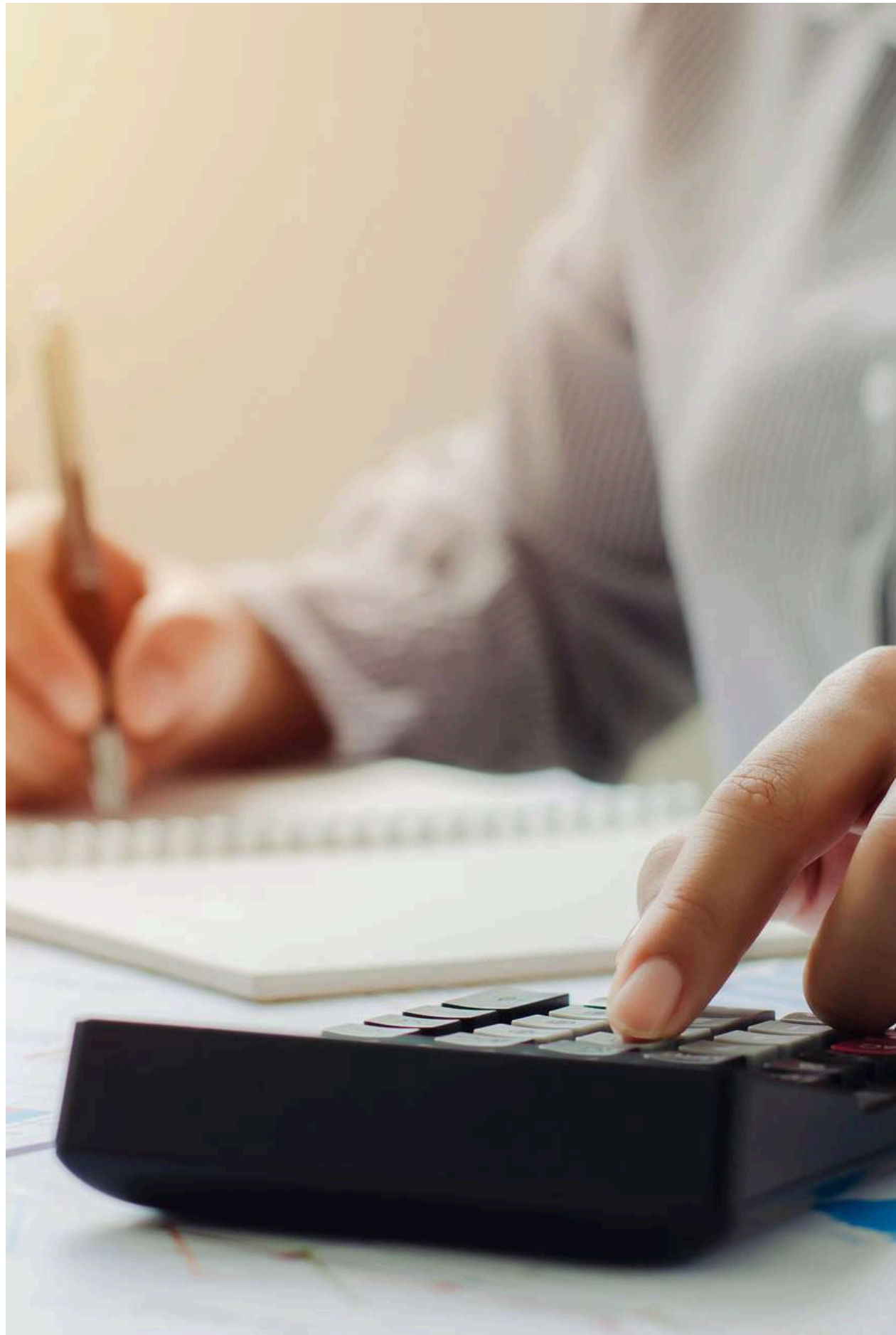




# POTENTIAL PITFALLS AND COMMON MISTAKES

## Misunderstanding Deductions

- Misinterpreting what constitutes a deductible expense can result in disallowed deductions and potential audits. Athletes should familiarize themselves with IRS guidelines or seek professional advice.
- Common mistakes include attempting to deduct personal expenses or failing to keep proper documentation for business expenses. Consulting with a tax professional ensures that only eligible deductions are claimed and proper records are maintained.





# POTENTIAL PITFALLS AND COMMON MISTAKES

## Ignoring State and Local Tax Obligations

- Overlooking state and local tax requirements can lead to unexpected liabilities. Athletes must stay informed about the tax laws in their state and any states where they earn income.
- For example, an athlete earning income from events in multiple states must understand the tax obligations in each state. Filing state tax returns and paying any required state and local taxes ensures compliance and avoids penalties.





# FUTURE OF NIL TAXATION



## Potential Changes in Legislation

The landscape of NIL taxation is still evolving. Proposed legislative changes could impact how NIL income is taxed in the future. Athletes should stay informed about potential changes and be prepared to adapt their tax strategies accordingly.

For example, there could be changes in federal tax laws that affect self-employment income or new state regulations specifically addressing NIL earnings. Staying informed about legislative developments ensures athletes can adapt their strategies to remain compliant.



## Long-Term Implications for Athletes

Understanding and managing NIL tax obligations is crucial for the athletes' long-term financial health. Proper tax planning can help athletes maximize their earnings, minimize tax liabilities, and lay a solid foundation for their financial futures.

Long-term planning includes setting aside funds for taxes, investing in retirement accounts, and seeking ongoing professional advice. By adopting a proactive approach to tax planning, athletes can ensure financial stability and success beyond their collegiate careers.



# CONCLUSION

## Recap of Key Points

This guide has explored the multifaceted aspects of NIL taxation for collegiate athletes in the United States. From understanding taxable income and deductions to navigating federal, state, and local tax obligations, athletes must approach their NIL earnings with a well-informed strategy.

## References

- IRS Publication 334: Tax Guide for Small Business
- IRS Publication 970: Tax Benefits for Education
- NCAA Interim Policy on Name, Image, and Likeness
- State-specific tax authority websites

### Final Advice for Collegiate Athletes

As collegiate athletes embark on their NIL ventures, seeking professional guidance and staying proactive about their tax obligations is essential.

By leveraging the knowledge and strategies outlined in this guide, athletes with the help of their tax advisors, can ensure compliance with tax laws and optimize their financial outcomes.







# SFLA

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