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# Income Tax Planning Approaches for College Athletes Earning Income through Name, Image, and Likeness Compensation

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The emergence of name, image, and likeness (NIL) opportunities has transformed collegiate athletics, providing athletes with unprecedented avenues for income. However, the robust NIL marketplace has also introduced complex tax, financial, and legal responsibilities college athletes often navigate on their own. This study examines the tax implications of NIL compensation for college athletes in the United States through five illustrative case studies, highlighting the impact of state residency, income source, compensation type, and entity structuring on federal and state tax obligations. We demonstrate common scenarios in which college athletes may face multi-state taxation, non-cash compensation treated as taxable income, and that limited NIL earnings may fall below filing thresholds. The study also situates NIL obligations within broader academic and structural challenges, emphasizing that many college athletes enter college with educational inequities and minimal financial literacy. Drawing on extant research, the authors underscore the critical need for institutional support, financial education, and policy interventions to ensure athletes can navigate NIL opportunities effectively while maintaining compliance and long-term academic and financial wellbeing.

Keywords: tax obligations, residency and income sourcing, financial literacy, NCAA, NIL

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# Introduction

The rapid expansion of name, image, and likeness (NIL) markets has introduced a complex set of tax considerations for college athletes, many of whom have limited prior exposure to financial planning or federal and state tax obligations. Universities are therefore increasingly positioned to play a meaningful role in supporting athlete tax literacy. One approach involves the development of structured NIL tax education programs embedded within athletic departments and sport management curricula. The present article offers a practical framework for administrators and scholars considering institutional responses to NIL-related tax complexity. In this sense, the analysis mirrors the case-based approaches commonly used in advanced business and professional education.

The central problem this article addresses is not simply that NIL income is taxable, but that many college athletes are now expected to comply with a tax system designed for sophisticated taxpayers without receiving consistent, practical, or scenario-based institutional guidance. NIL deals may involve cash payments, non-cash compensation, royalties, service income, multi-state sourcing, deductible expenses, estimated tax obligations, and possible entity formation. Yet athletes often encounter these issues through isolated contracts rather than through a coherent educational framework. This creates a compliance gap: athletes may owe taxes, trigger filing obligations, or lose available deductions without understanding why those consequences arise or how to plan for them. This article therefore argues that NIL tax education should move beyond general warnings that NIL income is taxable and instead provide applied, case-based tools that help athletes, athletic departments, sport management educators, and advisors identify recurring tax issues before they become compliance problems.

Universities are well positioned to leverage cross-disciplinary expertise in addressing the financial complexities associated with NIL activity. Partnerships with business schools, accounting departments, and law schools could support experiential learning initiatives—such as tax clinics or applied consulting projects—in which graduate students assist athletes in evaluating the tax implications of NIL agreements. These collaborations generate reciprocal benefits: student-athletes gain access to informed guidance regarding tax compliance and planning strategies, while participating students gain practical experience applying tax law and financial analysis to emerging areas of sports commerce.

According to the Tax Foundation, the federal income tax began in 1913 as four pages of forms and instructions. Today, the Internal Revenue Code and its associated regulations span more than 70,000 pages and influence a wide range of economic decisions (Lundeen & Hodge, 2013). For student-athletes newly participating in NIL markets, translating this expansive body of law into practical financial decisions presents a significant challenge. The case studies presented in this article illustrate how seemingly straightforward NIL arrangements may generate complex tax consequences once issues such as independent contractor status, deductible expenses, and income characterization are considered. By presenting applied examples, this article aims to encourage further scholarly discussion regarding how the tax code is operationalized within the evolving NIL environment. More broadly, these cases are intended to serve as pedagogical tools that can be adapted across educational settings—including sport management, business, accounting, and law—while supporting collaboration among researchers, administrators, agents, and student-athletes and their families as they navigate the financial realities of contemporary collegiate athletics.

Conceptually, the analysis in this article focuses less on doctrinal innovation than on practical application designed to provide concrete examples. This article builds on an established and growing body of legal scholarship examining the tax consequences of college-athlete compensation, NIL activity, scholarships, collectives, and institutional regulation. Prior scholars have analyzed the potential state tax implications of paying student-athletes (Kisska-Schulze & Epstein, 2014), the tax treatment of qualified scholarships in a changing college sports economy (Edelman, 2017; Kisska-Schulze, 2016a), the application of IRC § 162 to pay-for-play models (Kisska-Schulze, 2017), and the broader relationship between college athletics and federal income taxation (Kisska-Schulze, 2018; Schmalbeck & Zelenak, 2018). More recent scholarship has examined sports taxation, NIL tax reporting, NIL collectives, Title IV financial aid consequences, education-related wagering, and tax-exempt status questions arising from NIL reform (e.g., see Holden & Kisska-Schulze, 2025; Kisska-Schulze, 2023a, 2023b; Kisska-Schulze & Epstein, 2021; Kisska-Schulze & Holden, 2020; Ritter, 2022; Seams, 2021).

Accordingly, the present article does not claim to be the first examination of NIL taxation. Rather, it extends this literature by translating recurring tax principles into applied, scenario-based examples that may be used by athletic departments, sport management educators, tax professionals, and advisors working directly with college athletes. The case studies are intended to operationalize the existing literature by showing how tax characterization, state residency, income sourcing, non-cash compensation, entity formation, deductions, and filing thresholds arise in common NIL contexts. Notably, the article's primary contribution is not the identification of NIL income as taxable, which prior scholarship has already established, but the development of applied case studies and implementation-oriented recommendations that respond to the compliance gap previously identified: college athletes are entering NIL markets without consistent, practical, and scenario-based guidance for understanding how tax rules apply to common NIL arrangements (Holden & Kisska-Schulze, 2025; Kisska-Schulze & Epstein, 2020; Ritter, 2022).

## Tax Characterization Framework for NIL Income

The following section presents a tax-characterization framework for planning and reporting NIL income. The framework organizes common NIL arrangements into three recurring characterizations: (1) passive NIL licensing with no services rendered, (2) mixed activity involving both limited services and licensing, and (3) NIL activity that rises to the level of a substantive trade or business. These categories are not the only possible NIL tax scenarios, nor are they intended to replace individualized tax advice. Rather, they are presented because they reflect common transaction structures encountered by college athletes and because each characterization carries different consequences for reporting, deductions, self-employment tax, and state income taxation. The framework was developed in consultation with co-researchers Samuel Handwerger, a certified public accountant (CPA) and senior lecturer of Accounting and Information Assurance at the University of Maryland, and Julian Ervi, an analyst for Strategy, Risk, and Transaction with Deloitte. The appropriate characterization of NIL income depends primarily on three factors: (1) whether the athlete performs services, (2) the extent of the athlete's active business involvement, and (3) whether the income arises from a trade or business within the meaning of Internal Revenue Code (IRC) § 1402(a). These factors determine exposure to self-employment tax and the availability of ordinary and necessary business deductions under IRC § 162.

Regardless of which characterization applies, several overarching tax principles shape the analysis. First, form does not control, meaning economic realities take precedent over a legal structure. The IRS applies substance-over-form doctrines to determine whether income should be treated as compensation or as a royalty. Accordingly, the articulation of NIL income as either tangible compensation or a royalty is paramount within the filing process. Second, non-cash compensation (e.g., vehicles, athletic equipment received in kind) is included in gross income at its fair-market value when received under IRC § 61(a). Accordingly, the athlete's basis in such property equals its fair-market value at the period of transaction. For instance, a competing college athlete receiving a vehicle from a local car dealership is required to report the fair-market value of the vehicle as gross income, even though the athlete did not necessarily purchase the vehicle in a traditional sense.

Notably, the tax consequences of a subsequent sale of property received as non-cash compensation depend on both the athlete's adjusted basis and the nature and use of the property. The athlete's initial basis generally equals the fair-market value included in income when the property was received. If the property is held for personal use, it generally is a capital asset under IRC § 1221, and a sale for more than adjusted basis generally produces capital gain. A loss on the sale of personal-use property, however, generally is not deductible under IRC § 165(c). If the property is instead used in the athlete's trade or business and depreciated, a later sale may be governed by IRC § 1231 and may also trigger depreciation recapture under IRC

§ 1245. Thus, the original receipt of property as compensation establishes basis but does not, by itself, determine the character or deductibility of the result on a later sale. Third, the hobby-loss rules under IRC § 183 require a genuine profit motive to sustain deductions. Such standard is generally satisfied when NIL activity is conducted for financial gain. Fourth, estimated taxes under IRC § 6654 must be paid quarterly when self-employment income exists in order to avoid penalties. Lastly, state taxation generally follows similar principles to federal taxation. For instance, personal-service income is sourced to the state where the services are performed, passive royalties are allocated to the individual's state of domicile, and business-related royalties may be apportioned among the states where the market activity occurs. For each characterization, the relevant thresholds and rates in 2026 are as follows:

- Solo 401(k) annual contribution limit: $72,000 (combined employee and employer contributions, excluding catch-up contributions) – a Solo 401(k) is a tax-deferred retirement savings plan available to a self-employed individual with no full-time employees other than a spouse, permitting the individual to make contributions in both the role of employee (an elective salary deferral) and employer (a profit-sharing contribution)
- Employee elective deferral limit: $24,500 – the elective deferral represents the portion of compensation an individual chooses to set aside from their own earnings into the retirement plan, which reduces current-year taxable income dollar for dollar
- SEP IRA maximum contribution: $72,000 – a Simplified Employee Pension (SEP) IRA is a streamlined retirement plan that permits a self-employed individual to contribute pre-tax dollars, subject generally to the lesser of the applicable percentage of compensation or the annual dollar limit, and deduct the contribution from current-year taxable income; it carries lighter administrative requirements than a Solo 401(k) but allows only employer-side contributions
- Standard mileage rate for business travel: 72.5 cents per mile for mileage from January 1 through June 30, 2026, and 76 cents per mile for mileage from July 1 through December 31, 2026 (e.g., 90 business miles would produce a $65.25 deduction in the first half of 2026 or a $68.40 deduction in the second half) – the standard mileage rate is a per-mile amount the IRS publishes for a self-employed individual to deduct against business income for use of a personal vehicle for business travel, in lieu of tracking actual costs such as gas, repairs, insurance, and depreciation.

## Characterization 1: Passive NIL Licensing, No Services Rendered

When an athlete merely licenses the right to use their NIL and performs no services, the income generally constitutes royalty income under IRC § 61(a)(6) (the provision of the federal tax code that lists royalties—payments received for the right to use intellectual property such as patents, copyrights, and an individual's name, image, and likeness—among the categories of taxable gross income). Because the athlete is not "carrying on a trade or business," a tax term referring to a regular, continuous, and profit-motivated income-producing activity rather than a sporadic or hobby-level pursuit (the mere passive licensing of one's name does not, by itself, rise to this level), the income is excluded from self-employment tax under IRC §§ 1401–1402. Typical reporting is on IRS Form 1099-Misecellaneous (1099-MISC), Box 2. The defining feature of this approach is *passivity*. This feature relies on the brand or licensee using the athlete's NIL in its advertising or products without any active participation by the athlete themselves. For example, a beverage company that pays a college athlete a fixed annual licensing fee in exchange for the right to use a previously taken photograph of the athlete on a national marketing campaign—without requiring the athlete to attend any events, post on social media, sign autographs, or otherwise participate further—pays a true royalty. The athlete's only obligation is to grant the right to use their image; the brand does the rest. Accordingly, contracts should avoid references to required appearances, social media posts, and/or other deliverables that would imply performance of services. In *Estate of Clarks v. Commissioner*, 90 T.C. 208 (1988), the United States Tax Court emphasized that regular and continuous exploitation of intellectual-property rights can convert royalties into business income. Therefore, an NIL arrangement must remain truly passive to retain royalty treatment.

State-tax implications mirror this federal rule, and passive royalties are generally allocated to the state of domicile. If the athlete is domiciled in a state with no personal income tax (e.g., Florida, Texas), no state tax would arise. However, the IRS considers college attendance as a temporary absence from one's permanent residency. Accordingly, a competing college athlete at The Ohio State University (located in Columbus, Ohio) with full-time residency in their home state of California would potentially be subjected to both the state of Ohio and the state of California's personal income tax. If domiciled in a state without personal income tax, the income would not be taxable there and not subject to other state sourcing rules (the body of rules each state uses to determine which portion of an individual's income it has the right to tax—generally based on where personal services are physically performed, where intangible rights are exploited, and where the taxpayer maintains a permanent residence) because no services are performed outside the home state. The advantage of this structure is the complete avoidance of self-employment tax. The drawback is narrow applicability given most NIL agreements contain at least a minimal service element and the IRS may recharacterize the arrangement based on substance over form (see, e.g., Comm'r v. Court Holding Co., 324 U.S. 331 [1945], holding that the substance of a transaction, rather than the form chosen by the taxpayer, controls federal tax treatment; and Gregory v. Helvering, 293 U.S. 465 [1935], establishing that a transaction lacking economic substance beyond tax avoidance may be disregarded).

## Characterization 2: Mixed Activity Involving Services and Licensing

Where the athlete performs limited promotional activity (e.g., an appearance, photo shoot, or social media posts) while also licensing NIL rights, this income can be bifurcated between service compensation and royalties. The service component constitutes earned income under IRC § 61(a)(1) and is subject to self-employment tax. This portion is typically reported on IRS Form 1099-Nonemployee Compensation (1099-NEC). Related ordinary and necessary business expenses are deductible under IRC § 162. Examples could include an athlete's travel to an appearance deductible at the applicable 2026 business mileage rate (72.5 cents per mile from January 1 through June 30 and 76 cents per mile from July 1 through December 31), a qualifying home-office workspace under IRC § 280A(c)(1), professional fees, and/or equipment used in producing social media content (e.g., phone, camera, lighting). The royalty component, reported on IRS Form 1099-MISC, Box 2, only withstands self-employment tax if it is not derived from the athlete's trade or business. If the licensing activity is integral to the athlete's ongoing NIL enterprise, the IRS may characterize both portions as business income subject to self-employment tax. Therefore, NIL contracts should expressly distinguish service deliverables from the licensing of NIL rights, and contemporaneous documentation should support a reasonable allocation between these two categories.

Although contemporaneous documentation is always preferable, the *Cohan* rule may permit a taxpayer to use reasonable estimates of deductible expenses when the taxpayer can establish that deductible expenses were actually incurred but cannot prove the exact amount. The rule derives from *Cohan v. Commissioner*, 39 F.2d 540 (2d Cir. 1930), where the court allowed entertainer George M. Cohan to estimate certain business expenses despite incomplete records. The doctrine does not excuse poor recordkeeping or override stricter statutory substantiation requirements for certain categories of expenses, but it illustrates that reasonable, evidence-based estimates may sometimes be accepted when exact records are unavailable. For athletes receiving NIL, however, mileage logs, receipts, contracts, invoices, and contemporaneous records remain far stronger support than after-the-fact estimates.

Under this characterization, the athlete may also make retirement contributions on the business portion of their income. For example, with $100,000 of net NIL service income, the athlete could contribute up to the 2026 Solo 401(k) overall limit of $72,000, subject to earned-income, elective-deferral, and employer-contribution limits. A Simplified Employee Pension plan (SEP IRA), also subject to a $72,000 maximum contribution for 2026, is an alternative for simpler administration. The advantage of this characterization is partial self-employment tax exposure on the service element in combination with the ability to deduct legitimate business expenses.

However, there is a principal risk of reclassification of the royalty portion of income as business income if services and licensing are not clearly separated and articulated.

## Characterization 3: Substantive NIL Trade or Business

When NIL activities are substantial (e.g., multiple sponsorships, organized marketing campaigns, continuous brand engagement), the athlete is clearly engaged in a trade or business enterprise. In this instance, all NIL income and related expenses are reportable on IRS Schedule C (Form 1040) and net profit is subject to self-employment tax under IRC §§ 1401–1402. While this scenario most likely applies to a limited number of high-profile college athletes, broad business deductions are available under IRC § 162. Deductible items could include training and travel costs, marketing expenses, professional fees, and depreciation of business equipment (i.e., Section 179 expensing). Retirement planning could further reduce taxable income through contributions to a Solo 401(k) or SEP IRA, subject to the applicable 2026 overall contribution limit of $72,000.

At higher income levels, an athlete may elect to have a Limited Liability Company (LLC) taxed as an S corporation (S Corp) to manage self-employment tax exposure. An LLC is a state-law business entity that shields its owner's personal assets from business liabilities while permitting the owner to choose how the business is taxed at the federal level. By default, a single-member LLC is treated as a disregarded entity, meaning its income and expenses flow directly onto the owner's individual tax return as if no entity existed. The owner may instead file IRS Form 2553 to elect S Corp status, under which the LLC becomes a separate flow-through entity in which the owner-employee is required to pay themselves a portion of business income as W-2 wages (subject to FICA payroll taxes) and may receive the remaining profits as a distribution that is not subject to either FICA or self-employment tax. The S Corp election is the mechanism by which a high-earning athlete-owner may legitimately reduce overall payroll-tax exposure on their NIL income. Under IRC § 1361 and § 3121, wages paid to the athlete-owner would be subject to Federal Insurance Contributions Act (FICA), while distributive shares of S Corp income would not. In this scenario, the corporation must pay the athlete a reasonable salary for services rendered as required by § 162 and enforced in *Watson v. United States*, 668 F.3d 1008 (2012).

In *Watson*, the U.S. Court of Appeals for the Eighth Circuit upheld the IRS's reclassification of S Corp distributions as wages, finding the $24,000 annual salary the taxpayer (a CPA) had paid himself was unreasonably low relative to the firm's earnings and his role within it. The court allowed the IRS to recharacterize a portion of the distributions as wages subject to payroll tax, plus interest and penalties. The case stands as the leading authority for the requirement that S Corp owner-employees pay themselves a reasonable salary commensurate with the services they personally render to the business—and is particularly relevant to a college athlete whose NIL business income may be largely attributable to services they themselves perform. Excess profits beyond a reasonable salary may be distributed as dividends free of FICA or self-employment tax, although they would still be subject to regular income tax. This structure offers significant planning flexibility but imposes greater compliance burdens such as payroll processing, corporate filings, and state entity-level taxes where applicable. Given the IRS scrutinizes unreasonably low salaries, documentation of comparable market compensation is essential for any athlete pursuing such filing status.

The case studies that follow are, therefore, designed to translate the doctrinal and policy concerns identified in prior NIL and college sports tax scholarship into applied planning scenarios. While earlier scholarship has established the relevance of federal income taxation, state sourcing, scholarship treatment, deductibility, NIL collectives, and tax-exempt status within college athletics (e.g., see Edelman, 2017; Holden & Kisska-Schulze, 2025; Kisska-Schulze, 2016b, 2017, 2023a, 2023b; Kisska-Schulze & Epstein, 2014, 2020; Schmalbeck & Zelenak, 2018; Seams, 2021), the following examples show how those issues may arise in common athlete-facing situations involving social media promotions, out-of-state appearances, non-cash compensation, LLC formation, and small-dollar NIL activity.

## Case Examples Applying the NIL Tax-Characterization Framework

### Case 1: Home-State Athlete and Out-of-State Athlete

The following case examples apply the tax-characterization framework developed to common NIL scenarios. The cases do not present "different approaches" in the sense of optional strategies an athlete may freely choose. Rather, they show how the tax treatment of NIL income changes depending on the facts of the arrangement, including whether the athlete performs services, receives non-cash compensation, licenses NIL rights passively, operates an ongoing NIL business, earns income across state lines, or falls below filing thresholds. Thus, the cases translate the three NIL income characterizations into practical examples that athletic departments, educators, advisors, and athletes can use to identify likely tax issues before filing obligations arise.

Derek is a college football player from the state of California who attends the University of Georgia (located in Athens, Georgia). He signs a $20,000 NIL agreement with a local Athens restaurant to promote the business on social media. Such transaction results in a classic two-state tax situation. Although Derek resides in Georgia during the school year, he has taken no steps to abandon his California domicile. He intends to return to the state of California after graduation and maintains traditional indicators of California residency (e.g., California driver's license, voter registration, his parents' home as his permanent address). Because the state of Georgia taxes all income earned within its borders and the state of California taxes the worldwide income of its residents, both states may claim Derek's NIL earnings from his agreement with the local restaurant in Athens.

Derek's compensation is sourced to the state of Georgia to the extent it arises from active services performed there (e.g., social media promotions, in-person appearances at the restaurant). Any royalty portion associated with the use of his NIL is sourced according to where that intangible is exploited—locally if the advertising targets residents in the state of Georgia, or more broadly if the campaign is national in scope and appeal. Consequently, Derek must file a Georgia nonresident tax return reporting his Georgia-source income in addition to a California resident return reporting his worldwide income. The same $20,000 received under the NIL agreement with the local Athens restaurant will be reported as income on both state returns. The state of California will grant a credit for taxes paid to the state of Georgia on income that Georgia also taxes. While this prevents true double taxation, it effectively requires Derek to pay tax at whichever state imposes the higher rate.

This scenario, exceedingly common among college athletes with NIL deals, illustrates that NIL income is taxable both where it is earned and where an athlete resides. The IRS determines an athlete's residency by the state the individual intends to remain in permanently rather than the state they are enrolled in college in. However, if Derek were to change his domicile to Georgia by obtaining a Georgia driver's license, registering to vote there, spending most of the year in the state, and forming a genuine intent to maintain residency within the state, he could become a Georgia resident. In this case, the state of Georgia alone would tax his worldwide income while California's taxing power would be limited to income sourced to the state of California. With regard to the $20,000 earned in agreement with the local Athens restaurant, Derek would not be subject to pay tax to the state of California. However, the distinction between earned income and royalties would matter tremendously. Although active services performed in the state of Georgia clearly give Georgia taxing authority, nationwide licensing may limit the state of Georgia's reach. Ultimately, while state residency would determine who has the right to tax a college athlete's income, source rules determine where the income arises. Any resulting overlap is addressed through state tax-credit mechanisms rather than the elimination of multiple filing obligations.

## Case 2: Athletes in States Without Personal Income Tax

Carly is a women's college basketball player at the University of Florida (located in Gainesville, Florida). She is from the state of Florida and maintains full-time residency within the state. Carly earns $35,000 through a series of NIL agreements as a competing athlete at the University of Florida. Although the state of Florida does not tax personal income, Carly is still fully subject to federal income tax and may also incur state income-tax obligations outside the state of Florida depending on where her NIL activities took place. If any of Carly's NIL activities (e.g., paid appearances, photo shoots, interviews, promotional events) take place in other states, those states may tax the income attributable to those activities. In the summer leading into her senior year, Carly was paid $10,000 for a promotional event at a youth basketball camp held in Atlanta, Georgia. This NIL income resultant from an appearance fee would be considered state of Georgia-source earned income, requiring Carly to file a Georgia nonresident return even though Florida imposes no personal state income tax of its own.

Similarly, if part of Carly's compensation for appearing at the Atlanta youth basketball camp consists of royalties for the use of her NIL, the sourcing and taxability of those royalties would depend on whether they are passive or part of an active NIL business (passive income, in this context, refers to income earned without ongoing personal involvement—for example, a fixed periodic payment for the right to use Carly's photograph on a product, where Carly herself does nothing further once the contract is signed; active income, by contrast, refers to income generated through services, time, and personal participation, such as appearance fees, sponsored content creation, autograph sessions, and meet-and-greets—what tax practitioners refer to as a "trade or business"). Passive royalties are typically allocated to the athlete's state of domicile, which in Carly's case as a resident of the state of Florida, would result in no state tax at all. However, royalties generated from an active trade or business are subject to apportionment based on where the NIL rights are exploited, which in this case would be within the state of Georgia.

Notably, in such cases a state may tax a portion of the royalty income even if the athlete never physically enters the state itself. As NIL activity increases in scope, particularly when agents are involved and the athlete markets their likeness as a commercial enterprise, the income may be deemed business income. Such designation triggers multi-state filing obligations, possible withholding by out-of-state sponsors, and the need to track where NIL rights are used in the marketplace. Regardless of the no-tax environment in a state like Florida or Texas, an athlete must carefully monitor the locations of their NIL services, the nature of their income, and any resulting state filing thresholds, while also recognizing that federal self-employment tax applies if the NIL activity rises to the level of a trade or business. Such scenario demonstrates that no state income tax does not mean *no taxes*. College athletes need be aware that earned income is taxed where services are performed, passive royalties are taxed where the athlete resides, and active NIL businesses may face multi-state apportionment even when based in a tax-free state.

## Case 3: NIL Agreements with Car Dealerships

Colton is a baseball player at Oklahoma State University (located in Stillwater, Oklahoma). Colton receives a pickup truck from a local automobile dealership in Stillwater in exchange for promoting the dealership on social media. The pickup truck has a fair-market value of $48,000 at the time of the transaction. Such case illustrates the fundamental tax principle that non-cash compensation is indeed taxable as personal income. Because the pickup truck is provided in return for Colton's services promoting the dealership on social media, the dealership reports the fair market value of the vehicle as $48,000 of compensation on IRS Form 1099-NEC distributed to Colton. Under IRC §61(a), Colton must include the $48,000 value as gross income for the year he receives the pickup truck. Such classification as personal income occurs regardless of the fact that no cash was ever exchanged between Colton and the dealership itself. The payment of the pickup truck itself is treated as Colton's earned self-employment income because it arises directly from NIL-related promotional activity. Based on 2026 federal tax rules and Oklahoma personal income tax, Colton's tax obligation from accepting the pickup truck would most likely exceed $5,000.

Should Colton later sell the pickup truck, his tax basis generally would be the $48,000 fair-market value that was previously included in gross income under IRC § 61. If the truck is held for personal use, it generally constitutes a capital asset under IRC § 1221. As such, any amount realized in excess of his adjusted basis would generally be treated as capital gain. This gain is separate from the ordinary income recognized when the truck was received as compensation for NIL services. In contrast, if Colton sells the truck for less than his adjusted basis while it is held for personal use, the resulting loss generally is not deductible under IRC § 165(c). If, however, the truck is used in Colton's trade or business, different rules may apply, including possible treatment under IRC § 1231 and depreciation recapture under IRC § 1245 if the truck has been depreciated. This distinction is important because the original receipt of the truck as compensation establishes Colton's initial basis, but the truck's later use and classification determine the character and deductibility of any gain or loss upon sale.

As state tax obligations follow the location of the NIL activity, Colton's income is state of Oklahoma-source regardless of Colton's status as an Oklahoma resident. An Oklahoma resident must include the full amount on their Oklahoma return, while a nonresident must file a nonresident return reporting state of Oklahoma-source income. If the athlete is domiciled in another state that taxes worldwide income (e.g., California, New York), that state may also tax the $48,000 but will typically grant a credit for taxes paid to the state of Oklahoma. This scenario underscores a key lesson for college athletes regarding the receipt of property (e.g., vehicle, athletic gear) rather than cash from their NIL agreements. Receiving property instead of cash does not avoid taxation. When something valuable is received because of one's NIL rights, the IRS treats the fair market value of that property as income in the year it was received.

## Case 4: Creating an LLC to Manage NIL Income

Kendall is a track & field athlete at the University of Oregon (located in Eugene, Oregon). She forms *Kendall Performance, LLC* during her sophomore year in order to manage her NIL growing earnings. Kendall's LLC receives $60,000 in sponsorship income and incurs various deductible business expenses (e.g., mileage to promotional events, training equipment, website hosting, professional accounting fees). As the LLC is a single-member entity, it is treated as a disregarded entity for federal tax purposes under the default rules of Reg. §301.7701-3(b)(1), meaning Kendall reports all income and deductions on IRS Schedule C, unless she elects to have the LLC taxed as an S Corp. Ordinary and necessary expenses are deductible under IRC §162(a), and the remaining net profit is subject both to federal income tax and to self-employment tax at a rate of 15.3%. For example, if $20,000 of Kendall's expenses are substantiated, she would report $40,000 in net earnings, resulting in $6,120 ($40,000 x .153) of self-employment tax in addition to regular federal income tax.

At the state level, Oregon taxes residents on all income and applies market-based sourcing for personal services. Accordingly, NIL revenue is taxed in Oregon to the extent the promotional activity or audience is located there while endorsement income tied to out-of-state markets may be apportioned among multiple states using Oregon's single-sales-factor formula. To operate effectively, the athlete must maintain thorough records (e.g., mileage logs, receipts, written contracts), use a separate business bank account, and make quarterly estimated tax payments to avoid penalties. Although an S Corp election may eventually reduce self-employment tax, it adds administrative complexity. Overall, while forming an LLC could help organize NIL activity for competing college athletes and enable the deduction of legitimate business expenses, it does not eliminate tax obligations. An athlete is still responsible for both income and self-employment taxes, and only properly documented expenses can reduce the amount they owe.

## Case 5: De Minimis NIL Earnings

Alex is a freshman at the University of Northern Iowa (located in Cedar Falls, Iowa) competing on the men's soccer team. He receives $350 in NIL income resulting from two sponsored posts on his Instagram account promoting a local coffee shop in Cedar Falls. After reaching out to a company that distributes energy drinks on social media, they send him a single case of energy drinks. This case of energy drinks contains 24 energy drinks and is valued at $36. Accordingly, Alex's total taxable NIL income is $386, an amount that falls far below the federal standard deduction for a single filer (approximately $14,600, adjusted annually). The standard deduction is a flat dollar amount the federal tax code permits any individual taxpayer to subtract from their gross income before tax is calculated, with no documentation of expenses required. Each taxpayer must instead choose to either claim the standard deduction or to itemize—that is, list and substantiate specific deductible personal expenses such as mortgage interest, state and local taxes (capped at $10,000), and charitable contributions. A taxpayer should itemize only when their total qualifying expenses exceed the standard deduction. For nearly every college athlete, itemizable expenses are minimal and the standard deduction yields a larger reduction in taxable income. Alex has no federal taxable income and owes no federal income tax.

A federal tax return is not required unless an individual has at least $400 of self-employment income or more than $1,250 of unearned income (unearned income, sometimes called investment or passive income, refers to income an individual receives without performing personal services to earn it—most commonly interest paid on a bank account, dividends paid on stocks, capital gains from the sale of investments, and certain royalties; in contrast, "earned income" refers to wages, salary, and net self-employment income received in exchange for services personally rendered). In Alex's case, his NIL activity is sporadic (i.e., not consistent) and does not rise to the level of a trade or business. Therefore, Alex's NIL income does not trigger a filing obligation at the federal level. At the state level, Iowa generally follows federal definitions and requires a return only when gross income reaches $6,000 for a single filer under the age of 65 years old. Because all of Alex's NIL activity occurred in Iowa and no other states are involved, there are no additional filing requirements at the state level. This case illustrates that not all NIL activity results in tax liability.

Among each of the scenarios presented in this article, research indicates that Alex's case is most common among competing college athletes (Corr et al., 2023). Small, occasional earnings that do not exceed the standard deduction amount most likely leave a college athlete with no tax due and no filing obligation. The key considerations are whether the athlete performed services in exchange for the benefit received and whether the total income crosses the filing thresholds, which may become relevant in later years if NIL activity becomes more consistent or substantial.

## Implications and Recommendations

The case studies described return to the article's central thesis: NIL tax problems arise not merely because the law is complex, but because college athletes are often asked to navigate that complexity without practical, scenario-based institutional support. While the evolving landscape of NIL opportunities has created unprecedented financial potential for college athletes in the United States, it has also introduced significant complexity in tax compliance and financial management. These case studies illustrate the diversity of tax implications that arise depending on an athlete's state of residence, the location and type of NIL activity, the form of compensation, and the structure used to manage income. These examples underscore the critical importance of tax awareness and proactive planning for college athletes navigating NIL contracts. In the rapidly expanding NIL marketplace, tax literacy is not optional but rather critical for college athletes to protect their earnings and build long-term financial stability.

Tax awareness intersects with broader academic and structural considerations. Indeed, many athletes enter college with pre-existing educational disadvantages. Such disadvantages have been highlighted in analyses of racial achievement gaps and the effects of concentrated poverty on academic performance (Reardon, 2016). Combined with well-documented campus stereotypes, faculty perceptions, and advising limitations (Comeaux, 2010; Parsons, 2013; Stokowski et al., 2016), structural challenges place additional burdens on athletes navigating NIL responsibilities. Within this context, recent research indicating many college athletes feel largely unsupported in managing NIL opportunities is increasingly notable (Corr et al., 2023). Jimerson et al. (2025) noted college athletes often receive guidance focused on NIL prohibitions rather than practical strategies for maximizing permissible earnings, handling taxes, or planning financially. Such gap is especially pronounced among college athletes from under-resourced backgrounds who may lack prior experience with financial and legal literacy. As a result, many of the college athletes who could benefit most from NIL opportunities may be least prepared to manage contracts, taxes, and related obligations effectively.

Building on Fridley et al.'s (2023) role-theory analysis of the athlete–student–influencer identity, institutions should integrate NIL tax education into existing academic, career, and identity-development programming rather than treating NIL as a stand-alone compliance issue. This approach is also consistent with prior research indicating that athletes often navigate NIL opportunities with limited institutional guidance, uneven support structures, and broader academic pressures (Corr et al., 2023; Jimerson et al., 2025). This integration could occur through structured advising conversations in which athletes identify how NIL work affects class schedules, academic progress, professional goals, brand identity, and tax obligations. For example, an athlete pursuing frequent sponsored social media work could be guided to develop a weekly time-management plan, maintain a deliverables calendar, track NIL-related expenses, and connect the athlete's public-facing brand with academic and career interests. Similarly, academic advisors and career-services staff could help athletes evaluate whether NIL opportunities complement or conflict with long-term professional goals, while tax professionals provide guidance on documentation, reporting, and estimated payments. In this model, identity development is not merely an abstract developmental goal, it becomes a practical advising framework through which athletes learn to manage NIL income, academic responsibilities, personal branding, and future career planning in a coordinated manner.

Within this landscape, institutions should move beyond general NIL education and develop structured NIL tax-support systems embedded within athletic departments, academic support units, and professional schools. This institutional responsibility is especially important because prior NIL and tax scholarship has already identified recurring tax issues related to state income taxation, federal reporting obligations, scholarship taxation, self-employment income, and athlete compensation structures (e.g., see Edelman, 2017; Holden & Kisska-Schulze, 2025; Kisska-Schulze, 2016b, 2017, 2018; Kisska-Schulze & Epstein, 2014, 2020; Schmalbeck & Zelenak, 2018). Athletic departments could require an annual NIL tax onboarding module for all athletes before they enter into NIL agreements. This module should explain the distinction between W-2 wages, Form 1099-NEC service income, Form 1099-MISC royalty income, non-cash compensation, deductible business expenses, state residency, income sourcing, and quarterly estimated tax payments. Institutions could also provide athletes with practical recordkeeping tools, including mileage logs, income trackers, expense substantiation templates, contract-deliverable worksheets, and checklists for non-cash compensation such as apparel, vehicles, equipment, meals, travel, or housing benefits. Notably, NIL education should be timed around the tax year rather than delivered only during preseason compliance meetings. For example, institutions could offer fall NIL orientation, January Form 1099 preparation sessions, March tax-filing clinics, and summer programming for athletes who perform NIL work in multiple states.

Institutions could also seek to create referral pathways to qualified tax professionals rather than asking compliance officers, coaches, or academic advisors to provide individualized tax advice outside their expertise. A university might accomplish this through partnerships with accounting programs, law school clinics, volunteer income-tax assistance programs, or vetted external CPAs familiar with NIL income. Within this sense, institutional training needs to be differentiated by NIL profile. Athletes with small or occasional NIL earnings may need basic instruction on filing thresholds and non-cash compensation, while athletes with recurring sponsorship income may need guidance on Schedule C reporting, deductible expenses, estimated taxes, and self-employment tax. Higher-earning athletes may require referral for entity-formation analysis, retirement planning, contract review, and multi-state filing obligations. In addition, equity should be built into the delivery structure, with NIL tax support not limited to athletes in revenue-generating sports or to athletes who already have agents, collectives, or family access to financial professionals. Institutions should ensure that women athletes, Olympic sport athletes, first-generation college students, international students, walk-ons, and athletes from lower-income backgrounds receive the same baseline access to NIL tax education and professional referral resources, particularly because prior research suggests that athletes often perceive NIL support as uneven, compliance-focused, or insufficiently practical (Corr et al., 2023; Jimerson et al., 2025).

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