Episodes 66- On the Tax Consequences of NIL

This document provides resources for educators looking for ways to incorporate current events into their curriculum. Each podcast episode is approximately 20 minutes long and available on all major podcast outlets for free. This document provides opportunities for either short-answer/essay-style questions or discussion questions to delve further into topics. Email taxnerds@gmail.com for an answer key.

In this episode, we discuss the tax consequences of allowing students to receive compensation for their name, image and likeness along with how athletic boosters have tried to receive favorable tax outcomes from NIL activities.

Concepts covered

- Taxation of individuals
- Self-employment taxation
- Tax-exempt organizations

Multiple choice & True False Questions

1. An individual's right to control their commercial use of their identity – including their name, image, and likeness – is known as what?
    a. Right to identity
    b. Right to privacy
    c. Right to publicity
    d. Right to remuneration

2. True or False: In 2021, the NCAA approved a policy that requires universities to pay students for the use of their name, image, and likeness.
    a. True
    b. False

3. Assume a student athlete receives $5,000 during the year as compensation for their name, image, and likeness. The student has no other taxable income. The standard deduction for the year is $13,850. Which of the following is true?
    a. The student would not be required to file a tax return because their NIL income is less than the standard deduction.
    b. The student must file a tax return because student athletes are required to report all NIL income to the IRS.
    c. Whether the student is required to file a tax return depends on if they also receive a scholarship from their university.
    d. The student must file a tax return because the amount of NIL income exceeds the $2,500 de minimis threshold.

4. True or False: Student athletes who receive compensation for use of their name, image, and likeliness are taxes as employees of the university they play for.
    a. True
    b. False

5. Which of the following is true? Select all that apply.
    a. Student athletes who earn compensation for use of their name, image, and likeness are generally considered to be self-employed.
    b. Student athletes who earn compensation for use of their name, image, and likeness can deduct ordinary and necessary business expenses directly related to the generation of NIL income.
    c. Student athletes who earn compensation for use of their name, image, and likeness are prohibited from claiming tax credits for higher education expenses.
    d. Student athletes who earn compensation for use of their name, image, and likeness are generally subject to both income and employment taxes.

6. True or False: Colleges and universities can directly pay players for use of their NIL.
    a. True
    b. False

7. What is the definition of an NIL collective?
    a. It is the unit of a college or university that provides tax consulting and preparation services to student athletes.
    b. It is a lobbying group to benefit student athletes who generate income from NIL.
    c. It is the name of the NCAA committee that oversees NIL rules.
    d. It is an entity that pools money from boosters and distributes the money to student athletes for use of their NIL.

8. What is the benefit of organizing an NIL collective as a tax-exempt entity? Select all that apply.
    a. The entity can receive donations from boosters tax-free.
    b. Student athletes can receive payments from the NIL tax-free.
    c. Boosters who donate to the collectives can receive tax deductions.
    d. Colleges and universities can receive payments from the NIL tax-free.

9. True or False: In a June 2023 memo, the IRS Office of Chief Counsel concluded that NIL collectives should be classified as tax-exempt entities.
    a. True
    b. False

Discussion questions and activities:

Summarize the IRS' Chief Counsel memo on NIL collectives in your own words. Do you agree with their conclusions? Why or why not?

In your own wordw, summarize the potential tax consequences for a student athlete earning compensation for use of their NIL. Be sure to consider income taxes and employment taxes.