NIL TAX REFERENCE GUIDE

Name, Image & Likeness Income, Deductions, Business Structure, and Audit Flags

1. HOW NIL INCOME IS TAXED

Taxable NIL Income:

- Brand deals, sponsorships, endorsements, autograph fees, appearances, camps, and social-media promotions are generally taxable.
- Cash, merchandise, gift cards, free products, travel, services, and other non-cash compensation can be taxable at fair market value.
- Income must be reported even if no tax form is received.

W-2 vs. 1099 / Self-Employment:

- W-2 compensation is reported as wages and generally has payroll taxes withheld.
- 1099-NEC NIL service income is generally self-employment income and may be subject to income tax plus self-employment tax.
- For 2026, the 1099-NEC reporting threshold for covered service payments is generally $2,000, but income is taxable even below the threshold.

2. COMMON NIL BUSINESS DEDUCTIONS & DOCUMENTATION

Marketing & Content

- Photography/video production, editing, website, ads, social-media tools, and content-related supplies.
- Business-use portion of phone, internet, software, and similar mixed-use costs.
- Wardrobe or grooming is usually personal unless it is specialized and not suitable for everyday wear.

Travel, Vehicle & Equipment

- Business travel tied directly to NIL work; keep business-purpose records.
- Vehicles and other mixed-use property are deductible only to the extent of documented business use.
- Equipment, computers, cameras, and eligible assets may qualify for depreciation, Section 179, or bonus depreciation.

Professional / Admin

- Agent/manager commissions, bookkeeping, legal, accounting, banking, and payment-processing fees.
- Contract labor and assistants when properly documented and reported.
- Ordinary and necessary costs must have a clear connection to the NIL business.

3. NIL TAX STRATEGY MATRIX

Strategy / Issue	How It Works	Potential Benefit	Key Rule / Trap
Sole Prop / SMLLC	Report NIL business income and expenses on the owner's return.	Simple administration; eligible business expenses reduce taxable profit.	Net profit generally subject to self-employment tax.
S Corporation	Owner-employee receives reasonable wages; remaining profit may be distributed.	May reduce employment taxes on qualifying profit as income grows.	Payroll, reasonable compensation, basis, and corporate formalities matter.
Vehicle / Mixed-Use Assets	Deduct only the documented business-use percentage of eligible costs or depreciation.	Can recover the business share of vehicle, camera, computer, equipment, or prop costs.	Mileage/use logs and business purpose are critical; personal portion is nondeductible.
Section 179 / Bonus Depreciation	Accelerates deductions for qualifying property placed in service for the NIL business.	Larger first-year deduction for eligible equipment and assets.	Business-use and placed-in-service rules apply; vehicle limits and recapture may apply.
Estimated Taxes / Planning	Make quarterly payments when withholding is insufficient.	Reduces risk of a large balance due and underpayment penalties.	Track federal and state obligations, especially when earning income in multiple states.

4. CRITICAL IRS AUDIT FLAGS & DISALLOWANCE TRIGGERS

- Unreported NIL income: omitting cash, barter, free products, services, gift cards, platform payments, or income for which no 1099 was issued.
- Personal expenses disguised as business costs: everyday clothing, routine grooming, vacations, family costs, or personal-use vehicles without proper allocation.
- Vehicle and prop overstatement: deducting 100% of an asset also used personally, or failing to maintain mileage/use logs and contemporaneous records.
- Weak substantiation: missing contracts, receipts, invoices, calendars, bank records, business-purpose notes, or proof of fair market value for non-cash compensation.
- S corporation red flags: low or no reasonable salary, no payroll, shareholder expenses paid incorrectly, or distributions in excess of basis.
- Multi-state problems: NIL appearances, camps, endorsements, and events can create filing obligations outside the athlete's resident state.
- Estimated-tax shortfalls: rapidly increasing NIL income with little or no withholding can produce substantial balances and underpayment penalties.

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