

# Getting Paid to Play College Sports: Compensation and Tax Implications

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**S**tudent-athletes at American colleges and universities can now get paid for competing in sports (much like professional athletes), and they can earn additional income from the use of their name, image, and likeness (NIL).

An added bonus? They can enjoy all of these perks without suffering penalties for being paid to play. This change in rules has created a fast-growing market that includes brand endorsements, appearances, and income from untraditional sources, including participation in social media-related activities.



As NIL activities expand, businesses, *collectives*, and schools face important questions about taxes, worker classification, and compliance. The recent *Grant House and Sedona Prince v. National Collegiate Athletic Association, et al.* court case (aka the NCAA House settlement), which allows schools to pay athletes directly and allocates billions in “back pay,” raises the stakes for any businesses and brands that are involved with NIL deals.

**Understanding NIL Collectives:** Collectives are groups, usually formed by boosters or supporters of a college, that help student-athletes find and manage opportunities to earn money from their name, image, and likeness. Some collectives act like talent agents and simply connect athletes with companies that want to work with them. Others pay athletes directly for things like appearances or promotional work.

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In this SWC Singlette, we explain what NIL is, how student-athletes are classified for tax purposes, the role that collectives play, and how the new rules affect businesses that engage student-athletes.

### Giving Athletes the Rights to Their Personal and Professional Assets

The term “NIL rights” refers to a person’s right to control the commercial use of their identity, including their name, photos, likeness, gestures, or appearance. In practice, this means that all college athletes, not just football and basketball players, are allowed to earn money from the following:

- Social media posts (being an influencer)
- Commercial sponsorships (local or national)
- Appearances, autograph sessions, branding opportunities
- Licensing of their image or likeness to video gaming companies, athletic trading card companies, and apparel manufactures, for example

Changes in NCAA rules in 2021 were primarily responsible for granting these rights to student athletes at the college level. NIL rights have since been reinforced by various state laws and federal legislation, including *House v. NCAA*.

#### “Right of Publicity”

A person’s NIL is protected under the “[right of publicity](#),” which is intended to protect an individual’s right to the commercial exploitation of their characteristics.

States differ in how they define and enforce NIL rights. For example, Indiana defines the right of publicity as a “personality’s property interest in the personality’s: (1) name; (2) voice; (3) signature; (4) photograph; (5) image; (6) likeness; (7) distinctive appearance; (8) gestures; or (9) mannerisms.” For state-specific details check out NIL state laws at the [NIL Network](#).

### Understanding NCAA’s New Rules on Compensation

In June 2025, a federal judge approved a historic \$2.75 billion settlement (from the lawsuits collectively known as *House v. NCAA*), which allows Division I schools to directly compensate athletes using revenue generated by their athletics programs (for example, media contracts and sponsorships). The new rules on compensation include the following:

- All college athletes in Divisions I, II, and III can receive NIL compensation as long as the arrangement follows state law.
- The NCAA must pay roughly \$2.75 billion in “back pay” over 10 years to Division I athletes for 2016 to the present.
- Division I colleges and universities that complete in the five Power Conferences (Big 10, Big 12, ACC, SEC, and the Pac-12) may now pay athletes under an annual

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compensation cap that starts around \$20.5 million per school, per year in the first year (the cap may be adjusted in the future).

- Payments are in addition to scholarships and traditional benefits.

## Earnings Are Taxable

Student-athletes who receive compensation must realize that most of that compensation is taxable:

- Compensation for NIL activities is taxable income, typically treated as self-employment income subject to federal, state, and local income tax and federal self-employment tax (Social Security and Medicare withholdings).
- As with all other taxpayers in the United States, this income is reported on form 1099-NEC (non-employee compensation), not on W-2 forms.
- The student-athlete may deduct qualified business expenses against the self-employment income.
- School revenue-sharing pay is taxable income. If the student earns more than \$600 in such pay, the school is required to report it. This income is usually reported on form W-2, and the athlete cannot deduct business expenses.
- Scholarships to cover tuition, books, and fees are not considered income and not reported as income.
- Scholarships to cover room and board are taxable (as part of your gross income) and typically reported on Form 1099.
- Cost-of-attendance stipends are taxable and typically reported on Form 1099.
- Free cars, off-campus housing, and other perks are taxable. Their fair market value must be reported as income.

We encourage all college student-athletes who receive any form of compensation related to their sport to keep detailed records and receipts of all payments and expenses.

**Pro Tax Tip for Amateur Athletes:** If you're a college athlete who receives NIL money or compensation from your college or university for playing Division I sports at one of the five Power Conferences, don't even consider filing your taxes all on your own. Yes, software is available to process your state and federal income taxes, but nothing beats speaking one-on-one with a Certified Public Accountant (CPA) with tax planning expertise. The money you pay a CPA may be a pittance compared to the money you lose, or the trouble you find yourself in with the IRS, if you make even one simple mistake on your filing. Not to mention the wealth-building strategies that CPA's are aware of that you're not. For more information, see the [Why Use a CPA](#) page on the SWC website.

## Tax Reporting and Compliance: Employee or Independent Contractor?

Student-athletes may be compensated as employees or independent contractors. The classification boils down to whether the organization or the athlete controls how the responsibilities are fulfilled:

- **Employee:** The organization not only specifies what work needs to be done but also determines the means and methods for fulfilling agreed-upon obligations, dictating tasks, schedule, and performance.
- **Independent contractor (self-employed):** The student-athlete controls the schedule, tasks, and performance (*i.e., the means and methods of fulfilling their obligations*). The organization is only in charge of defining the desired outcome.

If you're paying a student-athlete, be aware of the following differences in reporting and compliance, depending on whether you're treating the student-athlete as an employee or an independent contractor:

- **Employee:** Employers must withhold federal income tax, Social Security, and Medicare taxes; pay federal unemployment tax act (FUTA) payments; issue W-2s; and deposit taxes electronically.
- **Independent contractors:** Businesses that hire independent contractors are required to collect W-9s, issue 1099-NEC forms for payments of \$600-plus and may need to e-file if they submit 10 or more information returns.

If the IRS reclassifies an independent contractor as an employee, businesses are required to pay "back taxes" (Social Security and Medicare) for the period when the employee was misclassified.

## Understanding the Role of Collectives

The opening of NIL compensation to student-athletes has spawned the creation of NIL organizations called "collectives." As mentioned above, collectives are groups – usually formed by boosters or supporters of a college – that help student-athletes find and manage opportunities to earn money from their name, image, and likeness. Collectives may:

- Act like agencies that only broker deals.
- Pay athletes directly for appearances, marketing, or group licensing.
- Operate as for-profit entities or seek 501(c)(3) status, which the IRS has denied in some cases due to private benefit concerns.

Some collectives act like talent agents and simply connect athletes with companies that want to work with them. Others pay athletes directly for activities such as appearances or promotional work. What separates one collective from another is how much control it has over how the athletes perform their duties:

- When a collective only introduces athletes to sponsors, the athlete is usually considered an independent contractor.

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- When a collective sets schedules, tasks, or performance expectations, the athlete may be treated more like an employee.

Here at SWC, we're here to help our clients, including student-athletes, navigate the complexity of taxes and long-term wealth-building. Whether you're a student-athlete or an organization or individual who pays one or more student-athletes for their participation in collegiate athletics or in promotional activities, we can help safeguard that you're in compliance with the latest rules and regulations and that you pay only the taxes current law requires. [Contact us](#) to schedule a consultation.

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