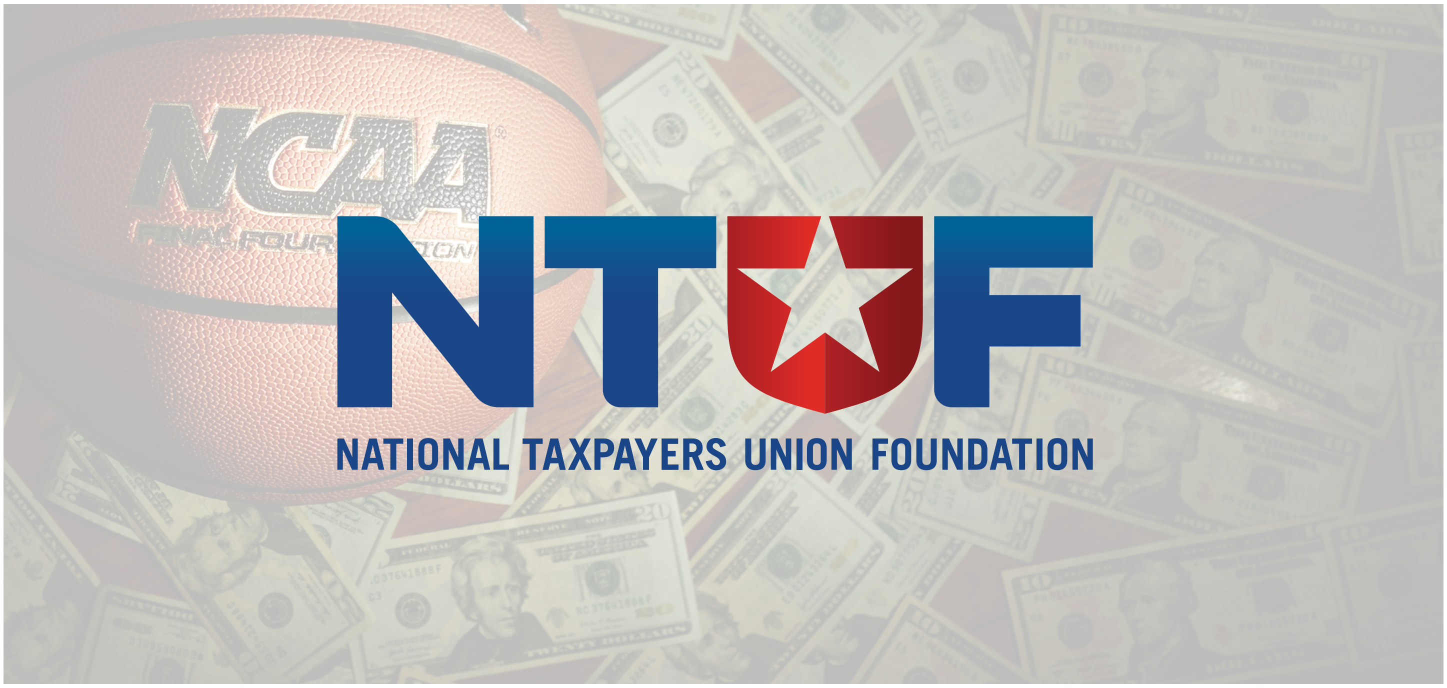

Instead of an NIL Tax Break, How about Getting Rid of State Income Taxes?

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Key Takeaways

- The advent of name, image, and likeness (NIL) and collegiate athlete compensation have led some states to worry that income taxes are limiting their ability to compete in recruiting new athletes.
- The result has been a slew of bills aimed at making NIL income and other forms of compensation for college athletes tax-exempt.
- Rather than trying to just make their college sports teams competitive, states should consider the impact that income taxes have on the competitiveness of the employers that power the state's economy.

The South loves its football programs, and it's no surprise that Name, Image, and Likeness (NIL) income exemption bills have appeared in Alabama, Georgia, Louisiana, and South Carolina. Arkansas passed an NIL exemption bill, H.B. 1917 or Act 839, this past year. These bills would prevent athletes from needing to pay state income tax on NIL income *and* direct compensation from schools.

On February 25, the Mississippi House passed a bill to exempt NIL income from state income tax. Like in the other states, the rationale given by the bill's author is that the state's college sports programs need the help to compete with other programs located in states that have no income tax.

But, if recruiting top quarterback transfers is a problem for Ole Miss and Mississippi State, how much more difficult must it be for all the other employers that power Mississippi's economy?

A (Very) Brief History of NIL

Prior to 2021, NCAA rules prevented college athletes from being compensated or receiving advertising deals. In the face of a mix of antitrust lawsuits and state legislation, the NCAA reversed course in 2021, allowing athletes to enter into NIL deals.

NIL deals initially took two forms. One was essentially a traditional advertising arrangement—a business would enter into a deal to compensate an athlete to appear in advertisements, to use their name, image and likeness in promotional material, and so on.

The other form that these deals took is known as an "NIL collective." School boosters, alumni donors, and local businesses that otherwise would have donated to college athletic programs would instead band together, working closely with the school's coaching staff to recruit and compensate players through NIL deals sponsored by the NIL collective.

The term "NIL" has continued to be used in the context of a new development as well, which is not truly NIL at all. Following a settlement in a major antitrust lawsuit in 2025, schools that opt into the settlement are now able to *directly* pay athletes up to a total of $20.5 million per school, per year. This form of "direct pay" requires no endorsement or advertising deal.

A Crimson Tide . . . of Red Ink across the South

All the changes to student-athlete compensation taking place over the past five years have led some state legislators to worry that their tax codes are inhibiting their states' athletic competitiveness. While "NIL exemption" is the language used in common parlance, state bills such as Arkansas's exclude both NIL income and direct pay from schools from income tax. Practically the only Southern states that have *not* introduced an NIL income exemption bill are the ones that have already solved the problem in a far more comprehensive manner—by simply eliminating their income taxes, for everyone.

But, of all the industries to essentially subsidize by giving a special tax break to, college sports are a bad choice. For one thing, most highly-prized recruits are looking past their college career. They're concerned about which college program can get them the real prize: a high draft pick and a big contract in the pros. Compared to other industries, they're much more likely to pick a school with a great coach, a storied program, significant media exposure, and great athletic facilities, even if it means a slightly higher income tax rate.

This explains why college sports are not dominated by states without an income tax. Rankings of 2026 college football recruit classes are dominated by USC (California), Alabama, Oregon, Ohio State, Notre Dame (Indiana), Georgia, and so on, all states with an income tax. Top recruits certainly are not picking USC because of California's competitive income tax environment.

Note that, if a recruit does end up picking Arkansas because of its income tax advantage over Alabama, Arkansas's NIL exemption isn't primarily benefiting the player. Instead, it primarily ends up benefiting the University of Arkansas, which was able to offer the recruit less money than it otherwise would have needed to—courtesy of other Arkansas taxpayers. Far more than at the federal level, budgets have to balance, and tax breaks given out to millionaire athletes and donor-rich athletic programs are taking away from broader, more meaningful tax reform.

Policymakers concerned that their state's college sports programs will fall behind because of income taxes are worried about the right problem but looking in the wrong place. Employers, and indeed states, are constantly engaged in the same kind of bidding war for top talent, even if IT professionals and doctors do not receive four-and-five-star designations.

It's no coincidence that our series of reports on interstate migration consistently finds some of the biggest "winners" to be states without income taxes. The same is true for businesses, which are both chasing low taxes themselves and have an easier time recruiting prospective employees to move to work in low-tax states.

Conclusion

Even in the NIL era, low taxes alone can't make a college sports team competitive. They are, however, the best tool that policymakers have in their arsenal to make their state's economy competitive. Let the coaches worry about the college football team—lawmakers should focus on cutting taxes for everyone.

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