



## Robert W. Wood

THE TAX LAWYER

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### IRS Is Taxing My Nobel Prize!

Most of us will never win a Nobel Prize, but if we do, it comes with a tax bill. Our old friend the IRS gets a cut of the roughly [\\$1.4 million USD](#) (\$10 million Swedish kronor) cash prize. The 2010 winners may not be complaining, but some may be surprised. See [Life After Winning a Nobel Prize](#). [Martin Chalfie](#), won the [2008 Nobel Prize in Chemistry](#), lamenting that since the Reagan era when the tax code was changed, the IRS collects tax on prizes just like any other income.

President Obama cleverly avoided tax on his Nobel Peace Prize last year—and got [great press](#)—by regifting it. Since Jerry Seinfeld’s eponymous series brought “regifting” out of the closet, 60% of women and 40% of men admit they [regift](#). There’s even a “[Gift and Re-Gifts](#)” neighborhood on eBay.

Before 1986, many prizes were tax-free as long as no significant services were involved. Since 1986, though, prizes and awards are taxable.

You can decline an award, as George C. Scott did an Academy Award for [Patton](#) in 1971. You can even decline a Nobel Prize to avoid the tax. That’s actually surprising, since the tax law routinely attributes taxable income to you “constructively” when you *could* have received a payment but chose not to. See [When You’ve Got Taxable Income but No Cash](#).

If you are awarded a cash prize you can turn around and give it to charity but that doesn’t avoid all the tax. Why? You can’t deduct charitable contributions exceeding 50% of your “contribution base”—generally your adjusted gross income. The limit is even lower (30%) for gifts to certain

types of organizations. You can carry over excess deductions for up to five years, but in the meantime, are paying tax on monies you've given away.

A better alternative is to assign your prize **before** receiving it, redirecting it before its tax impact hurts you. The IRS explains how in [Revenue Procedure 87-54](#).

- The recipient must be a qualified charity.
- You must assign it to charity before the award is presented to you. You can, however, make a partial assignment as long as it's clear precisely what amount you are assigning.
- Special language is required, so you'll need help from your accountant or lawyer.

Most of us can't even dream of a Nobel Prize let alone worry about its tax impact. But given many types of other awards and prizes you might encounter, it pays to know the tax impact and to plan ahead.

For more, see:

[Saving Taxes By Giving To Charity](#)

[Regifiting: Obama, The Nobel Prize And The IRS](#)

[Conservation Easements, Valuation, and Substantiation](#)

*Robert W. Wood practices law with [Wood & Porter](#), in San Francisco. The author of more than 30 books, including *Taxation of Damage Awards & Settlement Payments* (4th Ed. 2009, [Tax Institute](#)), he can be reached at [wood@woodporter.com](mailto:wood@woodporter.com). This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*