



## Robert W. Wood

THE TAX LAWYER

Oct. 11 2011 — 6:08 am

### Nobel Prize Brings Tax Bill (Oh, And Accolades)

Each Nobel laureate receives a diploma, a gold medal and 10 million Swedish kronor (\$1.5 million, 1.0 million Euros), but that's just the icing on the cake. Plainly, the prestigious prize is worth far more than the purse. Inevitably, the international acclaim brings much more to the recipient—and to his or her employer.



Some estimate the coveted prize will inject \$24 million to an institution's coffers, even adding two years to a [laureate's life!](#) Priceless, but not taxable. A study by Research Policy suggests having a [Nobel Prize winner](#) at a company is [perfect](#) for floating an [initial public offering](#).

The IRS website warns that cash prizes and awards are taxed whether you win a drawing, quiz show or beauty contest. Plus, you must report the fair market value of merchandise or products. List it all as [other income](#) on [Form 1040](#), Line 21.

The fact that IRS gets a piece of prizes can be a rude awakening for Nobel winners. [Martin Chalfie](#) won a Nobel in Chemistry but lamented the tax bill. See [Life After Winning a Nobel Prize](#). Before 1986, most prizes were tax-free. Now prizes and awards are taxable.

Most people just pay, but you could avoid the tax issue by declining the award, as George C. Scott did his Academy Award for Patton. See [IRS Is Taxing My Nobel Prize!](#) You can do the same with a Nobel Prize, though only [six Nobel Laureates](#) have done it. It's surprising it's even possible.

After all, tax law routinely applies “constructive receipt” when you **could** have received a payment but chose not to. If you receive money constructively, you have to pay tax. See [When You've Got Taxable Income But No Cash](#). Despite constructive receipt concepts, you can decline and avoid paying tax.

Another possibility to avoid the tax is to turn around and give it to charity. However, that won't avoid **all** the tax because of limits on charitable contributions. You can carry over excess deductions for up to five years, but in the meantime, are paying tax on monies you've given away. Moreover, you will likely lose other deductions and personal exemptions. You end up paying significantly more in taxes than you would if you had never received the award.

A better alternative is to assign your prize **before** receiving it, redirecting it before its tax impact hurts you. President Obama did that in 2009. See [Regifting: Obama, The Nobel Prize And The IRS](#). 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.
- Special language is required, so you'll need help from your accountant or lawyer.

For more, see:

[Sorry, Einstein, No Nobel Prize Tax Exemption](#)

[Is The Nobel Prize Award Subject To Income Taxation?](#)

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

[Nobel Prize Winner Whines About Tax Burden](#)

*Robert W. Wood practices law with [Wood LLP](#), 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@WoodLLP.com](mailto:Wood@WoodLLP.com). This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*