

University of Notre Dame

Tax Policy

Royalties

February, 2003

In the University's Faculty Handbook, the section on faculty qualifications for Instructors and Assistant Professors are the same, requiring that the individual have "...demonstrated teaching ability, promise as a scholar, interest in students, and a genuine spirit of study necessary to keep courses continually revised and to assure growth in knowledge and maturity." Appointment as an Associate Professor requires building on each of these areas, including "...Notable achievement in scholarship, as shown by significant publication or its equivalent..." It is interesting that "significant publication" is not mentioned explicitly until this third-tier rank as part of the required qualifications.

Royalties from copyrights on literary works or similar property are amounts paid to the author for the right to use their work over a specified period of time. Royalties are generally calculated based on the number of books sold. IRS Revenue Ruling 55-385 was an early ruling that held that publishing royalties by a full-time University professor were considered "self-employment earnings."

In general, the IRS requires all royalties of \$10 or more to be reported on form 1099-MISC, explicitly citing in the instructions to include "... gross royalties paid by a publisher to an author." Does the fact that the royalties may be paid by an in-house arm of the University (e.g. University Press) change the reporting method of the payment from a 1099 to Form W-2 (and so combine these royalties with salary income related to teaching)? It has been the consistent position of the University to not include these royalties in the faculty member's W-2, but to report on the 1099 instead. Since the nature of a royalty payment is different from salary payment (i.e., since royalties are calculated on sales volume, rather than specific services provided), this procedure continues to seem appropriate. This situation is similar to a faculty member who rents a residential property that they own to the University (e.g., for a visiting faculty member). This income is also reported on Form 1099-MISC, due to its nature, even though the University also pays the faculty member for their teaching services.