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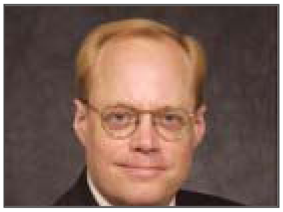

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$636 Million Lottery Winners In California & Georgia While $40M Winner Gives It All Away

Every time lottery jackpots spike, there's a frenzy of interest. This time is no exception. And at least one Winning Mega Millions ticket for the $636 million jackpot was sold in San Jose, another in Georgia. It's intoxicating to dream. The winning numbers were 8, 14, 17, 20 and 39, with a Megaball of 7.

But amid all the hype, many people forget that all winnings are taxable. What's more, the payout is over time, not up front, although you can elect a smaller cash lump sum. How much smaller? The $636 million jackpot is actually worth only $341,200,000 in cash.

Any way you slice it, it's easy to see your total pared down to size, as Janet Novack notes here: Minus Taxes And Hype, $636 Million Jackpot Shrinks To $206 Million — Or Less. But in Canada, lottery winnings aren't counted as taxable. That makes the true story of Tom Crist all the more amazing. Mr. Crist won $40 million in the western Canada lottery and gave it away. All of it.

He made the gift to honor his late wife who died of cancer. After a long career, he said he didn't need the money. The jackpot will be placed in trust for charities selected by Mr. Crist and his children. See [Lottery winner gives $40 million jackpot to charity](). Although Mr. Crist actually won the payout in May of 2013, he just revealed the details.

Unlike some jurisdictions where anonymity is allowed, the prevailing rules in Canada require a picture and announcement. Canadians may be especially generous with lottery winnings. In 2010, a Canadian couple won $11.2 million and gave 98% of it to charity. They kept 2% for emergencies–and to buy more lottery tickets.

Prizes and awards are taxed in the U.S., and that means high taxes. What's more, even if you give all the money to charity, you still pay tax. You can decline a prize and avoid all taxes. But if you *accept* it and *then* donate it to charity, you can't.

The tax rules aren't parallel so you end up paying tax on money you gave away. Even if you immediately give it to charity, you can only deduct charitable contributions up to 50% of your "contribution base"—generally your adjusted gross income. Thus, if you win $1 million and have no other income, you can deduct only half even if you give it all away.

The limit is even lower (30%) for gifts to certain private non-operating foundations, veterans organizations, fraternal societies and nonprofit cemeteries. You can carry over excess deductions from one year to the next, and you have five years to use it up. In the meantime, though, you are paying tax on money you've given away.

The fact that you must take the winnings into income means you also may lose other deductions and personal exemptions. Even if you give all the prize money to charity, you end up paying more taxes than if you had never received the cash. It's just another example of our terribly complex–and not very forgiving–tax law. And since much of it is not intuitive, many well-meaning people get tripped up.

But cheer up, your chances of winning are only something like one in 258,890,850!

You can reach me at 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.