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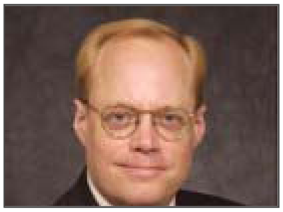

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Bartender Finds $20, Buys Lottery Ticket, Wins $1M, Pays IRS

Bartender Hubert Tang has had a lucky streak. First, he found a $20 bill outside San Francisco International Airport. Then, he took the $20 and bought two $10 scratch-off tickets. One of them won $1 million. His luck may be contagious too. The store where he bought the tickets will also receive a $5,000 bonus for selling the winning ticket according to a statement from the California Lottery. Since Mr. Tang is on a lucky streak, it's worth noting that his *other* ticket may still be valuable too. He has a second chance to win up to $25,000.

Of course, Mr. Tang will have to pay taxes on his winnings. The federal and California tax bite is big, at 39.6% federal and 13.3% California. Everyone should know that the taxes on winning tickets are a downside, but its useful to remember that you can't count your money until you figure the taxes too. Still, most people assume they will still end up with a lot. But, if in addition to paying the taxman, some winners end up with friends, family or co-workers claiming a share of the loot. It can get ugly if you have to defend suits by ticket sellers, co-workers and relatives. It happens more often than you might think. You must add the inevitable lawyers' fees for defending against the claims. Most such cases settle, and the tax hit on such an unfortunate event can be surprising.

As for Mr. Tang, he says may begin leaving $20 bills on the street in random places to spread his good fortune. Yet Mr. Tang's plan to give away some $20 bills also raises tax issues, especially if he gives away large amounts. You can only deduct charitable contributions up to 50% of your "contribution base"—generally your adjusted gross income. If you win big and give big to charity, 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. Of course, just leaving $20 bills for people to find doesn't count as a gift to charity in the first place.

The $20 bills idea is reminiscent of the feel-good no-strings hidden cash story of 2014. In that case there was quite a hunt for the anonymous benefactor. The identity of Mr. Hidden Cash was eventually revealed as Jason Buzi by Inside Edition. The hidden cash started cropping up in other cities around the world too. Were the gifts found in other cities the work of the same benefactor or copycats? Either way, it was a nice trend.

Wherever you find hidden loot, it is income to the IRS. In that sense, it's worth considering whether you should post a photo or tell your friends all about your big find. After all, the IRS may be watching to make sure you report it. And if you start giving away the cash, these aren't charitable contributions, not in the traditional sense. They are a kind of grassroots giveback but probably aren't gifts either. But cheer up, your chances of winning the lottery and having these problems are small, only something like one in 258,890,850!

For alerts to future tax articles, email 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.