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THE TAX LAWYER

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Lottery Winner May Have Won By Hacking, So Who Gets To Keep The Loot?

Winning the lottery is a dream for many. Eddie Raymond Tipton won alright, collecting a cool \$14.3 million. But now he is alleged to have hacked the lottery to do it. That's what prosecutors in Iowa say the former lottery information-security director did. [The Des Moines Register](#) reports claims by officials that Mr. Tipton then shuffled the hacked earnings between different people and holding accounts, including an investment company in Belize.

Prosecutors say Mr. Tipton was able to arrange the win by accessing the lottery's random number generating room on Nov. 20, 2010, and inserting a USB drive into the computer the lottery uses to choose numbers. The prosecution claims the drive was loaded with a rootkit, a special program designed to complete a task and then destroy itself. He then allegedly bought his winning ticket a month later. That was back in 2010, and prosecutors say he tried to claim the winnings in 2011 through a friend.



Given the lapse of time, it's reasonable to think that Mr. Tipton has already dealt with his tax issues, right? Not necessarily. The defense claims Mr. Tipton was in another state when the \$14.3 million ticket was purchased. Prosecutors say Tipton went into the secure room where numbers are generated, one of only five people able to access it. They also say that the cameras trained on the room that day were tampered with.

Prosecutors say records indicate that Mr. Tipton's cell phone was used in Iowa when the ticket was bought, contradicting his claim he was out of state. The winning ticket was reportedly held for nearly a year, and hours before it was to expire, a company from Belize tried to cash it through a New York attorney. The lottery officials wouldn't cash the ticket, though, because the individuals running the Belize company wouldn't give their names.

Mr. Tipton was charged with two counts of fraud, and if convicted could face up to 5 years in jail and a \$7,500 fine. Meanwhile, the taxing authorities may find this interesting too. If Mr. Tipton claimed the winnings and paid his taxes, the taxman should be happy. If he didn't and the criminal case concludes that he got the money, he has a tax problem. And of course, the result could be somewhere in between.

It is especially daunting where a person pays tax on income and then in a later year has to disgorge the income and give it back. Restitution deductions are often allowed, but since every year stands on its own, the taxpayer is almost always left short. It's one reason criminal defendants may need a tax lawyer.

More generally, tax advice is clearly one of the [10 things you should do when you win the lottery](#). It pays to underscore this advice because taxes can be a doozy. Time and again winners have trouble paying their taxes or get confused what they are taxed on, especially if they start giving money to charity or family. Winning can mean liabilities, since [the taxes on winning tickets](#) are a downside. Still, how bad can it be? Most people assume they will still end up with a lot, but don't count on logic.

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