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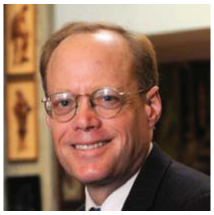

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Win Powerball Lottery, Get Sued, Go Bankrupt, Any Questions?

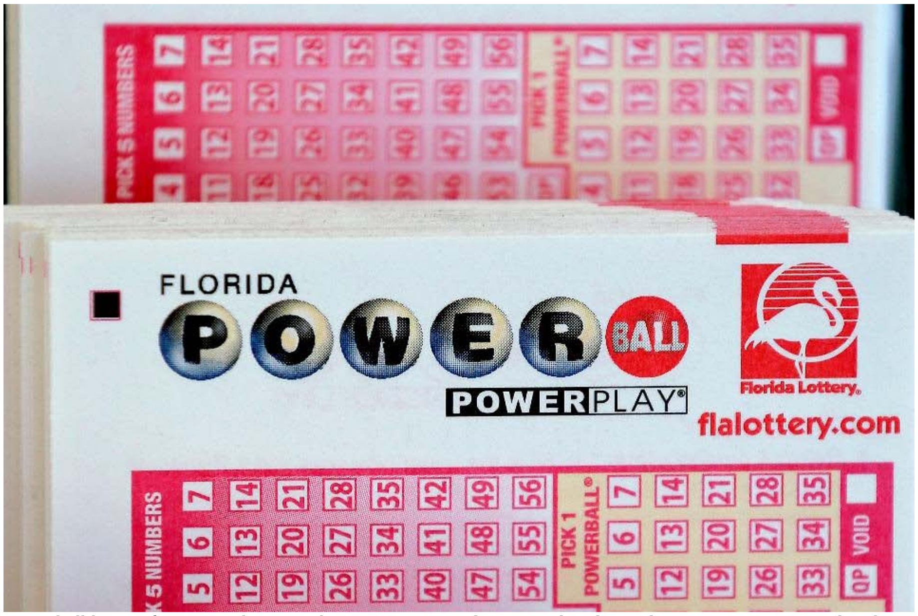
Winning the lottery would be great. Of course, the taxes on winning lottery tickets are unavoidable. Yet even after taxes, most people assume they will end up with plenty. But apart from paying the taxman, what if friends, family or co-workers claim a share of the loot? A recent unhappy headline found a jilted lottery winner filing for bankruptcy. The woman won the lottery, then was sued by her former boyfriend over an alleged oral contract to divide the loot. She lost, and now has filed for bankruptcy.

10 Steps To Take When You Win A Lottery Jackpot

62-year-old Lynn Anne Poirier took a one-time lump sum $750,000 payment, and claimed in court there wasn't an agreement to split the jackpot. But she lost when a Florida jury ordered her to pay her former boyfriend $291,000. The jury believed there was an oral contract to split the jackpot. Then, the former boyfriend asked the court to add another $150,000 for interest on the time since the 2007 jackpot.

So, she has filed for bankruptcy. She did not list the former boyfriend, Howard Browning, as a creditor. This kind of drama happens more often than you might think. Oral agreements can be enforced. An innocent remark about splitting the winnings might be misinterpreted. Then, you must add the inevitable lawyers' fees for defending against the claims.

Most such cases settle, yet taxes can hit on such legal settlements in surprising ways too. And jackpots do not need to be in the hundreds of millions for winners to be targets. Take the 53-year-old California woman who won $1 million, but who faced a lawsuit by the liquor store owner who sold her the winning ticket. Eva Reyes was a winner, but the owner of the liquor store where she bought the ticket sued her.



Powerball lottery forms are shown at the Time Saver Food Mart Wednesday, Feb. 11, 2015, in Tampa, Fla. The Powerball jackpot has climbed to $500 million, making Wednesday night's drawing the fifth largest prize in U.S. history. (AP Photo/Chris O'Meara)

Laxmi Bhardwaj owns USA Liquors in Milpitas, California, where Ms. Reyes bought the ticket. The store owner claimed that Ms. Reyes promised to split the money—$350,000 each after taxes—for fronting the money to buy the tickets. The plaintiff claims there is a signed note guaranteeing him half the winnings. But Ms. Reyes claims the deal was for $50,000, not half.

Lottery winnings are taxed, with the IRS rate as high as 39.6%. The tax withholding rate on lottery winnings is only 25%, so some lottery winners can have trouble paying their taxes when they file. One must add state taxes too, and even local ones. And the fallout from lottery lawsuits can be devastating. Claims by co-workers, former spouses and others who say they deserve a share can tie up the money for years.

So, be careful what you say and to whom. Even a [20-year-old oral agreement to split lottery winnings was upheld]. Down and dirty disputes can plague lottery winners. An added problem is taxes on such suits. Unless there is a tax partnership, a winner may be taxed on it all, yet only be allowed a partial write-off for the damages paid to those claiming a share. The technical reasons are limitations on tax deductions and the alternative minimum tax (AMT).

If you win a lawsuit, you still must pay the IRS, sometimes even on the attorney's fees paid to your lawyer. When people talk of paying tax on money paid to a contingent fee lawyer from a case, it is usually because of the AMT. Not every lottery case involves co-workers or friends. Sometimes the disputes are with family members, which can be even worse. In *Dickerson v. Commissioner*, an Alabama Waffle House waitress won a $10 million lottery jackpot on a ticket given to her by a customer.

The trouble started when she tried to benefit her family and spread the wealth. The Tax Court held she was liable for gift tax when she transferred the winning ticket to a family company of which she owned 49%. Tax advice before the plan would have avoided the extra tax dollars, that were generated because the tax plan was half-baked. Perhaps she shouldn't have assigned her claim in a waffle house.

Winning is great, but can bring big problems. But cheer up, you probably won't win!

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.