Forbes

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THE TAX LAWYER

TAXES 11/09/22

$2.04 Billion Powerball Winner Takes Home $628 Million After Taxes

The winning Powerball ticket was sold at Joe's Service Center in Altadena, California, entitling the ticket holder to a massive $2.04 billion jackpot. The winning numbers were 10, 33, 41, 47 and 56, with a Powerball of 10. Winning the massive $2.04 billion Powerball jackpot would be life-changing, but many people wonder just how much of the pot will be eaten up by taxes. That can vary a lot, depending on what state the winner lives in and how they are paid. The winner can pick a cash lump sum or payments over time.

The lump sum is only about half the alluring top line prize. If the winner picks the lump sum, that $2.04 billion drops to $997.6 million. Of course that is *before* taxes. To get the full $2.04 billion instead, the winner would have to pick the 30 annual payments. That works out to about $68 million a year, again, before taxes. Most winners seem to take the cash, but whether it is cash or installments, what's the tax bill?

From the start, the winner losses 24% [federal tax withholding]() that goes off the top to the IRS. On the $2.04 billion win, the cash election is really $997.6 million. Tax withholding of 24% amounts to $239.4 million, leaving $758.2 million. But the IRS isn't done yet. Although only 24% is *withheld* and sent directly to the IRS, our lucky winner will owe a lot *more* in April of 2023. Since federal income tax rates go up to 37%, and the winner is in the top 37% bracket, another 13%—$129.7 million *more* in taxes—is due on April 15.

That's the spread between the 24% withholding tax rate and the 37% tax rate. That's a *big* check to write on April 15. Winners who do not plan ahead may have trouble paying their taxes the year *after* they win. That's one reason the winner should bank some of the money to be sure they have it on April 15. If you add the 24% withholding tax plus the 13% extra tax the winner will pay April 15 together, you get a federal tax of $369.1 million.

The winner takes home $628.5 million after *federal* tax. Then, depending on whether the winner's *state* taxes lottery winnings, he may have to add state taxes too. Most states have an income tax, from California's high 13.3% on down. But as harsh as California is, this is one place where California tax law is surprisingly favorable: Powerball winnings are exempt in the state. Just think if California had taxed the win, that would have added *another* $132.7 million in taxes. But if the lucky winner resides in another state that taxes Powerball winnings, the tax bill could continue to climb.

Taxes eat into most things, though some items produce lower taxed capital gain. With all sorts of income, including the lottery, some people try to do some last minute tax planning with gifts, assignments, and more. Some people may even try to quickly move states, though it can be too late, especially with the lottery. There is no individual state income tax in Wyoming, Texas, Alaska, Washington, New Hampshire, Tennessee, South Dakota, Nevada, and Florida. Tax moves right before or right after you receive something may sound pretty slick. But it can actually make you worse off, and trigger more taxes.

Some lucky winners end up as parties in lawsuits over the proceeds, as these details explain. In one case, a 20-year-old oral agreement to split lottery winnings was upheld. Some suits over lottery winnings are with co-workers and (former) friends, while others are with family members—or with the IRS. 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 to spread the wealth.

The IRS said she was liable for gift taxes when she transferred the winning ticket to a family company of which she owned 49%. The waitress fought the tax bill, and eventually landed in Tax Court. But the court agreed with the IRS, so she lost. Some tax advice *before* the plan might have avoided the extra tax dollars, generated because her tax plan was half-baked. In short, she shouldn't have assigned her claim in a Waffle House. Tax planning with other types of income—whether you are selling a company, settling a lawsuit, or selling your appreciated crypto—is best done in advance and carefully.

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