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3 Winning Tickets In \$564 Million Powerball, Less After Tax, Claims, Family

Winning tickets were sold in North Carolina, Texas and Puerto Rico in the \$564 million [Powerball](#) drawing, say lottery officials. Did you check your tickets? The numbers are 25, 11, 54, 13 and 39, with a Powerball of 19. The jackpot has a cash value of about \$350 million. The odds of winning? About 175 million to one. Millions of tickets were sold in the lead up to the drawing.

The intoxicating possibility that you could win a \$564 million Powerball jackpot should be, well, intoxicating, not sobered by taxes and potential litigation claims. Yet there is understandable interest in the bottom line. If nothing else, it's a reminder of just how important a role taxes have, how they whittle down most everything. Deborah Jacobs' [10 Things To Do When You Win The Lottery](#) rightly advises that winners should see a tax pro soon. 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 is taxed, especially if they start giving money to charity or family. And for most winners, there is always someone with their hand out. Janet Novack fine-tunes the tax hit, asking [how much tax will you owe on a \\$500 million owerball jackpot? A lot more than in 2012](#). The figures and percentages are pretty daunting. Compared to 2012 numbers, there is the 35% to 39.6% rate hike.



How much tax you pay overall hinges on your state tax too, since not all states have a state income tax. [Pennsylvania, has a tax, but exempts lottery winnings](#). Any way you slice it, though, taxes take a huge bite, whether from the cash lump sum or annual payments. Make no mistake, the IRS doesn't rely entirely on the winner declaring it. In general, 25% is withheld for IRS taxes, or [28% withholding](#) if you don't provide taxpayer ID information. There is IRS [Form W-2G](#) reporting, so forget trying to pass the IRS unnoticed.

If you win and are a New York City resident, figure 48.5% in federal, state and city taxes. And since many lottery hopefuls talk of charitable goals for a chunk of their winnings, that must be done very carefully. The IRS taxes virtually all prizes and awards, including lottery payments. Even if a winner gives all winnings to charity he or she may still end up with a big tax bill.

Why? Charitable contribution tax deductions are usually limited to 50% of your income, in some cases less. Thus, a winner giving all the money to charity might still pay tax on half. 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.

Declining a win and turning down the money, done properly, may avoid the income entirely and be treated differently than making a gift after you win. Plus, many face family, friends and co-workers who want a piece. There again, winners clearly need tax advice. The tax messes that are triggered can be huge, even with family, friends and co-workers. Since much of it is not intuitive, many well-meaning people get tripped up.

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 Tax Court held she was liable for gift tax when she transferred the winning ticket to a family company of which she owned 49%. Extra tax dollars were generated because the tax plan was half-baked. She [shouldn't have assigned her claim in a waffle house](#). Time and again, winners have trouble paying their taxes. But cheer up, your chances of winning are, well, tiny.

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