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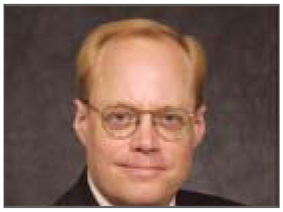

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THE TAX LAWYER

Dec. 11 2012

All Prizes Trigger Taxes (And You Can't Pay IRS In Doughnuts)

Winning a whole year's worth of free doughnuts for being first in line at a Krispy Kreme opening is something to crow about. Adam Brown, a second-year law student at Arizona State University, was first in line for the grand opening of a new Krispy Kreme in Mesa, Arizona. He waited nearly 24 hours in line before the store opened. His prize?

Photo credit: rvaphotodude

A dozen free doughnuts every single week for a whole year. See [The Early Bird Gets the Krispy Kreme Doughnut in Mesa]. Other early birds not in the coveted numero uno spot stand to collect a dozen free doughnuts each month. But not content to just eat them, Brown is an aspiring tax attorney. Therefore, he wondered whether the year's worth of sweet treats are a prize or a gift.

Gifts aren't taxed to the recipient while prizes are. Can you guess which these doughnuts are? Since 1986, prizes and awards are fully taxable. In fact, the IRS website warns that cash prizes and awards are taxed whether you win the lottery, a Nobel prize or even Olympic medals.

If you win a car? It's taxed. A year's worth of doughnuts? Taxed. All such in-kind winnings must be reported at their fair market value. It's all other income on Form 1040, Line 21. You can avoid taxes by declining an award, even a Nobel Prize, as six Nobel Laureates have done. See IRS Is Taxing My Nobel Prize!

Remember the flap over Olympics medals and the cash prizes that come with them? U.S. Olympians received cash payments of $25,000 for gold, $15,000 for silver, and $10,000 for bronze. Is that taxable? You bet. During the Olympics a bill was introduced in Congress by Sen. Marco Rubio (R-Fla.), S. 3471, to eliminate the tax. President Obama supported it and White House Press Secretary Jay Carney said the President would sign it.

Yet interest in the bill waned almost as soon as the Closing Ceremonies were over. Prizes and awards are taxed whether you win a drawing, quiz show, beauty contest, or lottery. When you win merchandise or products rather than cash, reporting the fair market value of the items can force you to sell them to pay your tax. After all, you can't pay the IRS in doughnuts.

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