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California Lottery Believes In Powerball---Despite Odds And Taxes

Californians won over \$2.5 *billion* in lottery money last year, but courtesy of a unanimous vote of California's Lottery Commission, we now have Powerball too. With six of the 10 biggest jackpots in the country, Powerball super-sizes the Golden State. Forget SuperLotto Plus and Mega Millions. A \$2 Powerball ticket competes for \$40 million, an amount going up \$10 million for each drawing without a winner. See [Powerball added to California lottery lineup](#).



The Lotto Powerball logo (Photo credit: Wikipedia)

Pick five numbers between 1 and 59, and a Powerball number from 1 to 35. Of course, if you watch the advertisements, you might think it's about something bigger. **Believe**, Californian's are exhorted. **Believe in Something Bigger**. The odds against hitting Powerball's six-number jackpot? Over 175 million to one. Believing can't hurt.

You may never win the lottery, but you can always dream and you may as well dream big. California sure does, which is one reason why there's serendipity in California's Powerball. See [Powerball in California: 1-in-175-million chance? No problem](#). Even if you beat the odds and win, your tax problem could be a doozy. Time and again winners have trouble paying their taxes or get confused, especially if they start giving money to charity or family. See [Year-End Charitable Contribution Guide](#).

Winning big doesn't mean avoiding taxes. See [How Much Tax Will Your Owe On a \\$320M Jackpot? A Lot More Than In 2012](#). Some states exempt some lottery winnings but not the IRS. And sometimes you can be taxed even if you split the money with family, friends or even charity. Lottery winners frequently make tax mistakes.

In [Dickerson v. Commissioner](#), an Alabama waitress won a \$10 million 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 S corporation (she owned 49 percent). Extra tax dollars were generated because her tax plan was half baked. See [Waffle House Waitress Wins Big in the Lottery, Loses at Tax Court](#).

The states vary in their treatment of lottery winnings and a few states still don't have lotteries. If you win big, you can assume you'll pay the top 39.6% federal rate. Paying tax isn't optional either, as an IRS [Form W-2G](#) will report your winnings.

Plus, California voters [approved steep tax increases](#) last November, and now the Golden State's top rate is a stratospheric 13.3% on incomes above \$1 million. California doesn't tax winners of its own state lotteries, though federal tax applies. But the Golden State does tax anyone in California who wins the lottery from any other state.

If you win the lottery, see an accountant or tax lawyer promptly and plan your tax moves carefully. Set aside money for taxes. Plan any transfer to charity, family or friends carefully. If you do anything aggressive on your tax return, keep a reserve.

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