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# Downside Of Powerball Lottery Win? Taxes

Deborah Jacobs' [10 Things To Do When You Win The Lottery](#) says winners should see a tax pro. 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 they are taxed on, especially if they start giving money to charity or family.

Mega Millions or otherwise, winning big doesn't mean avoiding the taxman.

See [How Much Tax Will You Owe On \\$640 Million Jackpot?](#) Some states exempt some lottery winnings but not the IRS. But if you're generous and give all your winnings to charity, no one can tax you, right? It depends.

A generous Canadian couple had an \$11.2 million lottery win but gave 98% to charity. They only kept 2% for emergencies and to buy more lottery tickets.

See [Canadian Couple Wins \\$11 Million, Gives It Away](#). A heartwarming story and happy tax result, but only because [lottery winnings](#) aren't taxed in Canada. In fact, the tax picture in the U.S. would have been grim.

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**



(Image credit: AFP/Getty Images via @daylife)

end up with a big tax bill. Charitable contribution tax deductions are usually limited to 50% of your income and in some cases less. Thus, a winner giving all the money to charity might **still** pay tax on half.

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. But clearly this requires professional help. See [IRS Is Taxing My Nobel Prize!](#) Of course, most lottery winners aren't trying to give all the money to charity.

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. In [Dickerson v. Commissioner](#), the Tax Court considered an Alabama Waffle House waitress who 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 S corporation (formed for this purpose) of which she owned 49%. It was truly a mess with extra tax dollars generated because the tax plan was at best half baked. See [Waffle House Waitress Wins Big in the Lottery. Loses at Tax Court.](#)

As Deborah Jacobs notes, if you win the lottery see a tax pro. But go beyond that and plan all your tax moves carefully. Set aside money for taxes. If you do anything aggressive on your return, keep a reserve. Finally, plan any transfer, whether to charity, family or friends, very, very carefully.

*You can reach me at [Wood@WoodLLP.com](mailto:Wood@WoodLLP.com) discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*