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THE TAX LAWYER

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Ticket Wins \$1.08B Powerball Jackpot Of \$558.1M Cash \$351.6M After Tax



Powerball reports that a single lottery ticket purchased in [California has won the \\$1.08 billion Powerball jackpot](#) by matching all the numbers: 7, 10, 11, 13, 24 and red Powerball 24. The lucky winner has a choice between a lump sum payment of \$558.1 million or a stream of annuity payments for the next 29 years. The annuity option is the only way to reach the billion dollar figure. Of course, all these figures are before taxes.

This Powerball jackpot is the third-largest in history. There was a \$2 billion jackpot won in 2022, and a more than \$1.5 billion jackpot in 2016. You don't have to take a lump sum, although lump sums are clearly the most popular so you can do what you want with your winnings. The other choice is to take the \$1.08 million in 30 annual installments over 29 years. That's the only way to get the *whole* loot. If you take the cash instead, it's \$558.1 million.

Yet even that lower cash figure gets whittled down by the IRS. Taxes eat into just about everything, and the lottery is no exception. The lottery company is required to send the IRS withholding of 24% off the top, sort of like withholding on your paycheck. That cuts the \$558.1 million down to \$424,156,000. Of course, the IRS isn't done with you yet. The 24% withholding rate means you could be on the hook for up to *another 13%* in federal tax. After all, the top IRS tax rate is 37%. And with this big a win, you can count on being taxed at the top rate. In fact, many hundreds of millions of dollars into the top tax bracket, as it turns out.

Curiously, only 24% is withheld and sent directly to the government. The spread between the 24% withholding tax rate and the 37% tax rate on these numbers is another whopping \$72,553,000 in tax. That's a big check to write come April 15th. Since the tax withholding rate on lottery winnings is only 24%, some lottery winners do not plan ahead, and can have trouble paying their taxes when they file their tax returns 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 15th. If you add the 24% withholding tax plus the 13% extra tax the winner will pay April 15th together, you get a federal tax of \$206,477,000. And the cash the winner has left is \$351,603,000.

Then, depending on whether the winner's state taxes lottery winnings, you may have to add state taxes too. Powerball reports that the billion dollar ticket grand prize winner was sold in California. The states vary in whether they tax lottery winnings. New York does at 10.9%, but California—in a rare exception from the Golden State's extremely high taxes—gives lottery winners a pass. Illinois and many other states still tax them, but the lucky big winner here should not have to worry about the State of California.

Some lottery winners have more than tax problems and get sued over the proceeds, such as [this one](#). In one case a [20-year-old oral agreement to split lottery winnings](#) was upheld by the court. Some suits over lottery winnings are with co-workers and (former) friends. Some disputes 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 waitress tried to benefit her family and spread the wealth, but 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 in Tax Court but lost. Tax advice *before* the plan might have avoided the extra tax dollars. [The court said she had assigned the income and was still taxable herself](#). Tax planning whether you are selling a company, settling a lawsuit, or selling your appreciated crypto is best done in advance and carefully. You want to be [tax-savvy, not tax sorry](#).