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Winner Of $1.28 Billion Lottery Gets $433.7 Million After Tax

Someone in Illinois bought the winning ticket, and if he or she does like most winners, they will take the lump sum, not the annuity. The $1.28 billion prize, which is the second-largest jackpot in Mega Millions lottery history, can be claimed in a lump sum or over time. The 1.28 billion is only if you take it over time, but if you want it all now, you get $747.2 million.

Yet like most things, even that lower cash figure gets whittled down by the IRS. In fact, lottery winnings are taxed, with the IRS taking up to 37%. Curiously, though, only 24% is withheld and sent directly to the government. The winning cash prize of $747,200,000 after the 24% IRS withholding tax, drops to $567,872,000. But the winner shouldn't spend all that. After all, the federal income tax rate goes up to 37%, and you can assume that the winner is in the top 37% bracket. Well, many hundreds of millions of dollars into the top tax bracket, as it turns out.

The spread between the 24% withholding tax rate and the 37% tax rate on these numbers is another whopping $97,136,000 in tax. That's a big check to write on 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 $276,464,000. And the cash the winner has left is $470,736,000. Then, depending on whether the winner's state taxes lottery winnings, you may have to add state taxes too.

The ticket was purchased in Illinois, and Illinois has a 4.95% state income tax, so that lops off another about $37 million in tax. In rough numbers, assuming the winner is an Illinois resident, that should mean the winner takes home about $433.7 million. That's huge, but it's a far cry from being a billionaire.

Taxes eat into most things, of course, though some items produce lower taxed capital gain. With all sorts of income, including the lottery, some people try to do some last minute tax planning with gifts, assignments, and more. Some people may even try to quickly move states, though it can be too late, especially with the lottery. Tax moves right before or right after you receive something may sound pretty slick. But it can actually make you worse off, and trigger more taxes.

If you want to read some tales of woe where a winning lottery ticket ended up getting the winner into lawsuits over the proceeds, check out the details here. One case upheld a 20-year-old oral agreement to split lottery winnings. 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 trouble started when she tried to benefit her family and to spread the wealth. 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, and eventually landed in Tax Court. But the court agreed with the IRS, so she lost. Some tax advice *before* the plan might have avoided the extra tax dollars, generated because her tax plan was half-baked. In short, she shouldn't have assigned her claim in a waffle house. Tax planning with other types of income—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.

Check out my website.