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It's Tough to Play Tax Arbitrage With Record Powerball Jackpot

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The Powerball jackpot is expected to hit a record \$1.9 billion for Monday's drawing, making it the biggest lottery prize ever offered.

If someone wins, they'll have the option of taking home either a \$929.1 million lump-sum payout or 30 annual payments averaging \$63.3 million each, [according to USAmega.com](#). Both those options are subject to federal taxes, plus state and local taxes where applicable.

The difference in state tax rates — ranging from nothing in places like California and Florida to 10.9% in New York — has some prospective winners questioning whether they can play location arbitrage by buying a ticket in a no-tax state like Delaware even though they live in a high-tax jurisdiction like New York City, where winners also have to pay a 3.9% local tax.

Tax Rules

At the federal level, things are relatively simple: 24% of the jackpot is withheld right off the bat, and the winner will eventually pay 37% because they will have jumped into the top income bracket.

The paperwork gets more complicated when state taxes come into the picture, however. Many states apply an immediate withholding tax — including, in Arizona and Maryland, for [out-of-state residents](#). That means winners who hit the lottery machines somewhere other than their home state may face a headache come April, when they'll have to either apply for a refund on the initial withholding or ask their home state to count that amount as a credit.

And if you buy in a no-tax state, then you'll have to pay your home state's taxes regardless.

"It does start making your return very complicated," said Michael Greenwald, a tax partner at Marcum LLP. "My advice to any big winner is hire a good lawyer and a good accountant before you tell anyone, and most especially the state lottery agency, that you won."

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