

HOUSE BILL REPORT

SSB 5865

As Passed House - Amended:

February 27, 1996

Title: An act relating to the assignment of rights of lottery prize winners.

Brief Description: Assigning the rights of lottery prize winners.

Sponsors: Senate Committee on Labor, Commerce & Trade (originally sponsored by Senators Snyder, Newhouse, Heavey and Winsley).

Brief History:

Committee Activity:

Commerce & Labor: 2/21/96, 2/22/96 [DPA].

Floor Activity:

Passed House - Amended: 2/27/96, 98-0.

HOUSE COMMITTEE ON COMMERCE & LABOR

Majority Report: Do pass as amended. Signed by 12 members: Representatives McMorris, Chairman; Hargrove, Vice Chairman; Thompson, Vice Chairman; Romero, Ranking Minority Member; Conway, Assistant Ranking Minority Member; Cairnes; Cody; Cole; Fuhrman; Goldsmith; Horn and Lisk.

Staff: Pam Madson (786-7166).

Background: A person who wins a prize for a game offered by the Lottery Commission is prohibited from assigning his or her winnings to another person.

The lottery offers instant games using scratch tickets, on-line games such as the Daily Game, Lotto, Quinto, and daily Keno. Prizes vary from a few dollars to more than \$1 million dollars per game. The commission determines the size of the prizes and how the prizes will be paid to the winners. The minimum Lotto prize is \$1 million paid over 20 years. Prizes for the other games are cash awards.

Any debts that are owed by the winner to the state or collected by the state are deducted before prizes in excess of \$600 are paid to the winner.

The Lotto prize is paid in annual payments, and the winner owes federal income tax on the amount received during that year.

Some states allow a lottery prize winner the option to assign his or her right to receive periodic prize payments to another person in exchange for a cash lump-sum payment. It is unclear whether the Internal Revenue Service will require a winner to pay income tax on the entire prize amount when the prize is won, regardless of whether the person chooses to receive their prize in annual payments over 20 years.

Summary of Bill: A prize winner may assign his or her right to receive periodic prize payments to another person. Voluntary assignment is made pursuant to a judicial order. Residents of Washington may petition for an order allowing assignment from Thurston County Superior Court or the court in the county in which the winner resides. The order must be based on findings that the prize winner has had the opportunity to be represented by legal counsel, has received independent financial and tax advice, and is not acting under duress. Any notices associated with such a proceeding must be served on the Attorney General. The Lottery Commission may intervene in any proceeding seeking an order of assignment.

The person being assigned the prize may receive only the amount that the winner is entitled to receive on an annual basis. Any debts that are owed by the winner to the state or collected by the state are deducted from the amount to be assigned to a third party.

The commission may adopt rules that allow recovery of its actual costs. The amount is deducted from the initial payment to the assignee.

The commission may adopt rules to implement assignment of prizes.

The option to assign the right to receive future annual prize payments will not be effective until the federal Internal Revenue Service rules that voluntary assignment will not affect the federal income tax treatment of those winners who do not assign their rights.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: The Lottery believes the prudent course would be to wait until the IRS has ruled on the assignment of prize issue before a bill is passed. A request was made to the IRS for a ruling last spring. However, this bill does address the concerns of the parties. Annual payments are fine for some prize winners. Others, such as

senior citizens or persons who have to pay extraordinary medical expenses or need cash to start a business or buy a home, want an option to have a lump sum now.

Other states have allowed assignment of prize payments to third parties. A financial service company currently is in the business of buying lottery payment streams from prize winners in New York, New Jersey, Oregon, Colorado, California, Arizona, Michigan, Vermont, Maine, and New Hampshire. Legislation is pending in Pennsylvania, Ohio, and Kentucky. The state should allow lottery winners to decide for themselves whether to wait for lottery winnings to be paid by annual payments or to sell their rights in exchange for cash. By allowing prize winners to assign their rights to receive the prize payments, the Lottery could make its prizes more valuable to the winners. There is no reason to wait for the IRS ruling. There are winners who want this option as soon as possible.

Testimony Against: None.

Testified: (In favor) Jeff Burkhardt, Washington State Lottery; Tammy Warnke; and Jim Sells.