

SENATE BILL REPORT

SB 5865

As Reported By Senate Committee On:
Labor, Commerce & Trade, January 29, 1996

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

Brief Description: Assigning the rights of lottery prize winners.

Sponsors: Senators Snyder, Newhouse, Heavey and Winsley.

Brief History:

Committee Activity: Labor, Commerce & Trade: 1/24/96, 1/29/96 [DPS].

SENATE COMMITTEE ON LABOR, COMMERCE & TRADE

Majority Report: That Substitute Senate Bill No. 5865 be substituted therefor, and the substitute bill do pass.

Signed by Senators Pelz, Chair; Heavey, Vice Chair; A. Anderson, Deccio, Franklin, Fraser, McDonald, Newhouse and Wojahn.

Staff: Traci Ratzliff (786-7452)

Background: Generally, Lotto prize winners receive annual payments over a period of 20 years. Currently, prize winners are required to pay, on an annual basis, the federal income tax owed on the yearly amount received, and not the entire tax liability owed on the total prize.

Lottery prize winners are prohibited from voluntarily assigning the right to receive future lottery prize payments to a third party in exchange for a lump sum payment of their prize by this party. It is suggested that certain prize winners would like to be given this "cash out" option. Prize winners who accept this offer would likely be required to pay the entire federal income tax owed on the lump sum received.

If third party assignment is allowed, concerns have been raised regarding whether the Internal Revenue Service (IRS) will require all lottery prize winners to pay the total tax liability due on the entire lottery winnings immediately, even if a winner does not exercise the option to assign the lottery prize winning to a third party. At the request of the North American Association of State and Provincial Lotteries, the National office of the IRS has agreed to review and issue an opinion on this issue. The IRS has not yet completed this review.

Summary of Substitute Bill: A lottery prize winner is permitted to assign his or her rights to future lottery prize payments to a third party if the prize winner provides a court order to the Lottery Commission which states in part that the winner is not under duress, is represented by an attorney and received financial and tax advice concerning the effect of the assignment.

The Lottery Commission cannot implement this act unless and until the IRS advises the commission that the voluntary assignment of prizes does not affect the federal tax treatment of prize winners who do not accept this option.

Substitute Bill Compared to Original Bill: The original bill was not considered.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: This bill will allow the elderly or young people desiring to buy a home to obtain a "cash out" of their lottery prize winnings.

The Lottery Commission would like to receive the IRS's ruling on the tax implications of the third party assignment of prize winnings before this law goes into effect.

Testimony Against: None.

Testified: Gordon Walgren, James Sells, Rick Jensen, McClusky Sells, Ryan (pro); Roger Wilson, Jeff Burkhardt, Lottery Commission.