

SENATE BILL REPORT

SB 5877

As Passed Senate, March 18, 1997

Title: An act relating to assignment of lottery rights.

Brief Description: Limiting the right to assign lottery winnings.

Sponsors: Senators Newhouse, Heavey, Snyder and Winsley.

Brief History:

Committee Activity: Commerce & Labor: 3/4/97, 3/5/97 [DP].
Passed Senate, 3/18/97, 48-0.

SENATE COMMITTEE ON COMMERCE & LABOR

Majority Report: Do pass.

Signed by Senators Schow, Chair; Horn, Vice Chair; Anderson, Franklin, Fraser, Heavey and Newhouse.

Staff: Traci Ratzliff (786-7452)

Background: Currently, Lotto jackpot winners receive their prize payments in annual installments over 20 years. In 1996, SSB 5865 was passed allowing lottery winners to "assign" or sell the right to their annual payments to third parties in exchange for cash.

The legislation requires a prize winner to go to superior court and have a finding made that he or she has been advised of the consequences of an assignment. It also contains a provision that prohibits assignments until the IRS provides a ruling that declares that assignments of prizes will not affect the federal income tax treatment of prize winners who choose not to assign their prizes.

The IRS issued a ruling in July 1996, which left open the possibility of adverse tax consequences to non-assigning prize winners. The ruling is based on the doctrine called "Cash Equivalency," which treats non-cash property (such as the right to future annual payments) as cash. The concern is that if enough jackpot winners assign their rights to future payments, a market value of such assignments will be created and the nonassigners will be treated as having a cash equivalent to that market value, possibly subjecting them to the requirement to pay their federal income tax on the amount of the cash equivalent.

This could force winners to sell their prizes to a third party in order to pay the tax obligation. Currently, such winners pay only the tax owed on the annual amount received as a prize payment. This tax, is in part, deducted from the annual payment received from the Lottery Commission.

Based on the IRS ruling, the Lottery Commission has challenged assignments. The challenges were denied, and the commission has appealed to the state Supreme Court.

Summary of Bill: A lottery prize winner may assign all or a portion of the remainder of his or her prize to a third party.

The provision prohibiting the implementation of the assignment law until a ruling is provided by the IRS regarding the tax treatment of non-assigning prize winners is removed.

Assignment of lottery prizes to third parties may take place unless: The IRS issues a determination letter, revenue ruling or other public ruling that states that a Washington State lottery prize winner who does not assign his or her prize winning is subject to an immediate income tax liability for the value of the entire prize rather than the income tax due for the annual payment; or an appeals court publishes a decision declaring that a Washington State lottery prize winner who does not assign his or her prize winning is subject to an immediate income tax liability for the value of the entire prize rather than the income tax due for the annual payment.

The Lottery Commission is directed to implement all assignments executed between June 6, 1996 and the effective date of this act.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: We are making a best faith effort to provide protection to lottery winners who choose not to assign their prizes to a third party, in the event the IRS issues a ruling requiring all lotto winners to pay the full tax liability on their winnings.

Testimony Against: It is the intent of the Lottery Commission to develop legislation that will protect, as best as we can, non-assigning lotto winners. This bill does not do that but we are willing to work to develop a proposal that will.

Testified: PRO: Tracy Zee, Metropolitan Mortgage & Securities; Jim Boldt, Woodbridge;
CON: Roger Wilson, Lottery Commission.