



DON'T TAX YOURSELF

A Publication of Bowditch & Dewey's Estate, Financial & Tax Planning Group

Where Do I Want To Live As A Powerball Winner?

BY REBECCA FLEWELLING • JANUARY 13, 2016

Everyone dreams about winning a \$1.5 billion dollar lottery, but how much of that \$1.5 billion will you really get? Each winner has the option to get equal payments over a period of 30 years or take out a smaller lump sum payment. Most people opt to take out a smaller lump sum payment, so right there your big winning number is reduced. From there, you'll have to pay good ol' Uncle Sam.

First, lottery winnings are subject to a 25% federal tax withholding. You will owe a total tax of 39.6%, so you will owe another 14.6% in addition to the withholding. After paying federal taxes, you will have to pay state taxes and this is where your luck is really tested.

If you are a New York resident, you will be subject to a state income tax rate of 8.82%. Plus, if you're a New York City resident, you will owe an additional 3.9% tax on top of that 8.82%. DC and Vermont are subject to an 8.95% income tax rate, while New Jersey is subject to a whopping 8.97% income tax rate. Maine is subject to a 7.15% income tax rate, while Connecticut has a 6.99% income tax rate and Rhode Island has a 5.99% income tax rate.

So, what about Massachusetts? Massachusetts' residents are subject to a 5.1% income tax rate, which certainly isn't as bad as many other states' income tax rate. The real New England 'winner' would be a resident of New Hampshire, who wouldn't be subject to ANY state lottery tax. New Hampshire eliminated its gambling tax in 2011. Snowbirds who manage to establish residency in Florida also wouldn't be subject to any state lottery tax. South Dakota, Tennessee, Texas, Washington and Wyoming also don't impose personal income taxes.

After you finally pay all your income taxes, you can finally start to enjoy the winnings. Perhaps a new home on the Cape? Or in Newport? However, now that your estate is over your \$5.45 million dollar exemption limit and the Massachusetts \$1 million dollar exemption, you will have to be aware of any estate tax consequences and the different tax planning techniques available to reduce or eliminate estate taxes upon your death... check back for a follow-post on estate tax consequences.