

SENATE BILL REPORT

EHB 2142

As Reported By Senate Committee On:
Commerce & Labor, March 27, 1997

Title: An act relating to assignment of rights of lottery winnings.

Brief Description: Regulating assignment rights of lottery winnings.

Sponsors: Representatives Lisk, Cole and Honeyford.

Brief History:

Committee Activity: Commerce & Labor: 3/25/97, 3/27/97 [DP].

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: Lotto jackpot winners receive their prize payments in annual installments paid over a period of 20 years. In 1996, Lotto winners were given the authority to assign their right to receive their annual payments to a third party for a lump sum cash payment. This right to assign lotto winnings is contingent upon a ruling from the Internal Revenue Service (IRS) that voluntary assignment will not affect the federal income tax treatment of those winners who do not assign their rights.

Lotto winners who wish to assign the right to receive annual prize payments must seek an order from superior court allowing the assignment. 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.

In July 1996, the IRS issued a private letter ruling that left open the possibility of adverse tax consequences to those winners who do not assign their right to receive prize payments. A winner pays federal tax on the amount of their prize that they receive each year. A winner who assigns their right to receive prize payment and receives a lump sum cash payment must pay tax on the amount of the lump sum payment. A winner, having the option to convert the annual payments to a lump sum cash payment, may be treated by the IRS as having received the full value of their prize on which tax is due, whether they choose to exercise the option or not. If the IRS finds there is a ready market for purchasing lotto prizes, the IRS may treat all winners for tax purposes as if they have assigned their prizes, including current and past winners.

Based on the IRS private letter ruling, the Lottery Commission has objected to processing requested assignments. The court has approved a number of assignments and the commission has appealed the court's orders.

Summary of Bill: A lottery prize winner is permitted to assign all or a portion of the remainder of an annuity to a third party.

In addition to the findings that a court must now make when approving an assignment of the right to receive future payments, the court must find that the assignee has provided to the prize winner a written disclosure statement including the following information: the payments being assigned by amount and payment dates, the purchase price, or loan amount being paid; the interest rate or rate of discount to present value, assuming monthly compounding and funding on the contract date; and the amount, if any, of any origination or closing fees that will be charged to the lottery winner. The disclosure statement must also advise the winner that the winner should consult with and rely upon the advice of his or her own independent legal or financial advisors regarding the potential federal and state tax consequences of the transaction.

Voluntary assignments will not be allowed if, at any time, the IRS or a court rules for any state lottery or lottery prize winner, that voluntary assignment will affect the federal tax treatment of prize winners who do not assign their prizes. The director of the Lottery must file a copy of the ruling with the Secretary of State.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: This is an agreed to bill that all parties believe will provide greater protection to prize winners who do not want to assign the rights to their prize winnings to a third party.

Testimony Against: None.

Testified: PRO: Jim Boldt, Woodbridge Financial; Frank Warnke, Singer Corporation; Roger Wilson, Washington State Lottery Commission; Denny Eliason, Metropolitan Mortgage.