



Billion-dollar Mega Millions jackpot won't generate \$850M IRS bill

by [geet](#) / January 11, 2023



The Internal Revenue Service would get close to \$850 million in tax revenue from a Mega Millions jackpot worth more than \$1 billion.

AP'S ASSESSMENT: False. An official from the lottery stated that the winner of the jackpot, which is currently sitting at \$1.1 billion, could expect to pay at least \$135 million in federal income taxes if they choose to get their winnings all at once rather than spreading them out over a period of 30 years. The cash prize is approximately \$570 million, however the government will withhold 24% of that amount as required by law for payment of taxes. According to a tax expert, the winner would also be subject to additional federal taxes, which would result in owing closer to \$210 million in total to the IRS. Despite

this, this amount would still be significantly less than the nearly \$850 million that users of social media claimed they would receive.

THE FACTS: In the midst of the excitement leading up to Tuesday's Mega Millions drawing, users of social media are once again circulating claims that the lion's share of such a jackpot will ultimately end up in the coffers of the federal government in the form of tax revenue. This claim is based on the assumption that the majority of such a jackpot will be won by someone who lives in the United States.

After 24 attempts spanning more than two months, no one has hit all six digits, which has caused the prize to increase to \$1.1 billion, making it the fifth-largest in the history of the United States.

One of the most liked posts on Instagram as of Tuesday says, "Congratulations to the IRS on winning the \$846.3 million Mega Millions Jackpot." This post has received more than 7,200 likes.

In addition, the tweet contains a screenshot of the title from a story published by Forbes, which reads as follows: "Winner of \$1.28 Billion Lottery Gets \$433.7 Million After Tax."

However, the piece, which was published in the summer of 2015 after someone in Illinois won a jackpot that would eventually reach \$1.34 billion, never indicates that the winner would have to pay the Internal Revenue Service (IRS) approximately \$850 million in taxes.

Instead, the post offers an explanation of how lottery winners are paid out before proceeding to discuss the myriad of federal and state tax issues that are associated with receiving such a significant payout.

Lottery winners have the option of receiving their winnings in a lump sum or in annual instalments, according to Danielle Frizzi-Babb, a representative for the Mega Millions game, who claims that winners of the game have this choice.



For the ongoing competition worth \$1.1 billion, the winner will receive either a one-time payment of approximately \$569 million or annual payments that gradually increase over a period of thirty years,

beginning at \$16.5 million in the first year and reaching approximately \$68 million in the final year, she explained in an email.

The value of the jackpot as it stands today is reflected in the one-time payment, which is calculated based on the cumulative sum of the jackpot's annual payouts.

According to Frizzi-Babb, the winner's payments will have the federal tax rate of 24% automatically taken from them. This happens regardless of which choice the winner picks. The winner will receive an approximate compensation of \$432 million if they choose the lump sum payment option, which comes to approximately \$136.5 million.

Robert Pagliarini, president of Pacifica Wealth Advisors, an investment management and tax strategy firm based in Irvine, California, pointed out that the winner would be subject to additional federal taxes as well as the income tax of their own state. In addition, the winner would be required to pay any applicable state taxes.

According to him, a winner who received a large sum of money all at once would be subject to the highest possible rate of federal income tax because the IRS considers lottery winnings to be a form of regular income.

"The Internal Revenue Service is required to withhold 24% from the winnings," Pagliarini noted in an email. "However, that does not mean that whoever wins and chooses the lump sum option is done paying taxes." "The highest federal tax bracket that the IRS offers is 37%. This means that the Internal Revenue Service (IRS) will automatically withhold 24% of the profits, but when they get the funds on April 15 of the following year, they will be required to pay the additional 13%.

However, even after taking into account the additional federal taxes, he estimated that the jackpot winner would still end up owing the Internal Revenue Service closer to \$210 million if they chose to take the lump sum. This figure is a far cry from the nearly \$850 million that users of social media suggested the winner should pay in taxes.

The author of the Forbes article makes the same assumption, which is that the winner of a jackpot worth \$1.28 billion would have taken a lump sum payment of \$747 million. According to the author's calculations, this amount would decrease to nearly \$568 million after the IRS withheld federal tax, and then it would drop to approximately \$471 million after paying the full amount of federal income taxes that were owed. The winnings are reduced to the amount shown in the headline, which is \$433.7 million, after state taxes from Illinois, where the winning ticket was purchased, are taken into account.

Even if the winner of this week's jackpot chose to take their winnings in annual instalments, Pagliarini estimates that the total amount owed to the Internal Revenue Service would still be less than \$444 million, presuming that the highest federal tax rate will continue to be 37%.

According to what he wrote, “the quick explanation is that those Instagram stats are false.”

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