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Facing an Olympic-sized tax bill

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By Robert Laplaca

"Congratulations, you've just won a trip to Disneyland." That's something everyone who enters a sweepstakes, contest or instant win game wants to hear. Or do they?

Federal law says that most prizes and awards are taxable. This could mean up to a 35 percent federal tax bill on the value of your prize. Your free family vacation to Disney may now cost you thousands of dollars.

Most people did not know about this little-discussed tax until a recent uproar was made over the taxing of U.S. Olympians' prizes. With a gold medal, the [U.S. Olympic Committee](#) awards \$25,000; \$15,000 for a silver; and \$10,000 for a bronze. Add up [Michael Phelps'](#) medals this year and he could be looking at a \$45,500 tax bill. And that does not even include the value of the medals themselves: the gold, for example, is valued at \$675.

Recently members of Congress have pledged to exempt Olympic athletes, but where does that leave you?

If you win a prize over \$600, you will receive a 1099 form from the sponsor of the promotion. You cannot claim your prize as a gift. In 1967, the courts rejected this argument from football player [Paul Horning](#), who had won a Corvette from Sport Magazine for his performance in the 1961 N.F.L. Championship game. He had to pay taxes on the car.

There are plenty of instances where winners actually have to decline a prize or donate it to charity so as not to incur significant taxes. A brand new car prize is great, but, as Paul Horning thought, paying one-third of this "prize's" value is not.

Contest sponsors can help winners in a number of ways. The sponsor may want to consider adding a cash component to a prize, or even allowing for a cash equivalent substitute. In this way, there is money available to the winner to help offset the tax bill. Sponsors can also clearly spell out in contest rules that prizes will be taxed.

Contest sponsors can also help themselves. How embarrassing would it be if a winner was announced on live television but declined the prize because of the taxes involved? Live announcements should typically take place only after the sponsor has already confirmed and validated the winner. As for instant win games, what if the holder of the golden ticket declines the prize? One solution may be to hold a second chance drawing for unclaimed prizes.

Recently, the White House announced that President Obama supports a bill to give Olympic medal winners tax breaks on their cash awards. In Congress, both Republicans and [Democrats](#) jumped on this bandwagon.

Florida Sen. [Marco Rubio](#) introduced a bill to make the medals and prize money awarded to U.S. athletes at the London games exempt from taxes.

"Athletes representing our nation overseas in the Olympics shouldn't have to worry about an extra tax bill waiting for them back at home," Rubio said in a statement about the Olympic Tax Elimination Act.

Clearly, that is a great way to honor our Olympians. But perhaps Congress can carve out a few more exceptions. Consider this: your child has worked hard for years, perhaps as hard as the Olympic athletes, and finally has won a scholarship to college. If the scholarship covers room and board, it is considered taxable income. If as part of this scholarship, he/she must serve as a part-time teaching assistant, the amount earmarked for student teaching is considered taxable income. And did you know that Nobel Prize winners are also taxed on their award?

There are a number of areas where the tax on prizes and awards just doesn't make sense, but unless you're an Olympian, don't expect Congress to take up the mantle to amend the tax law for everyone any time soon. So caveat victor, for sure.

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