

insights

The IRS wins every sweepstakes

Aside from the winners, there's no one more excited about sweepstakes prizes than the IRS. States that collect income taxes get pretty tickled, too.

Many sweepstakes winners don't realize they have partners when it comes to accepting their prize. The IRS and state treasurers don't care who wins the prize because they are guaranteed to receive a share of virtually every prize awarded. (They may, however, root for a winner in the highest tax bracket.)

[Thompson Coburn's tax gurus](#) can speak to this more specifically, but here are some basic facts about state and federal tax laws that sweepstakes creators need to know.

The IRS and many states consider the value of a sweepstakes prize as "other income" for the winner and treat it like his or her salary. If a sweepstakes has a cash prize, the "income" is obviously the dollar amount of the prize. If the prize includes non-cash items or services, it's the sponsor's responsibility to determine the approximate retail value (ARV) of each such prize.

If the ARV of the prize is \$600 or more, the sponsor (or the prize provider if the sponsor is not furnishing the prizes) must notify the winner of the amount of "income" they will receive and send the winner an IRS Form 1099-Misc. at the end of the year.

One of the questions that I routinely receive is whether a person who wins a prize valued under \$600 has to pay any tax. It's a widely held but incorrect belief by many that if the prize value is less than \$600, the winner isn't required to pay any income tax. This myth may be based on the fact that a winner will not receive a Form 1099-Misc. But that doesn't release the winner from paying income tax. Sweepstakes winners are required to pay taxes on the value of the prize they have won, regardless of the value of that prize.

Sponsors should make it clear to all persons entering the sweepstakes that the winner will be responsible for all taxes. At a minimum, this language should be included in the official rules. I generally like to put this disclosure in **bold type** so that it is very conspicuous even if an entrant doesn't read other portions of the rules.

Also, I don't believe the sponsor of a sweepstakes should provide advice to a winner concerning tax laws and regulations. The better practice is to tell winners that any such questions should be directed to the winner's tax lawyer or advisor. Similarly, because tax laws are constantly changing, I want to remind all readers of this blog to consult with your own tax advisor before creating your next sweepstakes.

This post was written by retired Thompson Coburn partner Dale Joerling. If you have any questions about the topics discussed in this post, please contact Thompson Coburn partner [Hap Burke](#).

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