

Virginia Taxes and Lottery Winnings

The 1987 legislation establishing the state-operated lottery requires the withholding of state income tax for prizes awarded by the Virginia Lottery Department in excess of \$5,000. Legislation also provides an individual income tax subtraction for each single prize awarded by the Lottery Department of less than \$600. The following points outline how Virginia state income tax laws apply to lottery winnings:

Income Tax Withholding

- If the prize is more than \$5,000, Virginia income tax (4%) will be withheld on the entire amount of the prize.
- Withholding is also required for nonresident lottery winners.
- Form W-2G will be issued for each prize of \$600 or more.
- Taxpayers must meet 90% of their state income tax obligation through the year either by withholding or paying estimated taxes. Estimated income tax must be paid on lottery prizes the same as with any other income.

Reporting Lottery Winnings

- Lottery winnings must be reported for the taxable year in which the lottery drawing was held, not the date the winnings were claimed.
- Any single prize of \$600 or more is subject to state income tax.
- Any single lottery prize of less than \$600, to the extent included in federal adjusted gross income, may be subtracted in determining Virginia taxable income. (See Part III of Virginia Form 760.)
- As in the past, taxpayers may itemize their gambling losses on the federal return. Itemizing losses on the federal return will not preclude a taxpayer from claiming the subtraction for prizes under \$600 on the Virginia return. As a rule, gambling losses may not exceed gambling winnings.

Multiple Winners

- When a prize is claimed by a group, family unit, club, or other organization, multiple winners will be required to file an IRS Form 5754 ("Statement By Persons Receiving Gambling Winnings") with the Lottery Department or attach a statement to their federal income tax return including a) name, b) Social Security number or employer's federal identification number, and 3) the amount each individual or entity received from the lottery prize.
- Each individual person's or entity's share of \$599 or less will be subject to state income taxes if the total prize prior to distribution among the group, family unit, club or organization is \$600 or more.