Illinois Department of Revenue

FY 2014-08
January 2014

informational

Bulletin

Brian Hamer, Director

New Withholding and Income Tax Requirements for Purchasers and Sellers of Rights to Future Payments of Illinois Lottery Winnings

This bulletin is written to inform you of recent changes; it does not replace statutes, rules and regulations, or court decisions.

Public Act 98-496 made changes to the Illinois Income Tax Act which affect your tax responsibilities for purchases of rights to future lottery winnings.

For information or forms
Visit our website at:
tax.illinois.gov

Call us at:
1 800 732-8866 or
217 782-3336

Call our TDD
(telecommunications device
for the deaf) at:
1 800 544-5304

Purchasers

Illinois Withholding Income Tax:

Effective on and after January 1, 2014, a purchaser is required to withhold Illinois income tax from the seller when purchasing the rights to future payments of Illinois lottery winnings and submit this withholding to us, the Illinois Department of Revenue, by the following process.

1. As the purchaser, you must withhold 5 percent (.05) of the purchase price at the time of the transaction.
2. When you submit your petition to the Illinois Lottery, the Illinois Lottery will notify us, the Illinois Department of Revenue, of the purchase details and your contact information.
3. We will create your withholding tax account and notify you of your registration and tax return filing requirements. You are required to pay the tax withheld to us by the 15th day of the month following the purchase with the IL-501, Payment Coupon. The IL-941, Illinois Withholding Income Tax Return, will be due the last day of January following the year in which the rights are purchased. For example, if you purchase lottery rights in the month of March, 2014, the payment (IL-501) is due on or before April 15, 2014, and the return (IL-941) is due on or before the last day of January of 2015.

Note: If you make **multiple** purchases of lottery rights during the year, you must make the payment for each purchase with an IL-501 Payment Coupon, by the 15th day of the following month, and report the combined total withholding for that year on one Form IL-941.

4. You also will be responsible for reporting the income and withholding to the seller on Form 1099-MISC, Miscellaneous Income, at the end of the year.

Note: If you withhold Illinois income tax from your employees, do not combine lottery purchase withholding on the Form IL-941 with your wage withholding. You must report lottery purchase withholding on a separate Form IL-941 with an account ID that is assigned by us specifically for lottery purchases, which is different from your employee withholding account number. This return is due at the end of January following the year the transaction took place.

Illinois Business Income Tax:

If you acquire rights to Illinois Lottery winnings as part of your business, you must include the amount of Lottery payments received in the Illinois sales factor for purposes of apportioning business income. This new law applies to taxable years ending on or after December 31, 2013, and so may apply to Lottery winnings you receive from past transactions.

Sellers

Illinois Individual Income Tax:

As in the past, if you sell your rights to Illinois Lottery winnings, you must pay Illinois income tax on the amount of the sale price received and include it as income on your Form IL-1040, Individual Income Tax Return. However, there are changes to the process.

- Effective with any sale made January 1, 2014, or after, the purchaser of the lottery winnings is required to withhold 5 percent(.05) of the purchase price from you and remit the amount withheld to us to apply to your Illinois income tax account.
- At the end of the calendar year, the purchaser will provide you a Form 1099-MISC, Miscellaneous Income, reporting the purchase price paid as income and the amount that was withheld from the purchase price as your Illinois withholding. Follow the instructions for Form IL-1040 to include this income and take credit for this withholding.