

## **TAX COURT CASE UPDATE**

### **Citation:**

*Tonda Lynn Dickerson v. Commissioner*, T.C. Memo 2012-60, March 6, 2012.

### **Overview:**

The taxpayer was unable to prove that she was obligated to share her lottery winnings with her family, and therefore, made gifts of interests in her winning lottery ticket.

### **The Facts:**

On March 7, 1999, a customer in an Alabama Waffle House gave the taxpayer a lottery ticket for the drawing of the Florida lottery that was held the day before. The taxpayer checked the ticket and found that it was a winning ticket; the proceeds in a lump sum were almost \$5.1 million dollars.

The next day, the taxpayer's father had an attorney create a subchapter S corporation, and had the corporation claim the prize. The ownership of the corporation was the taxpayer and her spouse, 49 percent; her mother, 17 percent; her brother and sister-in-law, 17 percent; and her sister and brother-in-law, 17 percent.

Several days later, an attorney for a number of the taxpayer's co-workers contacted the State of Florida claiming that his clients (four of them) were entitled to 80 percent of the lottery winnings. A week later, a law suit was filed in Alabama claiming that there was a joint ownership agreement among the employees of the Waffle House. The Court issued a restraining order directing the parties not to collect the winnings.

At trial, the Court ruled for the co-workers. The taxpayer appealed and the Supreme Court of Alabama reversed holding that the agreement was unenforceable as a gambling contract. The original owner of the lottery ticket then sued claiming that the ticket was his. Both the trial court and the Supreme Court denied his claim.

At some point, the IRS contacted the taxpayer asking her to file a gift tax return for 1999. The taxpayer did so claiming that no taxable gifts were made because she had agreed to share any lottery winnings with her family. The IRS alleged that she made a gift of approximately \$2.4 million when she transferred the lottery ticket to the corporation.

### **Discussion:**

At trial, the Tax Court concluded that there was a general agreement about sharing lottery proceeds among family members, but nothing was written and there was no documentation to support its existence or terms. The taxpayer admitted at trial that there were no specifics and that the family agreed that they would share and take care of each other. There was also no agreement that all family members would purchase lottery tickets and all family members did not participate in the creation of the corporation or the determination of ownership. Based on the

facts, The Tax Court ruled that the terms of the family agreement were “too indefinite, uncertain and incomplete for enforcement.” The Court also determined that a pre-existing partnership did not exist that owned the winning ticket.

The next issue was over the value of the gift. The taxpayer believed that a hypothetical willing buyer would be aware of the co-workers claims and would discount the winnings accordingly. The IRS, on the other hand, stated that no legal claims had been made at the time of the lottery winnings, and therefore, no discount was appropriate.

Both sides agreed that the starting point of the discussion of value was the present value of the ticket proceeds of approximately \$4.7 million. To that amount, the judge applied a 67 percent discount to the 80 percent that was being claimed by the co-workers of the Waffle House. This discount consisted of a 65 percent discount for potential litigation plus a 2 percent discount for the cost of litigation.

**Conclusion:**

The Court ruled that the taxpayer made a gift of a portion of her lottery winnings to her family and allowed a 67 percent discount against part of the value of the proceeds for potential litigation claims.