In certain instances, payers of gaming winnings are required by federal and state regulations to withhold Federal and/or Kentucky income taxes. When taxes are withheld, they must be remitted to the Diocesan Finance Office to be properly deposited for the credit of the taxing authorities.

Thresholds for Reporting/Withholding

Thresholds for reporting and/or withholding differ depending on the amount won and the type of game. Current regulations make a distinction, for withholding purposes, between Bingo and all other charitable gaming winnings. Parishes, schools & institutions that hold charitable gaming events must be aware of these thresholds in order to avoid late payment penalties on any required withholding. The taxes are to be remitted to the Diocese in accordance with the directives below in the section called "Payment of Withholding Taxes to the Diocese."

NOTE: As you read through the reporting/withholding requirements below, keep in mind that IRS regulations specifically mention that all date deadlines are to be determined based on the **date of the win or event**. The date that the winner is actually paid has no impact on when the taxes are due.

- **WINNINGS OTHER THAN BINGO – $600 TO $5,000**
  - *Reporting requirement* – Raffle and charitable gaming winnings of $600 to $5,000 are subject to annual reporting to federal & state agencies. The winner must complete and sign a Form W-9, as well as a Form 5754. These forms are to be submitted to the Diocesan Payroll Office within one week of the date of the win.
  - *Withholding requirement* – Federal or state income tax need not be withheld from gaming winnings in this category.
- **WINNINGS OTHER THAN BINGO – IN EXCESS OF $5,000**
  - *Reporting requirement* – Raffle and charitable gaming winnings in excess of $5,000 are subject to annual reporting to federal & state agencies.
  - *Withholding requirement* – Federal and Kentucky income taxes are required to be withheld from the payment of raffle and gaming winnings where the prize exceeds $5,000 in value. For this purpose, the amount of the prize is determined by reducing the amount paid to the winner by the amount of the wager. For example, if a raffle ticket costs $1 and the winner receives $5,000, the amount of the prize is $4,999. Since this is not more than $5,000, Federal income tax withholding is not required.
- **BINGO WINNINGS – LESS THAN $1,200**
  - *Reporting requirement* – Bingo winnings less than $1,200 are not subject to any reporting requirements.
  - *Withholding requirement* – Bingo winnings less than $1,200 are not subject to any withholding requirements.
- **BINGO WINNINGS – MORE THAN $1,200**
  - *Reporting requirement* – Bingo winnings more than $1,200 are subject to annual reporting to federal & state agencies. The winner must complete and sign a Form W-9, as well as a Form 5754. These forms are to be submitted to the Diocesan Payroll Office within one week of the date of the win.
  - *Withholding requirement* – Bingo winnings more than $1,200 are not subject to any withholding requirements. However, charitable gaming rules & regulations prohibit Bingo winnings in excess of $5,000.

Note that if any winner (in any of the above categories) refuses to supply the information required on Form W-9, the paying institution is required by federal statute to withhold federal income tax at the rate of 24% as backup withholding and remit such withholdings immediately to the Diocesan Payroll Office.

Payment of Withholding Taxes to the Diocese

Current IRS regulations require entities as large as the Diocese to pay any and all withholding taxes within one business day of their due date. In the case of charitable gaming withholdings and as mentioned above, that due date is the date of the win – not the date that the winner is paid.

In order to meet this deadline, and avoid late payment penalties, a parish, school or institution will need to ensure that the Diocesan Payroll Office must receive (i.e. have in hand) the proper withholdings due from a charitable gaming event **no later than one business day prior to the date of the win or event**. The form found in **Appendix A**, must be included with this payment.

This may require that the parish, school or institution mail the withholdings several days prior to the event, or physically deliver the withholding check to the Payroll Office on the business day before the event. Failure for the parish, school or institution to have these funds to the Diocesan Payroll Office in this time frame will result in IRS assessed penalties. Those penalties will be the responsibility of the parish, school or institution that failed to meet the deadline.

While it might appear that it is unreasonable to expect payment before the event, the following reasons outline why/how this can be done:

1. In most cases, the amount of the win will be known to the parish, school or institution long before the actual event. Since the amount of the payout is known, the withholding amount is simply a mathematical calculation of **24.0%** for federal income tax withholdings and **3.5%** for state withholdings. Accordingly, the withholding amounts are known in advance of the event.
2. The parish, school or institution will have almost certainly collected most of the money for the event and is simply holding it in anticipation of paying the winner. So, the money will already be on hand to make the required withholding payment.
3. We will no longer require that the event and winner's personal information (Form W-9 and Form 5754) be supplied at the same time as the payment is made. Rather, the form below called "Parish Withholding Detail Form" is to be completed and sent in with the remittance of the withholding.
4. Once the winner is known, the parish, school or institution can have them complete **and sign** the Form W-9 and Form 5754. Both forms are to be submitted to the Diocesan Payroll Office within one week of the event.
5. The Diocese Payroll Office will match the W-9 and 5754 to the previously submitted parish withholding forms for filing the Form W-2G's at year end.

Reporting to the taxing entities

In January of each year, the Diocesan Finance Office will prepare the Forms W-2G based on the information provided on the Forms W-9 and 5754 that were submitted for the previous calendar year. The Forms W-2G will be filed with the Internal Revenue Service as well as provided to the gaming winners for preparation of their individual income tax returns.

IRS Forms and their purpose

Following are a listing of the various IRS forms and their purpose. Copies of the actual forms are on the following pages as well.

<u>Forms that a Parish must complete or have completed by the winner:</u>

- **Form W-9 ("Request for Taxpayer Identification Number and Certification")** is used to obtain a taxpayer identification number (which is the social security number in the case of an individual) and signature from the winner. This form **<u>must</u>** be obtained and submitted to the Diocesan Payroll Office as indicated above.

- **Form 5754 ("Statement by Person(s) Receiving Gaming Winnings")** is a Federal tax form completed by a person who receives gaming winnings for someone else or as a member of a group of winners on the same winning ticket. However, since the Diocesan Finance Office uses the information on this form to complete the end-of-year filings, the form **<u>must</u>** be completed and submitted to the Diocesan Payroll Office as indicated above for **<u>all</u>** winnings which must be reported on Form W-2G, whether or not there was more than one winner.

<u>Forms that the Diocese will complete</u>

- **Form W-2G ("Certain Gambling Winnings")** is a Federal tax form used to report income from raffles, gaming, or bingo. The Diocesan Finance Office will file this form at the end of the year based upon information provided by the parish, school or institution.

NON-CASH WINNINGS

In the event the prize is property other than cash, such as, a car, a vacation or a trip, the amount of the prize is the fair market value (FMV) of the property, which should be established by an independent source.

Reporting requirement – The same reporting requirements as mentioned above still apply. If the FMV of the property is more than $600, the parish, school or institution will be required to have the winner complete and **<u>sign</u>** Form W-9 and Form 5754. Both forms are to be sent to the Diocesan Payroll Office within one week.

Withholding requirement – Even though the prize does not involve cash, withholding of Federal and Kentucky income taxes is required if the value of the prize satisfies the guidelines described above. The institution must obtain the required withholding amount (**24.0% Federal, 3.5% Kentucky**) from the winner at the time the prize is awarded. It will still be necessary to submit the required withholding amount **prior to the date of the win** (as described above) in order for the parish to avoid **late payment penalties** assessed by the IRS.

DONATING PROCEEDS BACK TO THE PARISH/SCHOOL

In the event that an individual who purchased a raffle ticket and subsequently won the raffle decides that he or she would like to offer the winnings to the parish or school instead of taking them, Diocesan entities must keep in mind the guidelines from the IRS. According to the instructions to Forms W-2G and 5754:

> *A payment of winnings is considered made when it is paid, either actually or constructively, to the winner. Winnings are constructively paid when they are credited to or set apart for that person without any substantial limitation or restriction on the time, manner, or condition of payment.*

Our diocesan attorneys have interpreted this to mean that when a winner's raffle ticket is drawn, he or she is to be considered to have been constructively paid, assuming there is no substantial limitation on the payment (e.g. "must be present to win" rules would constitute a limitation on someone whose ticket is drawn but is not present). If the winning person decides to donate their winnings to the parish or school, that is certainly permissible. However, this would be considered a distinct transaction occurring only ***after*** the receipt of their taxable winnings. Accordingly, the winnings are taxable to them, no matter what they decide to do with them, and the normal Diocesan policy regarding charitable gaming winnings is to be followed. Should they choose to give their winnings back to the parish or school, the parish or school can accept the donation as if it were any other donation and may issue a letter of acknowledgement. This ***does not*** negate the fact that the winner has received taxable income through gaming and that the parish must submit all applicable paperwork and forms to the Diocese (i.e. Form W-9 and Form 5754).

APPENDIX A
PARISH WITHHOLDING DETAIL FORM

The Diocesan Payroll Office must receive (i.e. have in hand) this form, and the related payment, **no less than one business day** before the Gaming Event is to take place. This will ensure that the parish, school or institution will avoid any late payment penalties from the IRS or Commonwealth.

Please print all information below

Parish/School/Institution ______________________________

Today's Date ______________________________

Person Completing Form ______________________________

Phone Number ______________________________

Name (or Type) of Event ______________________________

Date of the Event/Win ______________________________

Anticipated Prize Amount $ __________

Less: Ticket Price (if applicable) ($ __________)

Net Winnings $ __________

Federal Withholding Due (**24.0%** of the net winnings) $ __________
Parish/School/Institution Check #: __________

State (KY) Withholding Due (**3.5%** of the net winnings) $ __________
Parish/School/Institution Check #: __________

DIOCESAN PAYROLL OFFICE USE ONLY:

Person receiving form ______________________________

Date form was *received* in Office ______________________________

IRS Tax deposit amount/made by/date $ ________ / ________ / ________

KY Tax deposit amounts/made by/on date $ ________ / ________ / ________