

Have you ever wondered how gambling activities are treated for tax purposes? Many taxpayers are unprepared for the tax consequences of reporting gambling winnings and losses.

Gambling winnings are fully taxable, while gambling losses are allowed as a deduction only to the extent of winnings.

Gambling Winnings

Winnings are reported as “other income” on Line 21 on the front page of your IRS Form 1040. To determine your gain on a particular wager, use the net gain on the wager. For example, if you purchase a scratch-off card for \$10 and win \$500, your net winnings are \$490. If you purchase an additional card and lose, you cannot reduce the \$490 winnings directly by that additional \$10. It has to be deducted as a gambling loss on Schedule A.

Certain gambling winnings are reported to you on a Form W-2G from the payer; smaller payouts are not. The payer must get your social security number (SSN), withhold taxes and send you and the IRS a copy of the Form W-2G. If you fail to furnish your SSN, the payer will take more of the winnings right off the top as withholding to send to the IRS.

Comps are free rooms, free airfare, free food and drinks, cash back and extra bonus cash coupons that a casino will offer to encourage you to gamble at their establishment. The IRS considers complimentary items received from

a casino to be included in your gambling winnings. This allows you to deduct gambling losses to offset the income from the comps.

In addition to cash gambling winnings, gambling income includes the fair market value of prizes such as cars, houses, boats, trips and other non-cash prizes.

Gambling Losses

Gambling losses are only deductible up to the amount of your gambling winnings. The IRS looks at gambling losses closely and requires documentation to support deductions.

For tax purposes, you can never show a gambling loss in excess of winnings. Gambling losses in excess of gambling winnings cannot be carried forward to offset earnings in any other year.

Losses from one type of gambling transaction are deductible against winnings from another type.

A husband and wife who file a joint return can pool their winnings and losses, so the losses of one can offset the gains of the other.

Allowable losses are deducted on Line 28, “Other Miscellaneous Deductions,” of Schedule A, not subject to the 2% of adjusted gross income (AGI) floor. If you are unable to itemize, your losses cannot be used to offset your winnings.

You must keep track of losses separately and provide adequate records for your deduction.

Record Keeping

Through court decisions and IRS guidance, the rules of gambling record keeping have changed frequently. It has been determined that a taxpayer recognizes gain or loss during a wagering session, not from each individual transaction because that would be unreasonable and burdensome. Therefore, at the start of each session (when you enter the casino) record the amount of money you have brought to wager with and any additional withdrawals. At the end of the session, note how much money you leave with. The sum of these numbers will determine your win or loss and your net daily basis.

You should keep a diary of the following information:

- The date and the name of the gambling establishment.
- The address or location of the gambling establishment.
- The name of other persons present with you at the gambling establishment.
- The types of wagers and games played.
- The amount of money you started with plus any additional withdrawals made.
- The amount of money you ended with.

Save all documentation, such as losing tickets, cancelled checks, cash machine receipts, bank withdrawal statements and credit slips. Where possible, you should support this documentation with other documentation of the activity, such as hotel bills, airline tickets, gasoline credit cards, etc. With regard to specific wagering transactions, you can also use the following items to support your losses:

- **Keno.** Copies of the tickets purchased, validated by the gambling establishment.
- **Slot Machines.** A record of all winnings by date and time for the machine played.
- **Table Games.** The casino card data and table number where you made the wager.
- **Bingo.** A record of the number of games played, cost of the sheets purchased and the winning amounts collected on the games.
- **Racing.** A record of the races, entries, amount of the wagers, the amount collected on the winnings and the amount of loss on the losing tickets.
- **Lotteries.** A record of the purchase date of the tickets, winnings and losses. Keep unredeemed tickets, payment slips and winning statements.

If you join a slot club, the casino can print out a record of all your transactions for the year.

Group Wagering

When individuals pool their money to increase the chances of winning, it is called “group wagering.”

You need to report any winnings on Form 5754 so the tax burden is shared based on the portion of the winnings received. This form is also used to facilitate the issuance of a Form W-2G to each member of the group.

Any federal or state taxes withheld from your winnings should be included on your tax return with a copy of Form W-2G attached.

Professional Gamblers

A professional gambler is one who is engaged regularly and continuously in a trade or business where he makes wagers solely for his own account

in order to make a profit. Sporadic gambling, gambling as a hobby, or gambling for amusement does not qualify.

To determine if an individual is engaged in a trade or business, the IRS would look at all the facts and circumstances in each case. That’s why it’s important to keep accurate records to prove any deductions taken.

A professional gambler would report his losses to the extent of gains and any ordinary and necessary expenses of operating his business on Schedule C. If the gains exceed the losses, then the individual would be subject to self-employment taxes.

Out-of-State Winnings

If you win a jackpot in another state, you may be required to file a nonresident form for that state and report the winnings and losses, depending on the laws of the specific state. A tax professional will be able to advise you on filing requirements for other states.

This brochure contains general tax information for taxpayers. As each tax situation may be different, do not rely upon this information as your sole source of authority. Please seek professional advice for all tax situations.

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Reporting Gambling Proceeds

