TaxBrief

Keeping you informed

What Gamblers Need to Know

Whether you enjoy an occasional night at the casino, play poker tournaments or bet on sports, gambling winnings can quickly impact your tax situation. Many taxpayers mistakenly believe small gambling wins don't need to be reported or that losses automatically offset winnings. However, the IRS has strict rules for reporting gambling income, and failing to follow them can lead to costly penalties or audits.

It's all taxable

All gambling winnings, regardless of the amount, are fully taxable. Even if you don't receive a Form W-2G, *Certain Gambling Winnings*, you must report all winnings on your federal tax return. This includes but isn't limited to:

- Casino games like slots, table games, poker and roulette
- Lottery and raffle prizes
- Sports betting, including online platforms
- Horse and dog races
- Bingo and keno winnings
- Online gambling platforms, including sports betting apps and internet casinos, fall under these rules, too. Be sure to track your wins and losses, even if the online platforms you are using don't issue a form. Digital payment records like PayPal or Venmo can be used to verify income if needed.

Form W-2G

Payers, such as casinos or sportsbooks, must issue Form W-2G to winners if winnings exceed certain thresholds. In some cases, the payers will also withhold federal income taxes. The issuance thresholds vary by game type:

- $1,200 or more from bingo or slot machines
- $1,500 or more from keno (minus wager)
- $5,000 or more (minus buy-in or wager) from poker tournaments
- $600 or more from other gambling (e.g., sports bets), if the payout is at least 300 times the wager

Reporting gambling income

All gambling winnings must be reported as "Other Income" on Form 1040, Schedule 1, Line 8b. This includes:

- Amounts reported on Form W-2G
- Winnings not reported on a W-2G (e.g., smaller jackpots, private bets)

Important note: Winnings must be reported separately from losses. You cannot simply report net gambling income.

Withholding on gambling winnings

Casinos or payers are required to withhold federal income tax on winnings above certain amounts, at a flat rate of 24% for regular gambling winnings or winnings subject to backup withholding (e.g., when a taxpayer fails to provide a Social Security number). If that's the case, you must report the total amount of winnings, including any tax withholdings, on your return.

Itemize those gambling losses

Taxpayers can deduct gambling losses only if they itemize deductions on Schedule A (Form 1040), *Itemized Deductions*. Keep in mind that losses cannot be netted directly against winnings to arrive at a net zero or negative amount for reporting. To itemize their losses, taxpayers must follow these rules:

- Losses can only be deducted up to 90% of the amount of gambling winnings reported.
- Gambling losses are reported as a miscellaneous deduction not subject to the 2% limit.

Example: If you win $8,000 and lose $10,000, you can only deduct $7,200 in losses; you cannot deduct the excess $2,800.

Recordkeeping

Keeping accurate records is essential. Whether you're on a winning streak or only gamble occasionally, records will support gambling loss deductions if you itemize. The records will also help verify any amount the IRS may question. The IRS recommends keeping a gambling log, which should include:

- Date and type of gambling activity (e.g., slots, blackjack, sports bet)
- Name and address of the gambling establishment or event
- Names of other people present with you (if applicable)
- Amounts of winnings and losses
- Supporting documentation, such as wagering tickets, canceled checks, receipts, bank statements, or credit records.

Professional gamblers

Those who gamble regularly with the intent to earn an income may qualify as professional gamblers if they meet certain IRS qualifications. Professional gamblers will report winnings and losses on a Schedule C, *Profit or Loss from Business*. Ordinary and necessary business expenses (e.g., travel, lodging, tournament entry fees) can also be deducted. Few taxpayers meet the rigorous criteria to be classified as professional gamblers, and any net earnings will be subject to self-employment taxes. If you think you might qualify, we'd love to work with you to help determine tax planning strategies to maximize your earnings.

State taxes on gambling winnings

State tax rules on gambling winnings vary widely. Some states, like Nevada, don't tax individual income at all. Others, such as New York or California, tax all gambling winnings regardless of amount. Nonresident gambling winnings may be taxable in the state where they're earned. If you have earnings, our office will check the state's requirements to determine the tax laws.

Common gambling tax mistakes

- **Not reporting all winning:** Even small, unreported wins can trigger an IRS audit.
- **Netting winnings and losses:** Report all gross winnings separately from losses.
- **Poor recordkeeping:** IRS may disallow deductions without documentation.
- **Misclassifying casual gambling as a business:** Only those taxpayers who meet strict professional criteria can report gambling as self-employment income.
- **Ignoring state tax obligations:** Many states enforce gambling tax compliance.

Bottom line for gamblers

The IRS treats gambling income seriously. Failing to report winnings or underreporting income can lead to penalties, interest and even criminal charges in extreme cases.

- Report all gambling income, regardless of amount or whether a W-2G was issued.
- Keep detailed records of wins, losses and supporting documentation.
- If you itemize, deduct losses only up to the amount of your winnings

I am available to answer any questions about these activities at our next tax appointment.