

## **Abstract:**

Whether an individual is a casual or professional gambler, their winnings are taxable. However, the Treasury Inspector General for Tax Administration reports that gambling income is vastly underreported. Failing to report winnings accurately can lead to back taxes, interest, and penalties. Here's what taxpayers need to know to stay compliant and potentially minimize their tax bills.

## **The tax side of gambling**

Whether you're a casual or professional gambler, your winnings are taxable. However, the Treasury Inspector General for Tax Administration reports that gambling income is vastly underreported. Failing to report winnings accurately can lead to back taxes, interest and penalties. Here's what you need to know to stay compliant and potentially minimize your tax liability.

## **Reporting of winnings**

Federal law requires reporting all gambling winnings — cash or prizes at fair market value — such as from casinos, lotteries, raffles, horse racing and online betting. Certain winnings are subject to federal tax withholding, reducing your risk of interest and penalties.

If winnings exceed certain thresholds (for example, \$1,200 for slots, \$5,000 for poker), the gambling establishment must issue Form W-2G to you and the IRS. Even if you don't receive a Form W-2G, you're still required to report gambling income.

## **Amateur or professional?**

If you're an amateur, you'll report your gambling income on Form 1040, Schedule 1. You can claim gambling losses as itemized deductions, but only up to the amount of your gambling winnings.

If you gamble as a profession, the tax rules are a little different because your gambling activities are treated as a business. To qualify as a professional gambler, you must demonstrate that gambling is your primary source of income and that you engage in it with continuity and regularity. Contact us for more information on the tax rules for professional gamblers.

## **Staying compliant**

Tax compliance isn't tricky, but it's important. Here are some tips:

**Log your gambling activities.** Include details such as:

- Dates and locations of when and where you gambled,
- Types of wagers, and
- Amounts won and lost.

A log ensures that you accurately report winnings and helps you claim deductible losses when applicable. Having this substantiation can also be beneficial if you're audited. Remember that a log kept contemporaneously generally holds more weight with the IRS than one constructed later.

**Maintain a file of gambling-related receipts, statements and other documentation.** Thorough documentation is critical, especially if you'll be deducting gambling losses or you're a gambling professional and will be claiming gambling-related business expenses.

**Adjust tax withholding or estimated tax payments if needed.** Remember that income taxes must be paid annually via withholding or estimated payments. If the tax you owe on the April 15 filing deadline exceeds what you paid during the tax year through withholding and estimated payments, you might be subject to interest and penalties.

### **A risky bet**

The tax rules for gambling income can be confusing. However, failing to report winnings is a risky bet that can result in back taxes, interest and penalties. Contact us for help.