Winnings and Losses vs Tax Liabilities

Basic Rules

Winnings: You report your gambling winnings from casinos, lotteries, raffles, and other gambling activities as “above-the-line” taxable income.

Losses: You deduct gambling losses “below-the-line” as itemized deductions on Schedule A, but only to the extent of your winnings.

Reporting: Casinos and other gambling institutions report your winnings to the IRS on Form W-2G if they meet certain thresholds. You will also receive a copy of this form.

A Real-Life Example: The *Bright* Case

Jacob Bright, a casual gambler, found himself in a complicated tax situation due to extensive gambling activities. The casinos reported his large winnings on Form W-2G, totaling $110,553.

Due to poor recordkeeping and misclassification as a professional gambler, Bright incurred a tax bill of $13,898 despite his gambling losses exceeding his winnings.

Tips and Best Practices for Recreational Gamblers

Keep a gambling log: Maintain a detailed log of your gambling activities, including dates, locations, types of wagers, and amounts won or lost. This record can serve as valuable documentation in an IRS audit.

Use a player’s card: Whenever you gamble at a casino, use a player’s card to track your activities electronically.

Understand the importance of session tracking: Track your wins and losses by gambling session. The session approach allows you to offset wins and losses within the same session, potentially reducing your taxable income.

Be aware of itemizing requirements: Remember that you can only deduct gambling losses if you itemize your deductions. If you take the standard deduction, you don’t reduce your tax liability with your gambling losses.

Takeaway

Gambling has tax implications and can, for the uninformed, lead to unexpected tax bills and complications. Keep this in mind. You could win a big jackpot on the last day of the year. Would you have the records to keep your tax bill to a minimum?

At **Signature Wealth and Tax**, we deal with tax problem resolution and help taxpayers with their IRS problems on a regular basis. **There is a solution for every problem**. Call us today @ **702-655-3333**.

Sincerely,

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