



Reporting Gambling Activity

A recent IRS Chief Counsel Advice Memorandum provides new guidance on how casual gamblers can deduct wagering losses to the extent of gambling income. Previously, all gambling winnings were reported as income, with losses (limited to reported winnings) reported as an itemized deduction. There are several disadvantages to this approach – if you have Social Security income, more of it might have been taxable because of the addition to your adjusted gross income, you may not itemize deductions so therefore would not actually be able to deduct your losses, you might be subject to additional limitations because of the increase in your income, etc. The new Memorandum (validated by a court case) states that casual gamblers may recognize a wagering gain or loss at the time they “cash out” for the day. In other words, gambling winnings are netted per gambling visit. The measure of gambling income is not gross winnings. You can deduct gambling losses directly against the winning amount reported on Form W-2G during a period of continuous gambling and report the net amount on page 1 of Form 1040. Additionally, you may report losses (to the extent of your net winnings on page 1) as an itemized deduction. You must keep an accurate record of losses and winnings.

Gambling income includes, but is not limited to, winnings from lotteries, raffles, bingo, horse races and casinos. It includes cash winnings and also the fair market value of prizes such as cars and trips.

A payer is required to issue a Form W-2G to the recipient of certain gambling winnings or if the winnings are subject to federal income tax withholding. **ALL** gambling winnings must be reported irrespective as to whether any portion thereof is reported on a Form W-2G.

The recent Memorandum states that casual gamblers may net their gains and losses from a single “gambling occasion”. In other words, if you are at the casino playing the slot machines, you report a wagering gain or loss at the time you redeem your tokens and leave the casino. Example: A casual gambler entering a casino with \$100 in cash and redeeming \$300 of tokens has a reportable wagering gain for that visit of \$200.

The net winnings from all gambling occasions are reported as income on your tax return. If you itemize deductions, you can deduct all occasions that netted to a loss on your Schedule A – but only up to the amount of net winnings reported in your adjusted gross income.

In order to properly report your gambling activity, you need to keep a diary. The IRS says it should contain the following information:

- The date and type of wager or wagering activity
- The name and address or location of the gambling establishment
- The names of other persons present at the gambling establishment
- The amounts wagered and the net result of the gambling occasion

In addition, you should have other documentation to prove winnings and losses. The IRS gives the following examples of sufficient documentation:

- **Slot Machines:** A record of the machine number and all winnings by date and time
- **Table games:** The number of the table at which playing, casino records on credits issued
- **Bingo:** A record of the number of games played, costs of tickets purchased and amounts collected on winning tickets.
- **Racing:** A record of the races, amounts of wagers, amounts collected on winning tickets
- **Lotteries, Raffles and Pulltabs:** A record of ticket purchases, dates, winnings and losses. Supplemental records include unredeemed tickets and payment slips.

We will need the following information to properly report your gambling activity on your tax return:

Date	Location	Type	Amount Started With	Amount Ended With	Amount of any W2Gs
2/7/10	Mystic Lake	Slot machines	\$150	\$250	None
3/25/10	WSP Bingo	Bingo	\$25	\$100	None
8/22/10	Church	Raffle	\$10	0	None
11/13/10	Caesar's Palace	Slot machines	\$200	\$5030	\$6000
12/2/10	Mystic Lake	Slot machines	\$500	0	\$1000
All year	Pro Pharmacy	Lottery tickets	\$104	\$50	0

Each gambling occasion is looked at individually so we have the following net results:

- February + 100
- March + 75
- August - 10
- November + 4,830
- December - 500
- Lottery Tix + 104 - 50 (this is more than one occasion)

Total W2Gs: \$7,000 but winnings reported as part of adjusted gross income \$5,109, losses reported on itemized deductions would be \$560.

Remember to keep records substantiating everything you enter in the grid. Please call us with any questions you might have. A blank recordkeeping form is available on our website.

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