

Reporting gambling winnings and losses

Dear Client:

How are your gambling activities treated for tax purposes? Taxpayers often run into tax difficulties in this area. This is because gambling winnings are fully taxable, while gambling losses aren't simply offset against the winnings.

Briefly, your winnings must be reported on the "other income" line on the front page of your tax return. To measure your winnings on a particular wager, just use the net gain on the wager. For example, if a \$20 bet at the race track turns into a \$100 win, you have won just \$80, not \$100. If you lose \$50 on a different race, however, you cannot simply offset this amount against your \$80 win.

You must separately keep track of losses. They are deductible, but only as itemized deductions (on Line 28 of Schedule A of your Form 1040). Thus, if you take the standard deduction (i.e., do not itemize), you cannot deduct your gambling losses. On the other hand, if you do itemize, the gambling losses fall into the category of "Other miscellaneous deductions." These are fully deductible as itemized deductions and aren't subject to either the 2% of adjusted gross income (AGI) "floor," or the 3%/80% phaseout of total itemized deductions. (Some types of miscellaneous itemized deductions, such as investment expenses and unreimbursed employee expenses are only deductible to the extent they exceed, in total, 2% of AGI. In addition, if an individual's AGI exceeds a specified dollar amount, certain itemized deductions are also reduced by the lesser of 3% of the excess of AGI over that dollar amount or 80% of the otherwise allowable amount of those deductions.) For 2010, this overall limitation on itemized deductions doesn't apply.

A second important limitation is that your gambling losses are only deductible up to the amount of your gambling winnings. That is, for tax purposes, you can use your losses to "wipe out" your gambling income but you can never show a gambling tax loss.

Be careful to keep good records of your losses during the year. Keep a diary in which you indicate the date, place, amount and type of loss as well as the names of any people who were with you. Save all documentation, such as losing tickets, checks or credit slips. You should also save any related "side" documentation, for example, if you have losses on a trip to Las Vegas, save the hotel bill and plane ticket, as well as your records on the gambling losses themselves. (If you are a member of a slot club, it may be possible for the casino to print out a record of your play.) Since anyone can just pick up, e.g., an unlimited amount of losing tickets at a race track, IRS may require more data and documentation to substantiate gambling loss deductions.

If you have any additional questions or wish to discuss this matter further, please call us at 978-854-5656.

Very truly yours,

Neal A. Price & Company, LLP