



Robert W. Wood

THE TAX LAWYER

TAXES 5/02/2014

This Kentucky Derby Bet Nets Cash, Aids Boston Victims, Even Tax Write-off

Kentucky Derby contender Wicked Strong was named in honor of the victims of the Boston Marathon bombings. He is owned by Centennial Farms, which pledged to donate a share of any money the colt wins to victims of the bombing. When it came to names, the ubiquitous “Boston Strong” was taken. Yet around Boston, “wicked” means “very”, and very strong he is.

The 3-year-old colt is owned by Centennial Farms, whose president Don Little comes from Boston. It isn't only Wicked Strong's name that honors the bombing victims. A share of his earnings go to [The One Fund Boston](#) to support victims and their families. [Kentucky Derby Prospect Runs For Boston Marathon Victims](#). Wicked Strong won the Wood Memorial, with a cash prize was \$590,000.

Of course, the Derby's stakes are even bigger. By winning the Wood Memorial, Wicked Strong leapt from #49 in the Kentucky Derby standings to #3. The field includes Danza, Tapiture, Wildcat Red, Samraat, California Chrome, Hoppertunity, Intense Holiday, Commanding Curve, Candy Boy, and Ride On Curlin, among others. But Wicked Strong has a post position on the far outside, which could hurt.



Louisville, Kentucky Derby (Photo credit: Wikipedia)

If you win, remember that gambling winnings are *fully taxable*. Before you even think about charitable write-offs on your taxes, report your winnings. Whether you have winnings from lotteries, raffles, horse and dog races and casinos are fair game and you must report them. The IRS doesn't want you to be tempted to forget.

So depending on the type and size of your winnings, the payer *might* provide you with a [Form W-2G](#), for gambling winnings. They may even *withhold* federal income taxes from the payment. Even if they don't, you still have to report it and pay tax.

All of your gambling winnings for the year go on line 21 of your [Form 1040](#). If you like the simpler [Form 1040A](#) or [Form 1040EZ](#), that's tough, because the IRS wants gamblers to use Form 1040. And in some cases, you may be required to pay estimated taxes on your winnings, meaning that you can't wait until tax return time

If you itemize deductions, you can deduct your gambling losses for the year on line 28 of [Schedule A, Form 1040](#). Still, you can't deduct gambling losses that are *more* than your winnings. To deduct

losses, you must be able to provide receipts, tickets, statements or other records that show the amount of both your winnings and losses.

This is why most people are not able to claim their losses. Thus, keep an *accurate diary* or other record of your wins and losses. *Good records are key.* Recreational gamblers need to keep a diary or other contemporaneous record of how much they bet and lose on each visit.

That's because your occasional big win will be reported to the IRS by the casino. You can use gambling losses to offset your winnings. But if your records aren't good, you could lose once at the tables and then a second time to the IRS.

So if Wicked Strong wins, who gets the tax write-off? Presumably Centennial Farms, not a person who wagers and wins. In fact, winning something and *then* trying to give all or a share to charity can be a tax snafu. Think of it as charitable regifting.

Unfortunately, the tax consequences of regifting are problematic. Even if you immediately give it to charity, limits on charitable contribution deductions mean you can't necessarily write it all off. You can deduct only up to 50% of your "contribution base"—generally your adjusted gross income.

Say you win \$1 million and have no other income. You can deduct only half even if you give it all away. The limit is even lower (30%) for gifts to certain charities. You can carry over excess deductions from one year to the next, and you have five years to use them up. In the meantime, though, you are paying tax on money you've given away.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.