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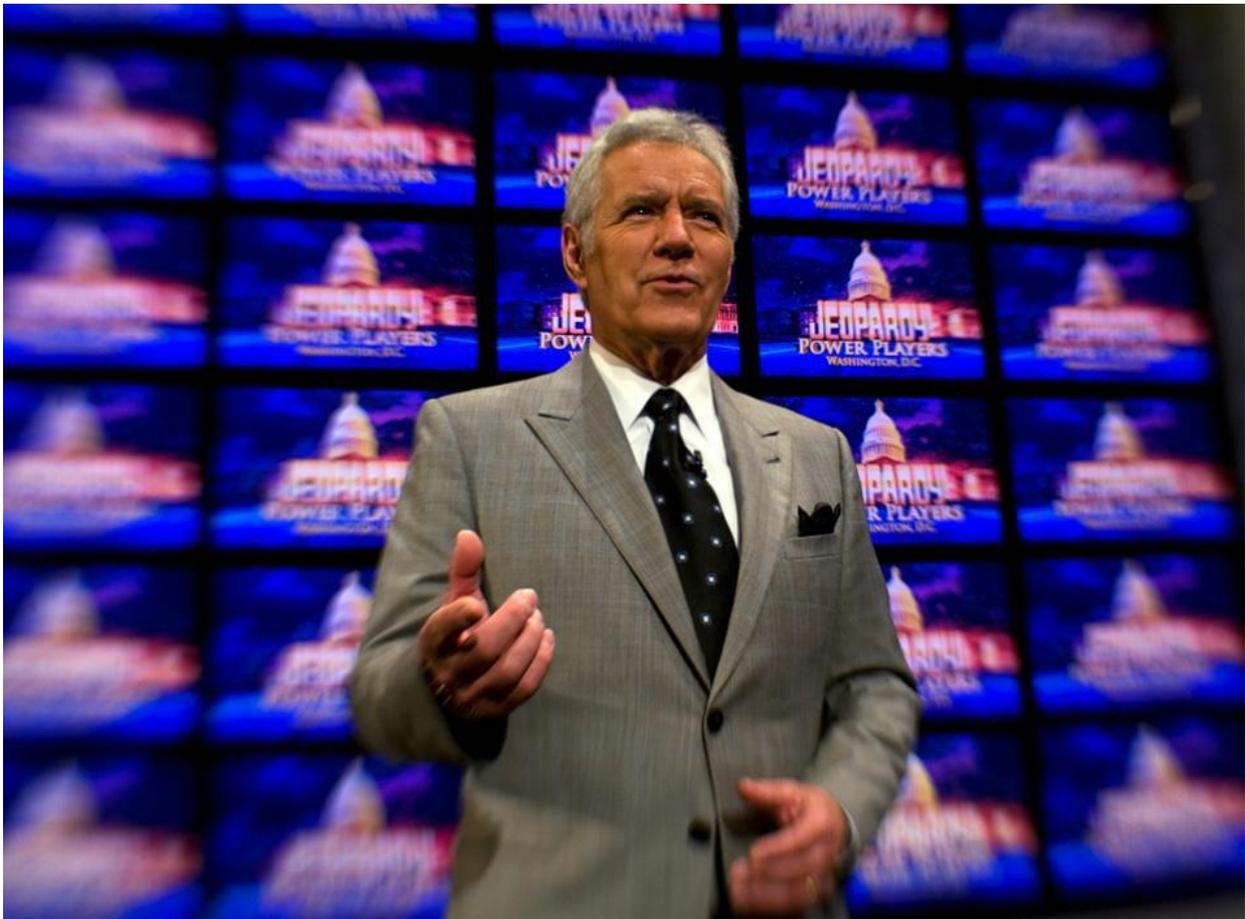


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For 'Jeopardy!' Big Winner, IRS Wins Big Taxes Too



If you're like me, watching 34-year-old professional sports gambler James Holzhauer on [Jeopardy!](#) may make you feel pretty dense. He is just so knowledgeable about just about *everything*. His [unique strategy](#) of finding Daily Doubles and betting aggressively has paid off big time.

In a 10-day streak, he's already shattered his own record with a [\\$131,127 single-day win](#). His [10-day total is \\$697,787](#). That's not exactly matching [Ken Jennings](#), whose record 74-day winning streak makes him the all-time champion. [Jennings won a total of \\$3,196,300](#), of which \$2,520,700 was from regular season play. Holzhauer is now the [second highest-earning winner of all time](#). Of course, like just about everything else, does the IRS get a slice? You bet. All winnings on game show are ordinary income, taxed up to 37% by the IRS. Most states have state income tax too. Of course, [gambling winnings](#) are also taxed. You must report game show winnings, and you will receive an IRS Form 1099--just in case you forget to put your win on your tax return. Winnings are generally just "other income" or miscellaneous income.

Many shows warn you about taxes and Forms 1099 in advance, just so contestants don't go in with the wrong impression. And if you go on a show that awards prizes, even if you don't win cash, the goods that you receive are taxable too. You'll have to pay tax on their fair market value, including goods, services or trips. Yes, winning a car means taxes too. Remember Oprah Winfrey's [car giveaway of 2004](#)? Millions of Americans recently filed their tax returns and had to pay up. But some changes in the big tax bill that passed at the end of 2017 can make tax time even worse. For example, how about writing off expenses? Suppose that our Jeopardy! winner logically says he wants to claim [his hotel, air, and other expenses](#) on his taxes, to offset some of that income?

It sounds logical enough, and up until 2018, you could deduct expenses as miscellaneous itemized deductions. But for 2018 and beyond, that deduction is gone. So even though a Jeopardy! or other game show winner might well have legitimate offsetting expenses, there's no easy way to claim them. A big winner like Mr. Holzhauer might argue he's in business, and file a schedule C. That could mean he's taxed only on his net. But he might subject himself to self-employment tax on top of income tax. Ouch. If he stayed off of Schedule C, game show winnings, fortunately, steer clear of self-employment tax. Of course, Mr. Holzhauer says he's a sports gambler, so his tax return may already be tricky. And maybe his Jeopardy! wins tie into his professional role, which could help.

Can a winner who doesn't need the money avoid taxes via gifts to charity, family, and friends? Only gifts to charity qualify for a tax deduction, and the deduction math favors the government. As for gifts to family and friends, you can't generate an income tax deduction by those transfers. In fact, you could

double up on taxes, even triggering gift tax too. But cheer up, a big Jeopardy! winner is still a big winner, and his expenses are probably small in any event. Contrast that to people who win lawsuits and get a legal settlement. Many litigants *used* to deduct their legal fees as miscellaneous itemized deductions. So if they won \$1M, and \$400K went to their lawyer, they would report \$1M, and deduct the \$400K. But amazingly, many legal fees now simply [can't be deducted](#). There are a number of exceptions from this strange tax rule for certain types of cases, where legal fees are still fully deductible. But unless you meet one of them, some plaintiffs are actually paying tax on their gross recovery, not their net recovery after legal fees.

In that sense, being a big Jeopardy! winner is actually awfully sweet, tax bill or not.

This is not legal advice. For tax alerts or tax advice, email me at Wood@WoodLLP.com.