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### Kentucky Derby Big Winner Is IRS

Betting is not certain, or perhaps we would not bother doing it. But you can get [morning line odds and last-minute tips](#). Maybe you'll win, though the only certainty about betting is taxes. If you lose, you may not be able to deduct or offset it. If you win, your winnings are taxable and the IRS gets a piece. This is so whether you win on Derby day or in any other sport, even the NBA playoffs. Still, the Kentucky Derby at [Churchill Downs](#) is said to be the most exciting two minutes in sports.

Although the marquee race is short, Kentucky Derby day has hours and hours of Thoroughbred racing. Churchill Downs starts races in the morning, culminating in the final race. And betting is big. Just don't forget that gambling winnings are fully taxable and must be reported.

What is included in this rule? Gambling income includes winnings from lotteries, raffles, horse and dog races and casinos.



*The pre-Derby favorite, Nyquist, strikes a pose at Churchill Downs. (Photo by Rob Carr/Getty Images)*

What's more, if you win in kind, you'll have to pay tax on the fair market value of prizes such as cars, houses, trips or other non-cash prizes. You name it, it's

taxed. Depending on the type and amount of your winnings, the payer *might* provide you with a [Form W-2G](#), a special form for reporting certain gambling winnings.

They may even *withhold* federal income taxes from the payment. But even if they don't, you still have to report and pay tax. For information on withholding on gambling winnings, refer to IRS [Publication 505](#), Tax Withholding and Estimated Tax.

The full amount of your gambling winnings for the year must be reported on line 21 of IRS [Form 1040](#). You like the simpler form? Too bad. You can't use [Form 1040A](#) or [Form 1040EZ](#). But don't wait until tax return time. In some cases you may be required to pay an estimated tax on your gambling winnings.

If you itemize deductions, you can deduct your gambling losses for the year on line 28 of [Schedule A, Form 1040](#). (But see below for strict recordkeeping rules.) You can't deduct gambling losses that are *more* than your winnings. It is important to keep an *accurate diary* or similar record of your gambling winnings and losses. To deduct your losses, you *must* be able to provide receipts, tickets, statements or other records that show the amount of both your winnings and losses.

Sadly, this is why most people are not able to claim their losses, as IRS [Publication 529](#) explains. 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 you don't keep good records you could end up a two-time loser—losing once at the tables and once to Uncle Sam.

*For alerts to future tax articles, email me at [Wood@WoodLLP.com](mailto:Wood@WoodLLP.com). This discussion is not legal advice.*