



Robert W. Wood

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Six Rules About Betting On The Kentucky Derby

On May 4th, the 20 horses in the Kentucky Derby will race for the finish line and a healthy purse, but the winnings are actually much bigger for the owners, trainers, jockeys and many others connected with the sport. And the gambling take is another matter entirely. It's traditional to place a bet and the winnings can pay off handsomely.

Plus, U.S. law still allows legal online betting and some of the rewards are grand.

How grand? 2012 saw a 15-1 payoff on [I'll Have Another](#), and the second-place

finisher Bodemeister was 4-1. As handicapper Seth Merrow points out in [Who Do You Like? Betting The 2013 Kentucky Derby](#) “the exacta paid \$306.60. In 2011, it was 20-1 over 8-1, paying \$329.80. In 2010, 8-1 over 11-1 for a \$152.40 exacta. And in 2009 — when things got ‘a little bit crazy’ — it was 50-1 Mine That Bird winning over a 6-1 shot. The exacta paid a whopping \$2,074.80. At the \$1 bet increment, a seven-horse exacta box will cost \$42, and we win if any of our seven horses finish first **and** second.”

Top choices this year include [Orb](#) at 5:1, with a Florida Derby win. The jockey is Joel Rosario, now ranked third among active jockeys. [Verrazano](#) is at [9:2](#)



LOUISVILLE, KY - MAY 02: Orb runs on the track during the morning training for the 2013 Kentucky Derby at Churchill Downs on May 2, 2013 in Louisville, Kentucky. (Image credit: Getty Images via @daylife)

with a Wood Memorial win, ridden by 2011 Kentucky Derby winner, John Velazquez. But whoever wins, there will be some nice payoffs. But remember to save some for the tax man.

Gambling winnings are **fully taxable** and must be reported. Yup, gambling winnings are always taxable income. What's included? Gambling income includes winnings from lotteries, raffles, horse and dog races and casinos. 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 noncash prizes. You name it, it's taxed. Here are six tax rules about gambling winnings:

1. 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.
2. 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.
3. 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.)
4. You can't deduct gambling losses that are **more** than your winnings.
5. 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.
6. 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. See IRS [Publication 529](#), Miscellaneous Deductions.

Bottom Line? Keep Good Records. 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.

*Robert W. Wood practices law with [Wood LLP](#), in San Francisco. The author of more than 30 books, including *Taxation of Damage Awards & Settlement Payments* (4th Ed. 2009 with 2012 Supplement, [Tax Institute](#)), he can be reached 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.*