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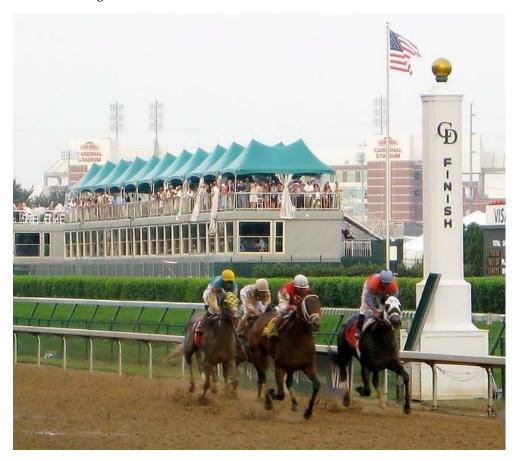
TAXES 5/02/2015

Surest Bet On Kentucky Derby, Mayweather Pacquiao Fight

Betting is not certain, or perhaps we would not bother doing it. Yet there is at least one certainty about betting, one sure bet: taxes. If you lose, you may not be able to deduct or offset it. But if you win, it is taxable and the IRS gets a piece. This is so whether you win on Derby day or Fight of the Century day, or for that matter, at the NBA playoffs. Let's start with the Kentucky Derby at Churchill Downs, said to be the most exciting two minutes in sports. The Derby this year features:

- Ocho Ocho Ocho
- · Carpe Diem
- · Materiality
- Tencendur
- · Danzig Moon
- Mubtaahij
- · El Kabeir
- Dortmund
- Bolo
- Firing Line
- Stanford
- International Star
- Itsaknockout
- Keen Ice
- Frosted
- · War Story

- Mr. Z
- · American Pharaoh
- Upstart
- Far Right



Although the marquee race is short, Kentucky Derby day has hours and hours of Thoroughbred racing. Churchill Downs starts races in the morning and culminates in the final race scheduled for 8:05 pm. National TV coverage begins at noon on NBC Sports Channel and switches to NBC at 4 pm. Then you can switch your betting over to Vegas and the long anticipated fight between Mayweather and Pacquiao.

With Mayweather still the undefeated favorite, he could earn \$200 million, and his rival at least \$100 million. And although ticket prices may have plummeted 50% over the past week, it is still something that maybe God and surely the IRS will be watching as stakeholders.

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 <u>Schedule A,Form 1040</u>. (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 <u>Publication 529</u>, Miscellaneous Deductions.

<u>Bottom Line</u>? 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.

For alerts to future tax articles, follow me on Forbes. You can reach me at <u>Wood@WoodLLP.com</u>. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.