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THE TAX LAWYER

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With Kentucky Derby Bets, IRS Wins Too

Like everything else this year, the [Kentucky Derby 2020](#) is different, not May but September, run in the evening (7:02 pm Eastern time), and run without fans in the stands. But betting and the IRS haven't changed. It's traditional to place a bet, and the winnings can pay off handsomely. U.S. law still allows legal online betting, but remember, gambling winnings are fully taxable and must be reported as income. 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 non-cash prizes. You name it, it's taxed.

The IRS has some pretty useful (but sobering) missives about this. There's this leaflet, [You Won!](#) from the IRS, and if you want to read a lot more, there's an IRS publication on [gambling income and losses](#). You must report the full amount of your gambling winnings for the year on your Form 1040. Of course, may could get a nice reminder. 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. There is information on withholding on gambling winnings in IRS [Publication 505](#).



What about losses? That is one of the things gamblers find most annoying. You might think you can just net your wins and losses, but the IRS doesn't permit that. You may deduct gambling losses only if you itemize your deductions on [Schedule A \(Form 1040 or 1040-SR\) \(PDF\)](#) and kept a record of your winnings and losses. The amount of losses you deduct can't be more than the amount of gambling income you reported on your return. Claim your gambling losses up to the amount of winnings, as Other Itemized Deductions. Of course, with the new tax rules that took effect starting in 2018, it is harder to itemize now.

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. The IRS wants you to keep quite a lot. Just look at the list. Keep the date and type of your specific wager or wagering activity. The name and address or location of the gambling establishment. The names of other persons present with you at the gambling establishment. The amount(s) you won or lost. Bottom Line? Keep Good Records. If you don't keep good records you could end up losing again to Uncle Sam.

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