

Gambling Winnings and Losses

Reporting

Taxpayers must report the full amount of gambling winnings for the year on Form 1040, *U.S. Individual Income Tax Return*, line 21. A deduction for gambling losses for the year is allowed on Schedule A (Form 1040), Itemized Deductions, line 28, up to the amount of winnings.

Gambling winnings cannot be reduced by gambling losses and reported as the difference. Taxpayers must report the full amount of winnings as income and claim losses (up to the amount of winnings) as an itemized deduction. Therefore, records should show the winnings separately from the losses.

Diary of winnings and losses. Taxpayers must keep an accurate diary or similar record of losses and winnings. The diary should contain at least the following information.

- The date and type of specific wager or wagering activity.
- The name and address or location of the gambling establishment.
- The names of other persons present with the taxpayer at the gambling establishment.
- The amount(s) won or lost.

Proof of winnings and losses. In addition to the diary, taxpayers should also have other documentation to establish proof of winnings and losses.

- Form W-2G, *Certain Gambling Winnings*.
- Form 5754, *Statement by Person(s) Receiving Gambling Winnings*.
- Wagering tickets, cancelled checks, substitute checks, credit records, bank withdrawals, and statements of actual winnings or payment slips provided by the gambling establishment.

Court Case: The taxpayers had gambling winnings of \$45,634 and claimed an itemized deduction for gambling losses of \$45,634. The taxpayers claimed the losses exceeded the winnings. In addition, the taxpayers stated the amounts used to gamble were from ATM withdrawals taken at the casinos in question. The taxpayers produced bank statements showing ATM withdrawals of \$23,480 and failed to provide the IRS with additional bank records showing additional withdrawals. The court allowed an itemized deduction for gambling losses of \$23,480. (*Lamb*, T.C. Memo 2013-15)

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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Cell or Text: 218-391-8895
4455 Forest Road | Duluth, MN 55803-9248

Email: stephen@arksbizgrow.com
www.360accountingsolutions.com

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