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Complexities of Gambling Income and Losses

Taxpayers often run into tax difficulties in this area. This is because gambling winnings are fully taxable, while gambling losses aren't simply offset against the winnings.

Winnings

Winnings are fully taxable and must be reported on line 21 of Schedule 1 of your Form 1040. To measure your winnings on a particular wager, just use the net gain on the wager. For example, if a \$20 bet at the race track turns into a \$100 win, you have won just \$80, not \$100. If you lose \$50 on a different race, however, you can't simply offset this amount against your \$80 win. Gambling income includes, but not limited to, casino gambling, raffles, lotteries, and racing. Other noncash prizes are also recognized at the fair market value of the prize.

Losses

You must separately keep track of losses. They are deductible, but only as itemized deductions (on Line 16 of Schedule A of your Form 1040). Thus, if you take the standard deduction (i.e., do not itemize), you can't deduct your gambling losses. On the other hand, if you do itemize, the gambling losses fall into the category of "Other itemized deductions."

Gambling losses are only deductible up to the amount of your gambling winnings. That is, for tax purposes, you can use your losses to potentially "wipe out" your gambling income but you can never show a gambling tax loss.

Recordkeeping

Rather than on a per-bet basis, winnings and losses are determined on a "session" basis. The IRS definition of a session of play begins when a patron places the first wager on a particular game and ends when the last wager for the same type of game is complete before the end of the same calendar day.

Be careful to keep good records of your losses during the year. Keep a journal in which you indicate the date, place, amount and type of loss as well as the names of any people who were with you. Save all documentation, such as losing tickets, checks or credit slips. You should also save any related "side"

documentation, for example, if you have losses on a trip to Las Vegas, save the hotel bill and plane ticket, as well as your records on the gambling losses themselves. (If you're a member of a slot club, it may be possible for the casino to print out a record of your play.) Since anyone can just pick up, e.g., an unlimited amount of losing tickets at a race track, IRS may require more data and documentation to substantiate gambling loss deductions.

Below is a sample of a log to maintain to meet the IRS documentation requirements:

Gambling Log							
Name: _____			Tax Year: _____				
Date	Casino Name & Location	People Present	Type of Gambling	Dollar Amount to Start	Additional Dollars Added	Dollar Amount at End	Won (Lost)
EXAMPLE							
1/1/2021	Fanduel (online)	Myself	Sports Betting	100.00	25.00	137.50	12.50
1/2/2021	Fanduel (online)	Myself	Sports Betting	137.50	-	500.00	362.50
1/3/2021	Fanduel (online)	Myself	Sports Betting	500.00	100.00	-	(600.00)
1/25/2021	MGM Casino (Las Vegas)	Myself & Jessica	Blackjack	1,000.00	200.00	450.00	(750.00)
2/5/2021	Soaring Eagle Casino (Mt. Pleasant)	Myself & Bob	Poker	500.00	-	5,500.00	5,000.00
2/27/2021	DraftKings (online)	Myself	Online Casino	100.00	50.00	-	(150.00)
3/15/2021	Soaring Eagle Casino (Mt. Pleasant)	Myself	Slot Machines	250.00	200.00	-	(450.00)
						Tax Reporting	
						Winnings (Included in income)	5,375.00
						Losings (Included on Schedule A up to winnings amount)	(1,950.00)

Maintaining complete records of gambling winnings and losses will help substantiate amounts that need to be reported to the IRS.

Reach out to your CPA at Blystone & Bailey if you have question about the gambling documentation requirements.