

New Tax Rules for Gamblers? You Bet

A bad economy could have some folks looking to Lady Luck for a ladder out. While most gamblers end up empty-handed, a select few win big. And when the amount of money in your pocket grows or shrinks, you know the IRS isn't far behind. The agency has different rules for amateurs and professionals. What's more, the IRS updated some of its recordkeeping guidelines to make them simpler and more realistic.

Form W-2G Helps Keep Winners Honest

For most types of gambling at a legitimate gaming facility, that facility will issue you a Form W-2G (Certain Gambling Winnings) if you win \$600 or more. Of course, the IRS gets a copy too, so you better make sure the gross gambling winnings reported on page 1 of your Form 1040 (or on Schedule C if you are a professional gambler) at least equal the amounts reported on the Forms W-2G.

Recordkeeping Issues

Technically speaking, an amateur gambler must report the full amount of each and every win on the miscellaneous income line on page 1 of Form 1040. So in a profitable year, you cannot simply subtract losses from winnings and report the net amount of winnings on page 1 of Form 1040. But let's face it: Even folks who attempt to keep good records will probably only record their daily net winnings and daily net losses. Reporting an amount of gross income equal to the sum total of the net winnings from all days you had net winnings on page 1 of Form 1040 will probably keep you out of trouble with the IRS (assuming the amount reported as income equals or exceeds the sum total of any amounts reported as income on Forms W-2G).

Whether you are an amateur or a professional gambler, you must adequately document the amount of your losses in order to claim your rightful gambling-loss deductions. According to the IRS, taxpayers must compile the following information in a log or similar record.

- * The date and type of each specific wager or wagering activity.
- * The name and address or location of the gambling establishment.
- * The names of other persons (if any) present with the taxpayer at the gambling establishment (obviously it's more difficult to meet this requirement at a public venue such as a casino or race track).
- * The amount won or lost. Substantiation of winnings and losses from wagering on table games can be done by recording the number of the table played and keeping statements showing casino credit issued to the player. See also IRS Publication 529 (Miscellaneous Deductions). Per-Session Recordkeeping Is Apparently OK

The IRS says it's permissible for casual slot players to simply keep a record of his net win or loss amount for each gambling session. In other words, the determination of the

net win or loss amount can be made when the gambler redeems his tokens at the end of each session or determines that he lost all the tokens he started off with at the beginning of that session. If the casual slot player then reports the sum total of the net winnings from all winning sessions as gross income on page 1 of Form 1040 and keeps track of the sum total of the net losses from all losing sessions for purposes of applying the losses-cannot-exceed-winnings limitation to his Schedule A itemized deduction, the IRS will consider that close enough to the theoretically required recording of each win or loss from each spin of the slot machine. Thank you, IRS!

Presumably the IRS will also consider this concept of recording all the net wins and losses from all the taxpayer's gambling sessions sufficient recordkeeping for other forms of casual gambling and for professional gambling as well.

In Dire Circumstances No Recordkeeping May Be Required

In a 2009 decision, the Tax Court allowed a taxpayer to use a common-sense approach to establish that his gambling losses, for which he had no records, were more than enough to offset his gambling winnings as reported on Forms W-2G. The evidence showed the taxpayer was a compulsive gambler who lost so habitually that he did not own a car and had to depend on relatives to help pay his living expenses. Therefore, the Tax Court concluded that all his reported gambling winnings (more than \$70,000) had obviously been gambled away, even though he had no records to prove it.