

GAMBLING

Arizona legalized online gambling in September of 2021. All gambling winnings are taxable. This includes horse & dog racing, lotteries, sweepstakes, bingo, keno, slot machines, sports gambling, gambling tournaments (poker, golf, etc.), online gambling, and all other forms. This has been the case for many decades, but with the new legalization of online gambling we expect to see a lot more activity in this area. The way gambling is treated for tax purposes is surprising and can feel unreasonably harsh compared to other forms of income. Take this example:

Lucky goes to the horse track with \$100. He places a \$100 bet on the #8 horse "Take All My Money" who is at 17 to 1 odds (his \$100 bet would win \$1,700 so he would be paid out \$1,800 total including his original \$100). To his great excitement "Take All My Money" wins! He is paid \$1,800 (his original \$100 bet + the \$1,700 he won). Since "Take All My Money" was the #8 horse in his race Lucky decides to bet the #8 horse in all the upcoming races. Sadly, his luck runs out and he loses \$100 each race for the next 18 races. He leaves with no money, having lost everything he won plus the \$100 he came in with. He tells his trusted CPA all about it and provides him a copy of each of his bet slips. How would you expect him to be taxed?

- a) Lucky gets to deduct the \$100 he lost at the track that day?
- b) Lucky can't claim a deduction, but doesn't have to pay tax since he lost?

The correct answer is neither because bets can't be netted for tax purposes. He would add up his winnings (\$1,700) and losses (\$1,800) separately. Then, he would report \$1,700 as gambling winnings. This would increase his Adjusted Gross Income (AGI). An increased AGI may:

- Cause a larger portion of Social Security benefits to be included in taxable income
- Make medical expenses harder to deduct if itemizing (they must exceed 7.5% of AGI)

Next, he would add up his itemized deductions (medical expense over 7.5% of his increased AGI, state and local taxes, mortgage interest, and charitable donations). He gets to choose between claiming his standard deduction or the total of his itemized deductions plus \$1,700 in gambling losses. The last \$100 he lost can't help because reported losses can't exceed winnings.

If he benefits from itemizing, he may end up paying more tax on Social Security benefits and may not be able to deduct as much of his medical expenses. This is the best case scenario.

If he won't benefit from itemizing, his gambling losses don't count. He includes \$1,700 winnings as income and may pay tax on a larger portion of his Social Security benefits.

Form W-2G should be given to you for every win of \$600 or more where you win 300 or more times your original bet. You are required to report all winnings regardless of whether you received a Form W-2G. For all other winnings it is the taxpayer's responsibility to keep a diary or record of all winnings and losses. This record must include at least the following:

- The date & type of specific wager (*12/29/21, \$100 on ASU Sun Devils Men's BB*)
- The name and address or location of the gambling establishment (*online, XYZ Co.*)
- The names of others present with you (*Clint, Brody, and Michelle*)
- The amounts you won or lost for each wager (*lost \$100*)

Please contact the office if you need to schedule a consultation to discuss additional questions.