

## GAMBLING

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. Now that gambling has been legalized, this issue is expected to impact many more taxpayers.

The One Big Beautiful Bill Act (OBBA) introduced changes that will impact tax year 2026 and beyond, but no changes for tax year 2025. Changes to anticipate for 2026 include the following:

1. Casual gamblers face a 90% of winnings limitation on their ability to deduct losses. For example, let's imagine you have total winnings for the year of \$10,000. Regardless of the total losses you have for the year, you are limited to claiming only \$9,000 of them.
2. Professional gamblers face the same 90% of winnings limitation. However, it applies to not only their gambling losses, but also their related business expenses (travel, lodging, software dues and subscriptions, etc.) to the limitation.

The result is casual & professional gamblers paying tax on at least 10% of their winnings.

The way gambling activity 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, 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 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.

*\*Beginning with tax year 2026 he would only be able to claim \$1,530 of his losses due to the 90% limitation.*

If he benefits from itemizing, he may end up paying tax on a larger portion of his 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 help at all. He includes \$1,700 winnings as income and may pay tax on a larger portion of his Social Security benefits.

The thresholds at which Forms W-2G must be issued are as follows:

Tax year 2025:

- Winnings of \$600 or more where you win 300 or more times your original bet,
- \$1,200 or more on a slot machine, or
- \$1,500 or more on bingo.

For tax year 2026:

- Winnings of \$2,000 or more where you win 300 or more times your original bet,
- \$2,000 for bingo, slot machines and Keno
- \$5,000 for poker tournaments

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.