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Tax Alert



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Claiming Lost Pacquiao, Derby Bets On Your Taxes? Ask Mark Wahlberg

Before the Fight of the Century, Manny Pacquiao fan Mark [Wahlberg](#) challenged [P. Diddy](#) (aka Sean John Combs) to a wager [here](#). Diddy backed Mayweather, suggesting \$100,000 on the match, but they eventually upped the ante to \$250,000. Although Wahlberg lost, before the fight he had promised to give his winnings to charity.

Winning and then giving the money to charity can *still* mean paying taxes, as strange as that sounds. If you win \$250,000 and give \$250,000 to charity, how is that possible? Charitable contribution deductions are limited, so it doesn't all wash. Of course, Wahlberg lost and Diddy won, and that means Diddy must report the \$250,000.



After all, gambling winnings are taxable no matter what. But losses are often nondeductible, which hardly seems fair. Professional gamblers can deduct their losses just like any other business would. But most people don't gamble for a living. That means most people who gamble—even celebrities—are only casual gamblers.

Casual gamblers face strict rules about tax deductions. You can't deduct gambling losses that are *more* than your winnings, and even then, deductions are limited. But all gambling income is taxed, including winnings from lotteries, raffles, horse and dog races and casinos. If you win in kind, you'll have to pay tax on the fair market value of prizes such as cars, houses, trips or other non-cash prizes.

Depending on the type and amount of your winnings, the payer *might* even provide you with a [Form W-2G](#), a special form for reporting gambling winnings. They may even *withhold* federal income taxes from the payment. But even if they don't, you still have to report and pay tax.

Conversely, deductions are limited. If you itemize deductions, you can deduct your gambling losses for the year on line 28 of [Schedule A, Form 1040](#). And this is where things get sticky. It is important to keep an *accurate diary* or similar record of your gambling winnings and losses. To deduct your losses, you must be able to provide receipts, tickets, statements or other records that show the amount of both your winnings and losses.

Sadly, this is why most people are not able to claim their losses. Some people think keeping books and records of your wagers takes all the fun out of it. Maybe, but if you care about taxes, recreational gamblers need to keep a diary or other contemporaneous record. List how much you bet and lose on each visit to the casino. Your occasional big win will be reported to the IRS by the casino.

But if you want to use your gambling losses to offset your winnings, keep records. If you don't, you may end up with your winnings being taxed, and your losses being nondeductible. So how could Wahlberg come out here? First, he can probably make sure that in 2015, he wins at least \$250,000 on another bet. That way he should violate the rule that you can't deduct more than you win. But the limits on itemized deductions could hurt, especially for a high income person.

There might be an even slicker way. Perhaps Wahlberg could deduct his \$250,000 loss even if he doesn't have other winnings and in a way that isn't subject to itemized deduction limitations. After all, Wahlberg has his own production company, Closest to the Hole Productions. Maybe he made the bet through it?

There is also his business relationship with Diddy, something that could also provide a helpful backdrop. Who knows, Wahlberg might be able to claim the whole thing as a promotional expense.

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