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THE TAX LAWYER

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Win A Kentucky Derby Bet? Don't Forget Taxes

You may be flushed with excitement—and cash—from your Derby Day winnings. There was a 15-1 payoff on [I'll Have Another's](#) Kentucky Derby win. But if you won, before you spend it all, remember to save some for the tax man.

Gambling winnings are **fully taxable** and must be reported on your tax return just like everything else. Yup, [Gambling Winnings Are Always Taxable Income](#).

What's included? Gambling income includes winnings from lotteries, raffles, horse and dog races and casinos. What's more, 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 noncash prizes. You name it, it's taxed.

Here are six tax rules about gambling winnings:

1. Depending on the type and amount of your winnings, the payer **might** provide you with a [Form W-2G](#), a special form for reporting **Certain 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. For information on withholding on gambling winnings, refer to IRS [Publication 505](#), Tax Withholding and Estimated Tax.



2. The full amount of your gambling winnings for the year must be reported on line 21 of IRS [Form 1040](#). You like the simpler form? Too bad. You can't use [Form 1040A](#) or [Form 1040EZ](#). But don't wait until tax return time. In some cases you may be required to pay an estimated tax on your gambling winnings.
3. If you itemize deductions, you can deduct your gambling losses for the year on line 28 of [Schedule A, Form 1040](#). (OK, this is helpful, but see below for strict recordkeeping rules.)
4. You can't deduct gambling losses that are **more** than your winnings.
5. 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.
6. 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. See IRS [Publication 529](#), Miscellaneous Deductions.

Bottom Line? Keep Good Records. Recreational gamblers need to keep a diary or other contemporaneous record of how much they bet and lose on each visit. That's because your occasional big win will be reported to the IRS by the casino. You can use gambling losses to offset your winnings. But if you don't keep good records you could end up a two-time loser—losing once at the tables and once to Uncle Sam.

For more, see:

[IRS Publication 525, Taxable and Nontaxable Income](#)

[Tax Topic 419 Gambling Income and Expenses](#)

[Three Tax Mistakes You Make Every Day](#)

[Horse Breeders Win in Tax Court](#)

[Ten Tips For Deducting Your 'Hobby'](#)

[Follow Three Simple Tax Rules](#)

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