Timely Tax Advice for Gamblers

By John Grochowski

I think I’ve heard more tales of big wins from Jean Scott and her husband Brad than from anyone I know. Big tournament wins, big video poker hands, even a BIG stuffed gorilla they once won in a promotional drawing.

The latest big one came in late November, when Brad hit the button a quarter Hundred Play video poker machine, and up popped, in order, Ace-10-Jack-King-Queen of hearts. A royal flush, worth USD 1,000 on a quarter machine. And since this was on the initial deal, before the Hundred Play draw, he got that royal 100 times.

That’s right. One hundred thousand dollars.

There’s an interested third party in a prize like that. The Internal Revenue Service. But the Scotts are well prepared. Brad and Jean, „The Queen of Comps“ and author of The Frugal Gambler, have been keeping careful records for years. She and co-author Marissa Chien, a certified tax consultant, show just what gamblers need to do to meet tax requirements in their new book, Tax Help for Gamblers (USD 24.95, Huntington Press, softcover, 167 pages).

The book reads as a conversation between Scott, the gambler, and Chien, the tax expert. One thing they make clear from the beginning is that although federal tax code allows players who itemize deductions to deduct gambling losses from winnings, you can’t satisfy requirements by just reporting a single yearly net figure. The IRS wants to see wins and losses from each gambling session in the tax year.

What if you win a jackpot of USD 1,200 or more, where the casino is required to have you sign a form W2-G before paying you? You aren't permitted just to deduct losses from that jackpot without reporting all sessions, wins and losses alike, from the entire year.

Scott and Chien walk through IRS requirements, record-keeping, treatment of comps, cash back and free play, tournaments, playing together as a group with a shared bankroll, tax responsibilities while playing online or on a cruise ship – a wide-ranging toolkit for staying on top of your tax situation.

A section near the end of the book also breaks down state tax requirements, and they can be a real challenge. Residents of Iowa and Missouri, to use a couple of Midwestern examples, can deduct losses up to the amount of winnings on their state tax returns – the same situation as with federal taxes. But in Illinois, Indiana, Wisconsin and Michigan are not permitted to deduct losses at all. In those states, you'll be paying taxes on big wins even if losses in other sessions put you in negative territory on your play for the year.

If it all sounds like a bit of minefield, Scott is well-experienced in finding the right path. And it's never too early to start keeping your diary of gambling wins and losses.