

## **IRS Treatment of Gambling**

Most people know that they have to report their income to the IRS for tax purposes. What many do not realize is that income includes winnings from gambling. The IRS requires taxpayers to report all of their gambling winnings. Some amounts are subject to withholding at the time they are won. These amounts must still be reported on a taxpayer's 1040. All non-cash prizes must be reported at their fair market value. Winnings of over \$5,000 are subject to a flat 25% tax. If a person receives winnings through installment payments, he must report the amount received annually, not the whole amount of the winnings in the year the prize was won.

Gambling losses may be deducted if the taxpayer itemizes deductions up to the amount of annual winnings. The IRS requires that a person keep a detailed record of all winnings and losses for the year. The taxpayer must have receipts or other records to demonstrate these amounts. Professional gamblers report their net income on a Schedule C; their winnings are subject to self-employment tax.

One of the obvious problems the IRS faces in taxing gambling winnings is actually tracking the winnings to be taxed. Much gambling is done in cash and off the books. This includes everything from bets on sports games to weekly poker games. Another large venue that for some time was not being taxed was online poker games. Many of these games are foreign-based, and the federal government has passed laws making this type of gambling illegal. Credit cards may not allow these types of online transactions, and banks may refuse to pay out the winnings.

Whatever the type of bet, the taxpayer needs to be aware that all winnings are income and must be reported to the IRS.

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