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# NEWS

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## Gambling Winnings & Losses

Gaithersburg, MD—August 16, 2002—You are on vacation and you visit your favorite casino, find your favorite slot machine, and drop in your \$20. After pulling the handle eight times playing three quarters a pull (betting \$6), you win \$400. What are your winnings? If you answered \$399.25 (\$400 less the three quarter bet), you would be correct. What are your losses? If you answered \$5.25 (7 pulls at \$.75/pull), you would be correct. But wait, you're not finished and you decide to move to the \$1 slot machines and bet \$1 per pull. After 35 pulls, you hit on pull 36 winning \$1,500. You now receive the all important W-2G from the casino. Your winnings are \$1,499 (\$1,500 less the \$1 bet) and your losses are \$35. After this good luck streak, you decide to call it a night.

Come January 2003, what should you report on your tax return? You'd report \$1,500 because that is what your W-2G says. If this is the amount you put on your return, you would be filing an incorrect tax return. The IRS requires that you report *all* of your winnings, not just the W-2G winnings. The correct amount to report would be \$1,898.25 (\$399.25 + \$1,499). Your losses to report on Schedule A, other miscellaneous deductions not subject to a 2% limit, would be \$40.25.

If you're a slot machine player, keep a diary of your activity by machine. The diary, in general, should contain the following information:

- ?? Date and type of specific wager or wagering activity;
- ?? Name of gambling establishment;
- ?? Address or location of gambling establishment;
- ?? Names of other persons (if any) present;
- ?? Amounts won or lost;
- ?? Name of the machine and the net wagering per machine.

Most people do not keep a diary of their gambling activity, but you should document your losses in the event you are lucky enough to win. One suggestion, Gerry Voss, EA points out, "is to join a slot machine players club, if you're going to be doing a lot of gambling." The casino may provide you a printout of your activity—which you may want to have before you prepare your return anyway. But remember, the printout will show all the winnings as well as all the losses and all this activity should be reported on your tax return, not just the losses to offset the W-2G income.

Here's another scenario. Suppose you pool your money together with a friend and buy a lottery ticket or play a slot machine. And suppose your ticket or machine hits it big. Does one person report all the winnings and then share the winnings after the taxes have been paid? Gerry Voss, EA suggests you file Form 5754 Statement by Person(s) Receiving Gambling Winnings prior to cashing in your winnings. This form allows the rightful owners to report their share of the winnings prior to the W-2G being issued so that each winner receives their own W-2G, thus, enabling them to report their share on their tax return.

Contact an Enrolled Agent for advice on how to handle all gambling winnings and losses. Enrolled Agents are federally authorized tax practitioners who have technical expertise in the field of taxation and are empowered to represent taxpayers before all administrative levels of the IRS for audits, collections, and appeals. EAs provide tax preparation, tax advice, and tax planning services in addition to helping taxpayers resolve problems with the IRS. To find an Enrolled Agent in your area, call 1-800-424-4339 or visit the National Association of Enrolled Agents Web site at [www.naea.org](http://www.naea.org).

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