

Can You Claim Gambling Losses on Your Taxes?

Updated for Tax Year: 2013

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Introduction

Gambling losses are indeed tax deductible, but only to the extent of your winnings. This requires you to report all the money you win as taxable income on your return. However, the deduction for your losses is only available if you are eligible to itemize your deductions. If you claim the standard deduction, then you can't reduce your tax by your gambling losses.

Keeping track of your winnings and losses

The IRS requires you to keep a diary of your winnings and losses from lotteries, raffles, horse and dog races, casino games, poker games and sports betting as a prerequisite to deducting losses from your winnings. Your diary must include the date and type of gambling you engage in, the name and address of the places where you gamble, the people you gambled with and the amount you win and lose. Other documentation to prove your losses can include Form W-2G, Form 5754, wagering tickets, canceled checks or credit records and receipts from the gambling facility.

Limitations on loss deductions

The amount of gambling losses you can deduct can never exceed the winnings you report as income. For example, if you have \$5,000 in winnings but \$8,000 in losses, your deduction is limited to \$5,000. You could not write off the remaining \$3,000, or carry it forward to future years.

Reporting gambling losses

To report your gambling losses, you must be eligible to itemize your income tax deductions on Schedule A. You are eligible to itemize deductions if your gambling losses plus all other itemized expenses are greater than the standard deduction for your filing status. This means that if you claim the standard deduction, you are still obligated to report and pay tax on all winnings you earn during the year. However, you will not be able to deduct any of your losses.

Only gambling losses

The IRS does not permit you to simply subtract your losses from your winnings and report your net profit or loss. And if you have a particularly unlucky year, you cannot just deduct your losses without reporting any winnings. If the IRS allowed this, then it's essentially subsidizing taxpayer gambling. The bottom line is that losing money at a casino or the race track does not by itself reduce your tax

bill. You need to first owe tax on winnings before a loss deduction is available. Therefore, at best, deducting your losses allows you to avoid paying tax on your winnings, but nothing more.