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gambling winnings and losses present new challenges for taxpayers.

Blake Oliver • Jan. 10, 2024



The legalization of sports betting and online gambling has led to an explosion in gaming across America. With millions trying their luck, complex tax rules for reporting and deducting gambling winnings and losses present new challenges for taxpayers. From W-2Gs to 1099-Ks, the IRS reporting requirements leave much confusion.

That's why the deep expertise of [Zachary Zimbile](#) offers such a valuable perspective.

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Gamblers

The Tax Advantages of Filing as a Professional Gambler

If a client qualifies as a professional gambler, there are significant tax advantages:

- They can deduct ordinary and necessary expenses related to their gambling activity, just like any other business. This includes travel costs, subscriptions for betting advice, home office expenses, and more.
- Professionals report gambling wins and losses on Schedule C, rather than as "Other Income." This allows netting wins and losses to arrive at a net profit or loss from gambling for the year. Most importantly, it avoids any impact on adjusted gross income (AGI).
- There is no need to worry about whether the client itemizes deductions or takes the standard deduction. Gambling losses can be deducted above the line as business expenses.

How to Qualify as a Professional Gambler

There is no black-and-white definition of a professional gambler versus a recreational gambler. It is addressed on a case-by-case basis. However, the IRS does provide guidelines. Zak Zimbile explains that, in essence, "you need to be treating gambling as a profession. So that means you need to be gambling regularly with the intent to make a profit."

The volume of activity alone does not necessarily qualify someone as a professional gambler in the eyes of the IRS. You should also:

- Maintain separate bank accounts and credit cards exclusively for gambling

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Mastering the “Session Method” for Tracking Activity

When reporting gambling wins and losses, the IRS-approved “session method” is critical, especially at the state level. The session method allows the netting of wins and losses within a continuous gambling session. This can result in much lower gross winnings and, therefore, lower taxes owed. Both professional and recreational gamblers can use this method.

For example, a gambler may receive a W-2G from a casino showing \$15,000 of winnings from a slot machine. However, they may have only profited \$5,000 from that session. The W-2G only reflects the result of a single wager. It does not account for any losses incurred. If gamblers take advantage of the session method, they would only report their net win of \$5,000 from the session.

Proper implementation of the session method involves:

- Defining sessions appropriately based on the gambling activity – slot play for a full day, one poker tournament, etc. (Note that each individual sports bet is considered a session based on the best interpretation of IRS guidance.)
- Tracking buy-in and cash-out amounts for each session
- Recording sessions accurately as they occur – not weeks or months later
- Providing supporting documentation of sessions if audited

Accountants should understand session method mechanics and help clients properly utilize it to minimize taxes owed.

Navigating Complex State Tax Policies

State income tax rules for gambling winnings and losses vary widely across the

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Connecticut and North Carolina, offer no deduction at all for gambling losses – meaning gross winnings are fully taxable.

Strategies like utilizing the session method take on even greater importance for taxpayers gambling in these less favorable states.

Gambling outside one's home state can also trigger tax filing requirements in the state where the gambling occurred, even if no income tax is owed. This creates additional compliance obligations.

Accountants must understand the multitude of state-specific policies to best advise clients on minimizing total gambling taxes.

Avoiding Unnecessary 1099-K Headaches

As more individuals use online sportsbooks and gambling sites, 1099-K reporting has become a headache for taxpayers. Third-party services like PayPal issue 1099-Ks for funds transferred in or out of gambling sites. But these do not reflect actual taxable gambling income.

Zak advises that “the best way to avoid it is just not to use those third-party payment processors.”

Accountants should inform clients to withdraw or deposit gambling funds directly from a bank account via ACH transfer. This avoids erroneous 1099-Ks that create the impression of unreported income, triggering IRS letters.

Reducing Audit Risk With Proper Documentation

Detailed record-keeping provides critical support and protection in the event of an audit. Clients should retain:

- A gambling log tracking every session's date, location, buy-in, cash-out, and net

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Proactive planning and communication can deter audits and resolve inquiries efficiently if selected.

Helping Gambling Clients Win at Taxes

Determining professional vs. amateur gambling status and leveraging strategies like the session method can lead to considerable tax savings for clients.

To put this guidance into action:

- Review records to assess if clients qualify as pros
- Implement contemporaneous session tracking
- Set up procedures for collecting substantiating documentation

Following best practices can reduce gambling clients' effective tax rate from 30-40% down to low single digits in some cases.

Equipped with these strategies, accountants can strategically guide clients through the complex world of gambling taxes, enabling substantial savings. Your expertise provides the winning advantage.

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Blake Oliver, CPA, is an accountant, podcaster, and entrepreneur. He is the founder and CEO of Earmark CPE, an app that offers NASBA-approved continuing professional education for listening to your favorite accounting and tax podcasts. Additionally, Blake co-hosts the Cloud Accounting Podcast, a Top 25 Business News show on the Apple charts and the most popular podcast for accountants and bookkeepers in the world.

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