Abstract: A royal flush can be quite a rush. But the IRS casts a wide net when defining gambling income. This brief article outlines the tax impact of gambling winnings for casual players and how the rules differ for professional gamblers.

Know your tax hand when it comes to gambling

A royal flush can be quite a rush. But the IRS casts a wide net when defining gambling income. It includes winnings from casinos, horse races, lotteries and raffles, as well as any cash or prizes (appraised at fair market value) from contests. If you participate in any of these activities, you must report such winnings as income on your federal return.

If you're a casual gambler, report your winnings as "Other income" on Form 1040. You may also take an itemized deduction for gambling losses, but the deduction is limited to the amount of winnings.

In some cases, casinos and other payers provide IRS Form W-2G, "Certain Gambling Winnings" — particularly if the entity in question withholds federal income tax from winnings. The information from these forms needs to be included on your tax return.

If you gamble often and actively, you might qualify as a professional gambler, which comes with tax benefits: It allows you to deduct not only losses, but also wagering-related business expenses — such as transportation, meals and entertainment, tournament and casino admissions, and applicable website and magazine subscriptions.

To qualify as a professional, you must be able to demonstrate to the IRS that a "profit motive" exists. The agency looks at a list of nonexclusive factors when making this determination, including:

- Whether the taxpayer conducts the gambling activity in a "businesslike" manner,
- The quantity of time spent gambling, and
- How much income is earned from *non*gambling activities.

But don't "go pro" for the tax benefits, since doing so is a major financial risk. If you enjoy the occasional game of chance, or particularly if you're considering gambling as a profession, please contact our firm. We can help you manage the tax impact.