

Duvall & Associates, Inc.

Taking Care of Business

TAX GATORS LURKING IN THE SWAMP

"Cards are bound to break me, but I ain't busted yet." Blood, Sweat & Tears

Undeniably, tax laws are incredibly complex. Even so, tax laws should be designed to be reasonably foreseeable - not hidden gators waiting to pounce on unwary taxpayer prey. Enter tax gambling gators.

Assume you vacation for a weekend in Vegas - spending a fair amount of time at the dice tables. First day you strike it big and win about \$200,000. Launching a bid to become the next Warren Buffet you aggressively bet the next day, but fall hard losing \$220,000. Tail between your legs - your net loss for the weekend is \$20,000.

When you file your Federal income tax return, you report \$200,000 gross winnings as income on the front page of the Form 1040.

Gambling Gator #1 moves in - You receive a Form 1099 from the casino reporting your Day 1 winnings of \$200,000, but nothing regarding Day 2 losses. Without written documentation of Day 2 losses - you cannot defend a corresponding deduction. So you're taxed on \$200,000 income without relief on your return.

Gambling Gator #2 springs - Documented gambling losses can be claimed as Itemized Deductions on Page 2 of your return, but only to the extent of winnings. So you can be taxed on net winnings, but you can only report a big zero for net losses.

Gambling Gator #3 crunches - The reporting of winnings as income on Page 1 generates a reduction in overall Itemized Deductions of \$10,000 (5% X \$200,000) and causes you to lose marginal benefit of your personal exemptions. Based on your tax bracket, this costs you \$4,000 in federal taxes.

Ohio Gambling Gator #4 swallows - Ohio taxes are levied against income reported on Page 1 of the Federal return. Since gambling losses are reported on Page 2, they are not deducted in calculating Ohio taxes. So you may be taxed on your \$200,000 gross winnings with no reduction at all for losses! This gator on winnings wallops you for about \$12,000 in additional Ohio taxes.

In conclusion, you actually suffered net losses of \$20,000 for the year in gambling, but ended up forking over additional taxes when personal returns are filed. A double dose of gambling pain.

Note that some of these tax problems could be avoided by reporting on your return you are in the "business" of gambling. However, the U.S. Supreme Court has ruled that you can only be a professional gambler if the activity is "...pursued full time, in good faith, and with regularity, to the production of income for a livelihood..." A very difficult standard indeed.

Probably best to find a less expensive past-time.

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