

It May Be Fantasy Football, but Tax Implications Are Real

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H&R Block Advises Fantasy-Sports Players to Report Winnings, Claim Possible Deductions

KANSAS CITY, MO -- (Marketwired) -- 10/07/14 -- Fantasy football is a \$3.6 billion industry that consumes almost nine hours a week for the average player. Both the cost and the winnings have real financial implications, from productivity loss for employers to income taxes for players. H&R Block (NYSE: HRB), the world's largest consumer tax services provider, advises taxpayers to report prizes as income on their tax returns and to deduct certain expenses or losses.

"Many taxpayers are familiar with income sources like wages, salaries, interest, dividends and tips and know to report them on their tax return," said Jackie Perlman, principal tax research analyst of The Tax Institute at H&R Block. "But they may not know that they must report other kinds of income from a variety of sources -- including gambling, prize and hobby income."

Players must report all fantasy winnings

It may surprise fantasy sports players that participating in most pay-to-play fantasy leagues is not gambling. However, income or prizes from fantasy football still have tax consequences and are most often treated as hobby income. This includes non-cash fantasy-sports prizes like gift cards, tickets to a game, travel or anything else of value.

If a player wins more than \$600, they -- and the IRS -- will receive Form 1099-MISC reporting their winnings. But money from fantasy sports may be taxable even if the recipient doesn't get a Form 1099-MISC. Therefore, players should track and report all their income, not just what surpasses \$600.

The Unlawful Online Gambling Enforcement Act of 2006 excepts fantasy sports from gambling treatment if:

- The fantasy team is *not* based on the membership of any real amateur or professional sports team.
- All prizes and awards offered to winners are disclosed to participants in advance of the contest and their value is not determined by the number of participants or the fees that they pay.
- All winning outcomes reflect the relative knowledge and skill of participants and are determined mostly by the statistical results reflecting athletes' results in multiple real-world sporting events.
- Winning outcomes are *not* based on scores, point spreads, performances, etc. of any real-world team, combination of teams or one individual athlete in a single event.

Players can deduct fantasy football expenses

Fantasy sports players who track their income and losses will also be prepared to take advantage of certain deductions. Hobbyists are allowed to deduct their expenses up to the amount of their hobby income.

"A fantasy football participant who wins in his league can deduct entrance fees and other expenses. If his prize is \$5,000 and the entrance fee was \$1,000, he can deduct \$1,000 because it is less than his earnings," said Perlman.

There are a few important caveats. To deduct their expenses, hobbyists must itemize their deductions. Also, their hobby expenses and any other miscellaneous itemized deductions must exceed two percent of their adjusted gross income -- and they may only deduct the amount over two percent of their AGI.

Finally, even though they may spend a lot of time on it, a fantasy football player usually cannot treat their activity as a business. At the most basic level, fantasy football or another hobby is not a way to earn a living. The difference between a hobby and business depends on a number of factors, not a simple formula.

Other factors the IRS may use to determine an activity is a business include if the taxpayer:

- Carries out the activity in a businesslike manner;
- Puts time and effort into the activity indicating it is intended to be profitable;
- Depends on the income for their livelihood;
- Changes methods of operation to improve profitability;
- Has knowledge necessary to carry on the activity as a successful business;
- Faces losses due to circumstances beyond the taxpayers' control or are normal in the start-up phase of the business;
- Was successful in making a profit in similar activities in the past;
- Makes a profit in some years.

When fantasy football is gambling

"Pick-em" contests that rely on the results of actual teams and with a prize based on how many people enter may constitute gambling. This is true whether players use an online commercial platform or informal office pool. Taxpayers who want to know more about how to report fantasy sports income and losses or expenses can find an H&R Block tax professional by visiting www.hrblock.com or calling 1-800-HRBLOCK.

About H&R Block

H&R Block, Inc. (NYSE: HRB) is the world's largest consumer tax services provider. More than 650 million tax returns have been prepared worldwide by and through H&R Block since 1955. In fiscal 2014, H&R Block had annual revenues over \$3.0 billion with 24.2 million tax returns prepared worldwide. Tax return preparation services are provided in approximately 12,000 company-owned and franchise retail tax offices worldwide by professional tax preparers, and through H&R Block Tax Software products. H&R Block Bank provides affordable financial services products. For more information, visit the H&R Block Newsroom at <http://newsroom.hrblock.com/>.

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