

The Real Gamble Is Not Paying Taxes on March Madness Windfalls

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H&R Block Gives the Tax Facts on Gambling Winnings

KANSAS CITY, MO -- (MARKETWIRE) -- 03/26/13 -- March Madness' bracketology is not only a distraction for many while they should be working, but it also is a hotbed of betting with an estimated \$80 million to \$90 million wagered legally in Nevada and another \$2.5 billion in bets made in office pools and other wagers. [H&R Block](#) (NYSE: HRB) advises that no matter the source of winnings, taxpayers may not be aware they need to pay taxes on the money they win.

"When people get money from their friends or co-workers for winning a pool on a sporting event, they tend not to think of it as income, but it is," said Kathy Pickering, executive director of The Tax Institute at H&R Block. "Money won this way or at a casino is miscellaneous income, and it needs to be reported on your [tax return](#)."

Miscellaneous income comes in many forms, including gambling winnings

The income sources taxpayers are more familiar with are wages, salaries, interest, dividends, tips and commissions. Other income comes from a variety of sources -- some of which many people don't even realize are considered "real" income sources and therefore taxable. These are among the other sources of income:

- Gambling
- Side jobs paid in cash
- [Hobby income](#)
- Barter and exchanges for goods and services
- Jury duty
- Cancellation of debt, such as for credit cards and home loans
- Awards, prizes and contests
- Some legal settlements

Money from these sources is potentially taxable even if the recipient doesn't get a Form 1099-MISC, W-2G or other information document. The exception is when tax law explicitly designates the money as tax-exempt, which can happen with interest from some kinds of municipal bonds.

Plus, certain gambling winnings of more than \$5,000, including winnings from a wagering pool, may be subject to 25-percent federal income tax withholding up front.

Taxpayers who win \$1,200 or more from slot machines, bingo and some other games may walk away with all of it if they provide their Social Security number and contact information so a W-2G can be issued. If the contact information isn't provided, the gambling establishment will hold back 28 percent of the winnings to cover the income tax. No matter what, all winnings must be reported on the tax return. Gambling winnings also are taxed by some states.

Some gambling losses are tax-deductible

All gamblers (professional and casual gamblers) may deduct only as much in losses as they report in winnings. Gamblers should keep detailed records of all wins and losses, including "comps," prizes, etc.

Gambling losses (only up to winnings) can be deducted directly against income only by professional gamblers. The professionals are those who gamble full-time on a regular basis and make their livelihood from gambling. They pay self-employment taxes and file small business tax forms like any other [self-employed taxpayer](#).

Casual gamblers deduct losses (again, only up to winnings) as [itemized deductions](#). Gambling losses are not subject to the 2 percent of adjusted gross income limitation.

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