Prove your gambling losses

Generally, you can deduct losses from gambling activities, but only up to the amount of your winnings for the year. For example, if you won $5,000 betting at a casino, but lost $6,000 at the track, your deduction is limited to $5,000.

As with other miscellaneous expenses, the deduction is claimed on Schedule A. However, you don't have to contend with the usual floor based on 2% of your adjusted gross income (AGI).

Frequently, gambling loss deductions are denied because taxpayers fail to keep the records required for write-offs. In a pinch, you might resort to the "Cohan rule" allowing an estimated loss to be deductible, but you must convince the court that you actually sustained deductible losses.

New decision: A taxpayer was a casual gambler who bet on sporting events, played slot machines and bought lottery tickets. He won about $5,000 from slots in 2013, but claimed he also lost close to $7,000 from gambling that year.

On his tax return, the taxpayer claimed the standard deduction ($12,200 for 2013). He didn't report any gambling winnings, so the IRS assessed a tax liability.

First, the taxpayer argued that the taxable amount should be reduced by the amounts of bets placed to produce his winnings. But the Tax Court ruled that the bets had to be included in the winning amounts.

The taxpayer argued that he should be able to use his gambling losses to offset his gambling winnings. But his records were virtually nonexistent.

Although the Tax Court can estimate losses under the Cohan rule, it can only do so if the taxpayer presents enough evidence to establish a reasonable estimate. *Result:* Loss denied.

Note: If the taxpayer was entitled to a loss, he would have to forgo the standard deduction, costing him more tax overall. (*Bon Viso*, TC Memo 2017-154, 8/8/17)

Tip: Professional gamblers may be able to deduct expenses and losses in excess of winnings.

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