JS MORLU LLC | SPECIALIZED TAX GUIDE 05 OF 06

Cryptocurrency Gambling Taxes in 2026

Bitcoin, Ethereum, stablecoins, offshore casinos, taxable crypto transactions, wallet reconciliation, and IRS digital-asset reporting.

LEGAL REVIEW DATE: NOVEMBER 12, 2026 • U.S. FEDERAL TAX FOCUS

One crypto casino visit can create two different tax calculations: a digital-asset gain or loss when cryptocurrency is disposed of, and a separate gambling win or loss when a wager settles.

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Executive summary | Seven rules

• U.S. taxpayers generally report worldwide taxable gambling income, including offshore crypto casino winnings.

• Bitcoin and other convertible virtual currencies generally are property for federal income tax purposes; disposing of them may trigger a gain or loss.

• A crypto transfer between wallets owned by the same taxpayer ordinarily is not a taxable sale, but network fees and other details may matter.

• Using appreciated crypto to buy casino credits or fund a wager may create a separate taxable disposition; evaluate when ownership actually transfers.

• Gambling winnings and gambling losses must be computed and documented separately from digital-asset capital gains and losses.

• For tax years beginning in 2026, IRC §165(d) generally limits deductible wagering losses to 90% of qualifying losses, not exceeding wagering gains.

• An offshore platform, missing Form W-2G, or a stablecoin denomination does not make taxable income disappear.

1 | Which activities does this guide cover?

Activity	Federal tax issue
Bitcoin-funded casino play	Crypto disposition and gambling outcome
Ethereum and altcoin wagering	Basis, fair market value, settlement
USDC / USDT casino balances	Property and stablecoin transaction tracing
Offshore sportsbooks and casinos	Worldwide income, information reporting
Crypto poker and slots	Session accounting and wagering losses
NFT or token prizes	Fair market value, later disposition
DeFi / smart-contract betting	Contract classification and transaction mechanics
Prediction-market tokens	Separate legal classification; not automatically gambling

This guide focuses on taxpayers filing U.S. individual income tax returns. Operators and professional gamblers require additional analysis.

2 | The two-layer tax framework

Layer	What to determine	Typical form
1. Digital asset	Did the taxpayer sell, exchange, or otherwise dispose of crypto? What is the basis and USD value?	Form 8949 / Schedule D, if capital
2. Gambling	What was won or lost under the appropriate wagering and session method?	Schedule 1 and Schedule A for recreational gamblers

Example: A taxpayer buys 0.10 BTC for $4,000. When it is transferred to a casino in exchange for a $6,000 gambling credit, the transaction may involve a $2,000 digital-asset gain, assuming a taxable exchange and no adjustments. A later $1,000 gambling profit is a separate event. Do not combine the $2,000 and $1,000 into one unexplained casino total.

If the deposit is merely a custodial transfer of the taxpayer's own crypto rather than an exchange, the digital-asset disposition may occur later. Platform terms and transaction facts control.

3 | Cryptocurrency is generally treated as property

IRS Notice 2014-21 and related IRS guidance generally treat convertible virtual currency as property. A taxable disposition may occur when crypto is exchanged for U.S. dollars, another token, goods, services, or gambling credits. Gains and losses depend on amount realized, adjusted basis, holding period, and character.

A token described as a "stablecoin" is not automatically equivalent to cash for every federal tax purpose. Even small gains or losses may require reporting.

4 | How to calculate crypto gain or loss

Step	Illustrative amount
Cost basis of ETH acquired	$2,500
USD fair market value when disposed	$3,400
Illustrative capital gain	$900

The $900 digital-asset gain is separate from whether the casino wager subsequently wins or loses. If the asset is held for more than one year, a capital gain generally may be long-term; otherwise it generally is short-term. Dealer, business, and other exceptions may apply.

5 | The 2026 gambling-loss limitation

For tax years beginning after December 31, 2025, Public Law 119-21 amended IRC §165(d). The deduction for qualifying wagering losses is limited to 90% of those losses, not exceeding wagering gains. Recreational gamblers generally claim allowable losses on Schedule A only if they itemize.

2026 example	Amount
Gambling gains	$100,000
Qualifying gambling losses	$100,000
90% of qualifying losses	$90,000
Maximum deduction	$90,000
Income remaining after deduction	$10,000

The $10,000 is not the additional tax bill. It is the amount remaining after the maximum wagering-loss deduction in this simplified example. Separate crypto gains and losses may also affect the return.

6 | Casino sessions and settlement records

An accurate gambling computation should identify a defensible session or wagering-result method, taking account of the type of game and relevant guidance. The taxpayer should not use wallet deposits and withdrawals as a substitute for gambling results.

Record	Why it matters
Session start/end and game	Establishes scope of gambling activity
Opening and closing credits	Supports session result
Additional credits or withdrawals	Prevents false winnings or losses
Each wager and settlement	Supports contract or wager outcome
USD conversion at relevant time	Supports income and basis calculations
W-2G or platform tax forms	Reconciliation to reported income

7 | Offshore casinos and worldwide income

U.S. citizens and resident aliens generally must report worldwide taxable income. A casino located outside the United States does not automatically make gambling winnings exempt. Foreign financial account reporting, Form 8938, and other international information-return rules require a separate facts-and-circumstances review; not every crypto wallet or offshore casino balance triggers the same obligation.

The legality of accessing an offshore casino under gaming laws is a separate question from federal income tax reporting.

8 | Stablecoins, exchange rates, and fees

Track the USD fair market value of crypto when acquired, disposed of, received as winnings, or used to pay fees. Stablecoins may have small but real value fluctuations. Exchange fees and network fees can affect amount realized or basis depending on the transaction and facts; they should not be indiscriminately deducted as gambling losses.

9 | Crypto winnings paid in tokens

A gambling prize paid in crypto generally requires a supportable USD value at the relevant income recognition time. That value may also establish basis for a later disposition, subject to the proper characterization and facts.

Example: A taxpayer receives a gambling prize worth $5,000 in ETH. The taxpayer later sells that ETH for $5,600. The gambling-income question concerns the $5,000 prize; the later $600 appreciation is a separate potential digital-asset gain, assuming $5,000 basis and no adjustments.

10 | Crypto losses are not all gambling losses

Loss type	General analysis
Losing casino wager	IRC §165(d) wagering loss
BTC declines before sale	Generally no realized capital loss until disposition
BTC sold below basis	Potential capital loss, subject to capital-loss rules
Exchange collapse / theft	Special loss rules; separate analysis
Gas / transaction fees	Character depends on transaction

A capital loss cannot automatically be reclassified as a wagering loss, and a wagering loss cannot automatically offset capital gains outside the applicable rules.

11 | IRS forms and digital-asset reporting

Form / schedule	Potential use
Form 1040 digital-asset question	Disclose reportable digital-asset activity as required by instructions
Form 8949	Report capital dispositions of digital assets
Schedule D	Summarize capital gains and losses
Schedule 1	Report recreational gambling winnings
Schedule A	Claim qualifying recreational gambling losses if itemizing
Form W-2G	Report certain gambling winnings and withholding
Form 1099-DA	Broker-reported digital-asset dispositions, when applicable
Schedule C	Potential gambling trade or business, if facts support
FBAR / Form 8938	Potential foreign account or asset reporting after separate review

Form 1099-DA reporting does not necessarily supply the taxpayer's complete cost basis. Reconcile broker information returns to wallet and exchange records. Information-return rules and transition provisions differ by year and broker.

12 | Professional crypto gamblers

A taxpayer is not a professional gambler merely because the activity is frequent, sophisticated, or profitable. Under Commissioner v. Groetzinger, trade-or-business status turns on regularity, continuity, profit motive, and all relevant facts. Schedule C treatment, ordinary and necessary business expenses, the wagering-loss limit, and self-employment tax require separate analysis.

A home office deduction is not automatic. The exclusive-and-regular-use requirements and other limitations of IRC §280A must be satisfied. A taxpayer should not deduct a bedroom or living room used for personal activities merely because gambling research occurs there.

13 | Tax planning strategies

- Use a consistent digital-asset identification and cost-basis method supported by records and applicable rules.
- Export full casino, sportsbook, exchange, and wallet histories before accounts close or platforms change.
- Measure taxable crypto dispositions separately from gambling results.
- Compare standard versus itemized deductions; recreational gambling losses generally require itemization.
- Review federal estimated tax and payroll withholding after major wins or crypto dispositions.

- Check state residency and nonresident rules; states may differ in their treatment of losses.
- Review international reporting when offshore custodial accounts or entities are involved.
- Do not assume an LLC, offshore wallet, or stablecoin eliminates federal reporting obligations.

14 | Comprehensive worked example

A taxpayer acquired BTC for $20,000. The BTC was worth $26,000 when exchanged for casino credits. The taxpayer then won $50,000 and lost $45,000 in qualifying wagers, with sufficient documentation and an itemized deduction.

Tax component	Illustrative amount
Potential digital-asset gain on credit exchange	$6,000
Gambling gains	$50,000
Qualifying wagering losses	$45,000
Maximum 2026 loss deduction (90%)	$40,500
Gambling income remaining after deduction	$9,500

The illustrative combined amount of $15,500 ($6,000 plus $9,500) is not necessarily the taxpayer’s final taxable income or tax liability. The capital-gain character, other income, deductions, state taxes, and actual timing must be reviewed.

15 | Client document request

- All crypto exchange CSV exports, Forms 1099-DA, and Forms 1099-B, if received.
- Complete wallet addresses and transaction histories for the relevant tax year.
- Acquisition dates, purchase prices, basis records, and lot identification.
- Casino and sportsbook transaction exports, including every wager and settlement.
- Beginning and ending account balances and all deposits and withdrawals.
- USD fair market value and timestamps for token receipts and dispositions.
- Stablecoin conversions, swap records, gas fees, and exchange fees.
- Casino bonus, referral, and promotional award terms.
- Forms W-2G and other gambling information returns.
- Foreign account details, if relevant, and prior FBAR / Form 8938 filings.
- Prior-year returns, carryovers, IRS notices, and state residency information.

16 | Audit-risk controls

Common error	Required control
Reporting only net wallet withdrawals	Reconcile every taxable crypto and gambling event
Ignoring transfers between own wallets	Document ownership and transfer character
Using one USD rate for the whole year	Use supportable transaction-date values
Double-counting casino credits	Reconcile deposit, stake, payout, and withdrawal
Claiming unsupported wagering losses	Maintain wager and session evidence
Treating every token as a capital asset	Analyze business, derivative, and other classifications
Ignoring offshore activity	Review worldwide income and foreign reporting

17 | Frequently asked questions

Are crypto casino winnings taxable?

Generally yes for U.S. taxpayers, subject to the applicable gambling rules.

Is moving BTC to my own wallet taxable?

Ordinarily not when beneficial ownership remains unchanged; fees and facts may matter.

Is funding a crypto casino taxable?

Potentially, if crypto is exchanged or otherwise disposed of; review the casino’s terms.

Does using USDT eliminate capital gains?

No. Stablecoins generally require transaction and basis analysis.

Can I deduct losing crypto wagers?

Qualifying wagering losses may be deductible, subject to IRC §165(d) and itemization rules.

Can I use crypto capital losses to cancel gambling winnings?

Capital losses follow their own limitations and cannot simply be netted against gambling income.

What if the offshore casino issues no W-2G?

The taxpayer generally remains responsible for reporting taxable income.

Do I owe tax when I win ETH but do not sell it?

Receiving taxable winnings in ETH may create income before any later sale.

Is Form 1099-DA enough to prepare the return?

Not necessarily. Basis, transfers, and gambling transactions may be missing.

Does a crypto casino account require an FBAR?

Possibly, depending on whether it is a reportable foreign financial account and other facts.

Can I use Schedule C?

Only if the activity qualifies as a trade or business under the applicable standards.

Can I deduct a home office?

Potentially for a qualifying business, but IRC §280A requirements must be met.

Are prediction-market tokens always gambling?

No. Contract-level legal classification is necessary.

Can I carry forward unused recreational gambling losses?

Generally no.

Should I pay estimated taxes?

Possibly, if withholding and other payments are insufficient.

18 | Primary legal authorities and IRS guidance

Authority	Relevance
IRC §61	Gross income
IRC §1001	Gain or loss on property dispositions
IRC §§1011–1012	Adjusted basis and cost basis
IRC §§1221–1222	Capital assets and holding periods
IRC §165(d); P.L. 119-21 §70114	2026 wagering-loss limitation
IRC §162; §280A	Business expenses and home office
IRC §6001	Recordkeeping
Notice 2014-21, 2014-16 I.R.B. 938	Virtual currency as property
Rev. Rul. 2019-24	Certain digital-asset income events
Commissioner v. Groetzinger, 480 U.S. 23 (1987)	Professional gambling
IRS Topic 419	Gambling income and losses
IRS digital-assets FAQs / Form 1040 instructions	Digital-asset transactions and disclosure
IRS Instructions for Form 1099-DA	Broker digital-asset reporting

Official sources:

https://www.irs.gov/businesses/small-businesses-self-employed/digital-assets

https://www.irs.gov/irb/2014-16_IRB#NOT-2014-21

https://www.irs.gov/taxtopics/tc419

https://www.irs.gov/instructions/i8949

https://www.irs.gov/instructions/i1099da

https://www.congress.gov/119/plaws/publ21/PLAW-119publ21.pdf

19 | How JS Morlu LLC can help

JS Morlu LLC assists taxpayers with crypto and gambling transaction reconciliations, digital-asset basis reconstruction, federal and state returns, professional gambler classification, estimated tax planning, offshore-account issue spotting, and IRS notice responses.

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Legal review date: November 12, 2026. Next scheduled review: November 2027, or earlier following material changes in law or IRS guidance. This publication is educational and is not a legal opinion or individualized tax advice. Platform terms, transaction timing, reporting requirements, state law, and international issues require case-specific review.