

2026 MASTER REFERENCE GUIDE | UNITED STATES FEDERAL TAXATION

Gambling, Sports Betting, Online Casinos & Prediction Markets

The complete U.S. tax and accounting guide: winnings, losses, professional gambling, event contracts, crypto, state taxes, IRS reporting, recordkeeping and practical tax planning.

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Executive summary: Seven rules every taxpayer should know

- Winnings are taxable even without Form W-2G. Reporting thresholds do not create tax-free winnings.
- For 2026, IRC §165(d) limits deductible wagering losses. The deduction is the lesser of 90% of qualifying losses or wagering gains.
- Recreational gamblers generally report winnings and losses separately. Losses ordinarily require Schedule A itemization.
- Professional status is factual, not elective. A W-2 employee may also operate a business, but must prove it.
- Prediction-market contracts require legal classification. A platform name does not decide capital, derivative, or wagering treatment.
- State tax outcomes may differ from federal outcomes. Residency and location of activity matter.
- Complete records matter. Deposits and withdrawals alone do not establish taxable gambling results.

The central principle: the legal nature of a transaction, the taxpayer's actual activities, and reliable records—not a marketing label—control tax reporting.

I. Understanding the modern gambling landscape

Gambling is no longer limited to casino floors and lottery tickets. Taxpayers participate through sportsbooks, online poker, fantasy contests, sweepstakes, cryptocurrency platforms and event-contract exchanges. Similar-looking activities can receive different tax treatment.

Activity	Common tax question
Slots, blackjack, roulette, baccarat	Winnings, losses and supportable session accounting
Poker and tournaments	Cash games, buy-ins, tournament prizes and possible business status
Sportsbooks, parlays, horse racing	Wager identification, payout ratios, Form W-2G and withholding
Lotteries, raffles, bingo, keno	Cash/noncash prizes and game-specific reporting
Fantasy sports, sweepstakes casinos	Contest terms: wager, prize or other income
Crypto gambling	Gambling plus separate digital-asset disposition analysis
Kalshi, Polymarket, other event contracts	Wager, capital asset, Section 1256 or other derivative
Gambling operators	Gaming revenue, liabilities, licensing and wagering excise taxes

Example. Buying a $20 lottery ticket and buying a $20 event contract both involve uncertainty, but that similarity does not establish identical tax treatment.

II. Federal tax rules for recreational gamblers

Taxable winnings

IRC §61 generally includes gambling winnings in gross income. Cash and noncash prizes can be taxable. A vehicle or vacation won in a raffle generally creates taxable prize income measured by its applicable value.

Money left in a sportsbook account is not automatically untaxed. If winnings are paid or unconditionally credited and available for use, simply not withdrawing the money generally does not postpone recognition. Unsettled contracts require separate timing analysis.

Stake, payout and profit

Sports wager	Amount
Original stake	$100
Total payout, including returned stake	$250
Economic profit	$150

Economic profit is not a substitute for the applicable tax accounting method. Do not treat every payout as entirely new income without considering the returned stake; likewise, do not simply net every losing wager against all winning wagers on Schedule 1.

2026 loss limitation

Public Law 119-21 amended IRC §165(d) for tax years beginning after December 31, 2025. The maximum qualifying wagering-loss deduction is the lesser of 90% of qualifying wagering losses or wagering gains. For recreational gamblers the deduction generally requires itemizing on Schedule A.

Scenario	Gains	Losses	Max. deduction	Remaining
Break even	$100,000	$100,000	$90,000	$10,000
Net winner	$100,000	$60,000	$54,000	$46,000
Net loser	$100,000	$150,000	$100,000	$0
Small winner	$10,000	$8,000	$7,200	$2,800

These figures assume the losses are qualifying, supported, and claimed. The remaining amount is not necessarily the taxpayer’s final taxable income or tax liability.

Standard deduction and AGI

Recreational gambling losses ordinarily appear on Schedule A. Choosing the standard deduction means no separate gambling-loss itemized deduction. Gross winnings can increase adjusted gross income even where itemized losses are allowed, potentially affecting other income-tested calculations.

Session accounting

Certain casino games may support a reasonable, documented session method. There is no universal permission to combine all sports wagers, casino activity and prediction contracts into one annual net figure. Document the method and its legal basis.

III. Form W-2G, reporting thresholds and withholding

A W-2G threshold determines payer reporting—not whether winnings are taxable. Game-specific definitions, aggregation rules and payout-to-wager tests must be applied using the instructions for the correct tax year.

Category	2026 general reporting consideration
Slots / bingo	$2,000 or more
Keno	$2,000 or more, reduced by applicable wager
Poker tournaments	$2,000 or more in net tournament winnings
Sports / horse racing	$2,000 threshold plus applicable 300-times-wager test
Certain lotteries / sweepstakes	$2,000 threshold plus applicable 300-times-wager test

These are general summaries, not a substitute for the detailed 2026 Forms W-2G and 5754 instructions. Certain categories also have special regular or backup withholding rules.

Withholding example

Lottery item	Amount
Cash payout	$50,020
Ticket cost	($20)
Illustrative proceeds	$50,000
24% withholding	$12,000

Withholding is a prepayment, not necessarily the final tax. Regular withholding generally applies to certain qualifying winnings over $5,000, subject to game-specific tests. Backup withholding can apply when a correct taxpayer identification number is not furnished.

Preparer control: Check W-2G taxpayer identification, payment date, type of wager, withholding, state reporting, and consistency with platform history. Never invent missing W-2G numbers.

IV. Professional gamblers and full-time employees

Under Commissioner v. Groetzinger, 480 U.S. 23 (1987), continuity, regularity and a genuine profit purpose are central to whether gambling is a trade or business. A full-time W-2 job does not automatically bar a second trade or business.

Question	Evidence to review
Profit objective	Strategy, businesslike planning and historical performance
Continuity	Frequency and sustained nature of activity
Time commitment	Actual logs and relation to other work
Operations	Records, controls and analysis of results
Tax position	Facts supporting Schedule C versus recreational treatment

A taxpayer working 40 hours weekly and gambling 20 hours weekly is not automatically a professional. The entire factual pattern matters.

Professional gambling may be reported on Schedule C where supported. That does not erase §165(d); expenses incurred in carrying on wagering transactions require careful analysis under the statutory limitation. Net earnings from a genuine gambling business may also raise self-employment tax questions.

Forming an LLC does not itself turn recreational losses into business losses, guarantee Section 1256 treatment or eliminate federal tax.

V. Prediction markets: Kalshi, Polymarket and event contracts

Event contracts may settle based on sports, elections, inflation, interest rates or other outcomes. Some can be sold before expiration; others settle for a fixed payment when an event occurs. Tax classification depends on actual contract terms and governing law.

Possible framework	Potential consequence
Wagering	Ordinary gambling income; IRC §165(d) loss rules
Capital asset	Capital gain/loss rules, potentially Form 8949
Section 1256	Potential 60% long-term / 40% short-term and mark-to-market; Form 6781
Other derivative / ordinary contract	Instrument-specific character, timing and reporting

Illustrative contract

Event-contract transaction	Amount
10,000 contracts × $0.40	$4,000 cost
Settlement at $1 per contract	$10,000
Economic gain before fees	$6,000

The $6,000 economic gain does not establish its tax character. A contract about inflation is not automatically a Section 1256 instrument, and a contract about football is not conclusively a wager solely because of its subject.

Section 1256 caution

Section 1256 contains specific statutory definitions. CFTC regulation of an exchange does not, by itself, prove that every event contract qualifies. Where Section 1256 applies, year-end mark-to-market and 60/40 character rules generally require careful reporting.

Qualifying Section 1256 gain	Amount
Total gain	$20,000
60% long-term portion	$12,000
40% short-term portion	$8,000

Contract-level review file

- Platform and legal operator; exchange and regulatory status.
- Contract specifications, holder rights, settlement, transfer and expiration terms.
- Complete purchase, sale, settlement and fee records.
- Year-end open positions and applicable information returns.
- Written authority for wagering, capital, Section 1256 or other treatment.
- Review of return-position standards and disclosure where warranted.

Critical limitation: No universal federal income tax classification for all modern prediction-market event contracts should be represented as settled.

VI. Accounting treatment and financial reporting

Individual income tax reporting differs from financial accounting for gaming operators. A customer deposit is ordinarily a movement of funds rather than automatically a gambling loss; a withdrawal is not automatically gambling income.

Transaction	Illustrative treatment
Customer deposits $1,000	Operator debits cash and credits customer funds liability, if it controls the cash and owes the balance
Customer places wager	Account for obligations and exposure under the applicable contract framework
Winning wager settles	Settle customer obligation; determine appropriate gaming result
Customer withdraws	Reduce cash and corresponding customer obligation

Operators should not assume gross wagers equal revenue. They must consider unsettled bets, promotional credits, customer balances and whether they act as principal or agent.

Issue	U.S. GAAP	IFRS
Customer service revenue	ASC 606	IFRS 15
Derivatives	ASC 815	IFRS 9
Contingencies	ASC 450	IAS 37
Income taxes	ASC 740	IAS 12
Cash flows	ASC 230	IAS 7
Presentation	Applicable ASC guidance	IAS 1 / IFRS 18 transition

Scope must be determined before applying a standard. IFRS 18 generally becomes effective for annual reporting periods beginning January 1, 2027, with earlier application permitted.

Key operator controls

- Reconcile customer balances to the general ledger daily.
- Separate customer funds where law or contract requires.
- Track settled and unsettled wagers and gaming obligations.
- Review promotions, payment processors and tax reporting.
- Apply access controls, approvals and suspicious-activity monitoring.

VII. Recordkeeping and reconciliations

IRC §6001 and IRS Topic 419 support detailed recordkeeping. A gambling diary or comparable records should show date, type of wager, venue or platform, stake, payout, losses and evidence. Player-card records may be helpful but not complete.

Sports wager	Stake	Payout	Result
Football A	$100	$180	+$80

Sports wager	Stake	Payout	Result
Basketball B	$200	$0	-$200
Football C	$150	$300	+$150
Hockey D	$100	$0	-$100
Total	$550	$480	-$70

An economic loss of $70 does not authorize reporting negative $70 as gambling income. Apply the correct recognition and deduction rules.

Client records to request

- Forms W-2G, 1099, 1042-S and related tax statements.
- Full platform transaction exports and account opening/closing balances.
- Stake, payout, date, settlement and transaction ID for each wager.
- Casino session logs and player-card records.
- Bank, card, payment processor and digital-asset wallet statements.
- Bonuses, promotional credits, fees and expense documentation.
- State residency, travel, nonresident activity and prior returns.
- Evidence of shared tickets or syndicate ownership.

Balance reconciliation

Illustrative activity	Amount
Beginning account balance	$2,000
Deposits	+$20,000
Withdrawals	-$8,000
Net settled wagering result	-$3,000
Fees	-$200
Ending account balance	$10,800

A cash reconciliation checks completeness; it does not by itself establish gross taxable gambling winnings and qualifying losses. Missing records should be requested from operators and reconstructed only with supportable evidence.

VIII. Legally defensible tax planning

- Download transaction histories regularly rather than reconstructing the year from bank deposits.

- Model the 2026 90% loss limitation before assuming high-volume betting is tax-efficient.
- Compare standard and itemized deductions using the entire tax return.
- Review payroll withholding and estimated payments; §6654 safe-harbor rules may apply.
- Do not assume recreational gambling losses carry forward.
- Separate prediction contracts by product and legal classification.
- Consider state filing, residency and credits before large transactions.
- Do not use an LLC, fictitious losses or unsupported contract labels as a tax shortcut.

High-volume example

Item	Amount
Wagering gains	$500,000
Wagering losses	$490,000
Economic profit	$10,000
90% of losses	$441,000
Income after maximum loss deduction	$59,000

The example assumes a valid, substantiated deduction is claimed. A small economic profit can coexist with substantial income remaining under the wagering-loss limitation.

IX. Special situations

Lottery jackpots

Cash versus annuity elections can affect timing, liquidity, estate planning and withholding. A taxpayer should review the specific prize terms before an irrevocable election.

Shared tickets and syndicates

Form 5754 may be used to identify the true winners and their shares. Ownership should be documented before the winning event, not invented after the fact.

Cryptocurrency gambling

A crypto wager may involve both gambling income/loss and a separate taxable digital-asset disposition. Preserve acquisition cost, fair market value, wallet, date and settlement records.

Nonresident aliens

U.S.-source gambling income can be subject to special nonresident withholding, generally including a 30% framework where applicable, subject to statutory exceptions and treaties. Forms 1042-S and 1040-NR may be relevant.

Nonprofit raffles

Tax-exempt organizations may still have gaming licenses, W-2G, withholding and unrelated-business-income obligations. A raffle-ticket purchase is not automatically a deductible charitable gift.

Operators and federal excise taxes

IRC §§4401–4405 address wagering excise and occupational tax matters for covered persons. They are not generally imposed on an ordinary customer merely for placing a wager.

Virginia and other states

State treatment should be reviewed separately for residency, nonresident source income, itemized deductions, withholding and credits. Do not assume federal and state loss treatment is identical.

X. Frequently asked questions

Do I owe tax without a W-2G?

Generally yes. Information reporting is not the same as taxability.

Can I deduct all gambling losses in 2026?

Generally no. Section 165(d) limits the deduction to 90% of qualifying losses, up to wagering gains.

Can gambling losses offset W-2 salary?

Not as an unrestricted net loss. Recreational gamblers generally deduct allowable losses on Schedule A.

Can I report only sportsbook withdrawals?

No. Deposits and withdrawals are cash movements, not a complete measure of winnings.

Are sports bets taxable?

Yes, generally as gambling winnings.

Can I deduct losing lottery tickets?

Qualifying documented losses may support an itemized deduction within §165(d).

Can a W-2 employee be a professional gambler?

Potentially, if the actual activity is a continuous, regular profit-seeking trade or business.

Does an LLC make losses deductible?

No. Legal entity formation does not override the wagering rules.

Are Kalshi profits always capital gains?

No universal classification has been established.

Are Polymarket transactions always gambling?

No universal classification should be assumed for all contracts.

Does CFTC oversight guarantee Section 1256?

No. Specific statutory tests apply.

Can I carry forward recreational gambling losses?

Generally not under the ordinary recreational wagering-loss framework.

Are crypto winnings taxable?

They may be, and digital-asset dispositions can create separate consequences.

Are lottery annuities taxable?

Generally yes; timing depends on the payment arrangement.

Can gambling winnings affect Medicare premiums?

Potentially, through income-based premium calculations.

Should I amend an omitted-income return?

Review the omitted amount, facts, records and applicable amendment requirements.

XI. Primary legal authorities and references

Authority	Topic
IRC §61	Gross income
IRC §162	Trade or business expenses
IRC §165(d)	Wagering losses
IRC §§1211–1212	Capital losses and carryovers
IRC §1221	Capital assets
IRC §1256	Certain financial contracts
IRC §1402	Self-employment earnings
IRC §3402(q)	Gambling withholding
IRC §1441	Foreign-person withholding
IRC §§4401–4405	Wagering excise and occupational taxes
IRC §6001	Records
IRC §6654	Estimated-tax underpayments
Commissioner v. Groetzinger, 480 U.S. 23 (1987)	Gambling trade or business
Public Law 119-21	2026 loss-rule amendment
IRS Topic 419	Gambling income and losses
2026 Forms W-2G / 5754 Instructions	Payer reporting and withholding
IRS Form 6781 Instructions	Section 1256 reporting

Official reference links: irs.gov/taxtopics/tc419 • irs.gov/instructions/iw2g • irs.gov/publications/p505 • irs.gov/publications/p515 • irs.gov/forms-pubs/about-form-6781 • uscode.house.gov

XII. How JS Morlu LLC can help

Complex gambling activity often needs more than ordinary tax preparation. Our services can include transaction reconstruction, federal and state returns, professional-gambler analysis, prediction-contract classification, cryptocurrency reporting, estimated-tax planning, IRS notice assistance and gaming-operator accounting advisory.



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Publication review note. The 2026 loss-rule framework and general reporting concepts are grounded in the cited authorities. Game-specific W-2G thresholds, Section 1256 event-contract eligibility, operator accounting and state-specific rules should receive final technical sign-off before public release.