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Professional Gamblers in 2026: Schedule C, Business Expenses, Self-Employment Tax, and the Rules for Employees Who Gamble

A practical U.S. federal tax guide to qualifying as a gambling business, reporting income, applying the new 90% wagering-loss rule, and maintaining an audit-ready tax file.

THE CENTRAL QUESTION	THE ANSWER
Does gambling often make someone a professional?	No. Tax classification depends on the facts and the trade-or-business standard.
Does forming an LLC change the result?	No. An entity name alone does not establish a gambling business.
Did the wagering-loss rules change in 2026?	Yes. IRC §165(d) now generally limits the deduction to 90% of wagering losses, not exceeding wagering gains.

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Executive summary: Seven rules that matter

• A person with a full-time W-2 job can potentially have a separate gambling trade or business.

• Frequent betting, large winnings, or a business license alone do not establish professional status.

• The Supreme Court's Commissioner v. Groetzinger decision requires continuity, regularity, and a primary income or profit purpose.

• Qualifying gambling businesses generally report activity on Schedule C; recreational gamblers generally report winnings on Schedule 1 and deductible losses on Schedule A.

• For tax years beginning after December 31, 2025, IRC §165(d) generally allows only 90% of wagering losses, capped at wagering gains; the provision also refers to deductions otherwise allowable under Chapter 1 incurred in carrying on wagering transactions.

• Professional gamblers may owe self-employment tax, depending on the character and amount of net earnings from self-employment.

• Detailed contemporaneous records are essential, particularly for mixed W-2 and gambling activity.

1. Who is a professional gambler for federal tax purposes?

The key question is whether gambling is carried on as a trade or business rather than as a hobby or recreational activity. In Commissioner v. Groetzinger, 480 U.S. 23 (1987), the Supreme Court held that a taxpayer who devoted substantial time to wagering, regularly and continuously, with an intent to earn a livelihood could be engaged in a trade or business.

The Court did not establish a fixed number of hours, a minimum annual profit, or a requirement that gambling be the taxpayer's only source of income. Every case requires a review of the complete facts.

Practical indicators to evaluate

Supports a business characterization	Raises questions or weakens the case
Regular, substantial, ongoing activity	Occasional or sporadic gambling
Documented profit objective and analysis	Primarily entertainment or social motivation
Consistent operating practices and records	Missing or reconstructed records
Meaningful time commitment	Infrequent participation
Separate budgets and performance reviews	No reliable profit-and-loss tracking

Important: No single factor guarantees professional classification. Repeated losses do not automatically disqualify a business, but the taxpayer must be able to explain the genuine profit objective and the nature of the activity.

2. Can a full-time employee also be a professional gambler?

Potentially, yes. Having a W-2 job does not automatically prevent a taxpayer from operating a separate gambling trade or business. But a taxpayer who bets after work must still establish that the activity is regular, continuous, and conducted with the requisite business purpose.

Example: Employee who bets on sports

Facts	Illustration
Annual W-2 salary	$160,000
Time spent on betting research and activity	20 hours per week
Betting platforms	Three sportsbooks
Recordkeeping	Complete wager-level exports and monthly reconciliations
Classification	Requires a fact-specific trade-or-business review

A $160,000 salary neither proves nor disproves professional status. The preparer should examine the taxpayer's actual conduct, business purpose, continuity, financial records, and other facts before selecting Schedule C.

3. Recreational gambler versus professional gambler

Tax question	Recreational	Professional
Winnings	Generally Schedule 1, Form 1040	Generally Schedule C
Wagering losses	Generally Schedule A if itemizing, subject to §165(d)	Subject to §165(d) in determining business income
Business operating expenses	Generally not Schedule C deductions	Potentially deductible if ordinary, necessary, substantiated and within applicable limitations
Self-employment tax	Generally not on recreational winnings	May apply to net earnings from the gambling trade or business
Recordkeeping	Session and transaction records	Business-quality ledger plus supporting evidence

A taxpayer should not use Schedule C simply to claim expenses or to avoid the standard-deduction limitation. Classification must follow the facts.

4. The 2026 wagering-loss rule: The most consequential change

Public Law 119-21, §70114 amended IRC §165(d), effective for tax years beginning after December 31, 2025. The provision generally limits wagering-loss deductions to 90% of qualifying losses, capped at wagering gains. Its statutory wording also addresses certain deductions otherwise allowable under Chapter 1 that are incurred in carrying on wagering transactions.

That wording makes careful categorization of wagering losses and gambling-business costs particularly important. Whether a particular cost is within the amended limitation must be evaluated under the statute and applicable guidance; do not assume every cost is either fully deductible or fully disallowed.

Illustration: $100,000 winnings and $100,000 wagering losses

Calculation	2025	2026
Wagering gains	$100,000	$100,000
Qualifying wagering losses	$100,000	$100,000
Maximum wagering-loss deduction	$100,000	$90,000
Income remaining after loss deduction	$0	$10,000

This example isolates the wagering-loss calculation. It does not compute final taxable income, self-employment tax, or the treatment of other business expenses. The taxpayer’s complete return and expense classifications may change the ultimate result.

What if losses exceed winnings?

Suppose gains are $50,000 and qualifying wagering losses are $70,000. Ninety percent of the losses is $63,000, but the deduction is limited to $50,000 of wagering gains. Thus, the maximum wagering-loss deduction is $50,000 under the simplified calculation. Excess wagering losses generally do not carry forward merely because they were disallowed under §165(d).

5. Schedule C: What belongs on the return?

A qualifying professional gambler generally reports business receipts and allowable expenses on Schedule C, Profit or Loss From Business. The correct treatment of wagers, payouts, session gains, fees, and other costs requires a consistent and supportable method.

Do not use total bank deposits as gross receipts. Deposits, withdrawals, and transfers between the taxpayer’s own accounts do not automatically measure gambling income. Reconcile gambling results to actual transactions and information returns.

Common expense categories requiring review

Expense	Tax analysis
Travel and lodging	Potentially deductible for bona fide business travel; documentation and personal-purpose allocation required
Internet and data services	Business-use portion may qualify
Analytical software and subscriptions	Business purpose, substantiation, and applicable §165(d) treatment must be evaluated
Professional fees	May qualify when properly connected to the business
Home office	Only if the strict §280A requirements are met
Meals	Subject to applicable business-meal rules and documentation
Tournament buy-ins and rake	Determine wagering-transaction treatment and relevant limitation
Education and training	Review ordinary-and-necessary requirements and capitalization/personal restrictions

An expense is not deductible merely because it appears on a credit-card statement. The taxpayer must establish the business connection, amount, timing, and applicable statutory treatment.

6. Self-employment tax: What professionals need to know

A genuine gambling trade or business may generate net earnings from self-employment subject to Social Security and Medicare taxes under IRC §§1401 and 1402. Whether a particular amount enters the self-employment tax base requires careful analysis of the trade or business and applicable deductions.

The standard combined self-employment tax rate is often described as 15.3% before the Social Security wage-base limitation, adjustments, and any Additional Medicare Tax considerations. The actual amount depends on the taxpayer’s other wages and earnings, the applicable annual wage base, and the net earnings computation.

Example: A gambler with a W-2 job

Assume a taxpayer has $180,000 of wages and a separate gambling business. The self-employment tax calculation cannot simply apply 15.3% to the Schedule C result without considering the Social Security wage base, Medicare components, and the taxpayer’s wages. The final calculation belongs on Schedule SE and the related Form 1040 schedules.

The amended §165(d) wording may affect the income-tax and self-employment-tax analyses differently depending on the facts and applicable law. Have the calculation technically reviewed rather than relying on a generic online estimator.

7. Sports betting, poker, casino games, and prediction markets

Activity	Key professional-gambler consideration
Sports betting	Large volume does not itself establish a trade or business
Poker cash games	Document session results, buy-ins, cash-outs, rake and business purpose
Poker tournaments	Reconcile buy-ins, prizes and Forms W-2G
Slots and table games	Use supportable session accounting and contemporaneous records
Prediction-market contracts	Determine contract tax character first; do not automatically treat all contracts as wagers
Cryptocurrency gambling	Track gambling results separately from digital-asset dispositions and basis

The professional-gambler label does not settle whether a particular prediction-market contract is a wager, capital asset, §1256 contract, or another instrument. Classification must be made on the contract's legal and economic terms.

8. Forms and tax filings

Form	Why it matters
Form 1040	Annual individual income tax return
Schedule C	Income and allowable costs of a qualifying gambling trade or business
Schedule SE	Self-employment tax calculation where applicable
Schedule 1	Other income for recreational gambling and relevant adjustments
Schedule A	Itemized gambling-loss deduction for recreational gamblers
Form W-2G	Certain reportable gambling winnings and withholding
Form 1040-ES	Estimated income tax payments
Form 8829	Home-office expense computation when applicable
Form 8949 / Schedule D	Potentially relevant for separately classified digital assets or capital transactions

9. Four worked tax scenarios

Scenario A — W-2 employee, recreational gambling

Wages are $120,000; gambling gains are $30,000; qualifying wagering losses are $20,000. For 2026, the maximum loss deduction is $18,000, assuming substantiation and itemization. The remaining gambling income after the loss deduction is $12,000. Winnings may affect adjusted gross income even where a loss deduction is available on Schedule A.

Scenario B — W-2 employee, possible gambling business

Wages are $140,000; gambling gains are $80,000; wagering losses are $70,000; additional claimed operating costs are $8,000. The preparer must first determine whether the activity is a trade or business, then classify each cost and apply §165(d) and other relevant rules. A $140,000 salary does not by itself determine the result.

Scenario C — Full-time professional with break-even wagers

Gambling gains are $250,000 and qualifying wagering losses are $250,000. Under the simplified 2026 90% loss calculation, $225,000 is deductible and $25,000 remains before separately analyzing any other costs, applicable limitations, and self-employment tax.

Scenario D — Professional with losses greater than gains

Gambling gains are $60,000 and qualifying wagering losses are $90,000. Ninety percent of losses equals $81,000, but the wagering-loss deduction is capped at $60,000. This does not mean every other claimed business expense is automatically allowable; its classification and the statute must be reviewed.

10. Recordkeeping: Build an audit-ready gambling ledger

The taxpayer should maintain transaction-level records and contemporaneous supporting evidence, not just year-end bank statements or screenshots of account balances.

- Every sportsbook, casino, poker site, or other platform used.
- Date, location, game, wager type, original stake, payout, and result.
- Session opening and closing balances and additional funds introduced or removed.
- Open wagers at year-end, bonuses, free bets, and promotional credits.
- All Forms W-2G and withholding records.
- Platform statements, CSV exports, transaction identifiers, and account statements.
- Business-purpose support for travel, software, data, and other claimed costs.
- A monthly reconciliation to bank accounts, credit cards, and digital-asset wallets.
- Records of hours, business planning, performance analysis, and profit objective.
- Prior-year returns, estimated payments, and relevant IRS correspondence.

Example: Monthly professional gambling reconciliation

Item	Amount
Beginning platform cash balance	$12,000
Deposits from bank	$8,000
Withdrawals to bank	($5,000)
Net wagering result	+$3,000
Ending platform cash balance	$18,000

The ending balance reconciles as $12,000 + $8,000 − $5,000 + $3,000 = $18,000. This reconciliation does not replace wager-level records or determine taxable income on its own.

11. IRS audit risks and red flags

• Claiming professional status solely because of large betting volume.

• Reporting only deposits minus withdrawals rather than supportable gambling results.

• Using Schedule C without evidence of regular, continuous business activity.

• Claiming unsupported travel, meals, subscriptions, or home-office costs.

• Ignoring Forms W-2G or failing to reconcile them to transaction records.

• Combining unrelated sessions to manufacture a net result.

• Failing to consider the 2026 90% wagering-loss limitation.

• Treating every prediction-market contract as a wager without contract-level analysis.

• Failing to address self-employment tax, estimated tax, or state income tax.

12. Tax planning: What can be done legally?

Plan before the year ends. Forecast taxable gambling income, the maximum loss deduction, other income, and the effect on adjusted gross income. A taxpayer with wages may be able to adjust payroll withholding; others may need estimated payments.

Choose the correct classification. A taxpayer should neither force Schedule C treatment nor avoid it when the facts establish a trade or business. The proper characterization affects reporting, deductions, and potential self-employment tax.

Document costs before claiming them. Keep invoices, receipts, business-purpose explanations, mileage logs, and allocation methods. Evaluate the amended statutory language before treating gambling-related costs as fully deductible.

Separate activity types. Maintain distinct records for traditional wagers, poker, cryptocurrency transactions, and event contracts. Different legal classifications may require different reporting.

Consider state tax. A federal deduction does not necessarily produce the same result in the taxpayer's state. Residency, source rules, withholding, and credits require separate analysis.

13. Frequently asked questions

Can I be a professional gambler if I work 40 hours a week?

Potentially. The W-2 job does not automatically disqualify you; the gambling activity must independently meet the trade-or-business standard.

How many hours do I have to gamble?

There is no universal statutory hourly threshold. Continuity, regularity, profit purpose, and all surrounding facts matter.

Do I need an LLC?

No. Forming an LLC does not establish professional status or remove the wagering-loss rules.

Can I deduct all my losing bets in 2026?

Generally not. The amended §165(d) limitation is based on 90% of qualifying losses, capped at wagering gains.

Can a professional gambler deduct travel?

Potentially, if the travel is genuinely business-related, substantiated, and allowable after considering all applicable limitations.

Are professional gambling winnings subject to self-employment tax?

A qualifying gambling trade or business may generate net earnings subject to self-employment tax. The actual computation is fact-specific.

Can I use Schedule C because I lost money?

No. Losing money does not by itself establish a trade or business.

Can I carry unused wagering losses forward?

Generally not under the ordinary §165(d) limitation.

Does Form W-2G decide whether I am a professional?

No. Form W-2G is an information return, not a trade-or-business classification.

Can I deduct a home office?

Only if the facts meet the applicable §280A requirements and the claimed expense is otherwise allowable.

What if I use Kalshi or Polymarket?

First classify the actual contracts. Do not assume all event contracts are traditional wagers.

Does a gambling business eliminate the 90% rule?

No. A professional gambler remains subject to the applicable §165(d) limitation.

14. Primary authorities and further reading

Authority	Relevance
IRC §61	Gross income
IRC §162	Ordinary and necessary business expenses
IRC §165(d)	Wagering-loss limitation
IRC §§1401–1402	Self-employment tax
IRC §280A	Business use of home
IRC §6001	Recordkeeping
IRC §6654	Estimated tax underpayments
Public Law 119-21, §70114	2026 amendment to §165(d)
Commissioner v. Groetzinger, 480 U.S. 23 (1987)	Gambling trade-or-business standard
IRS Topic 419	Gambling income and losses
IRS Instructions for Schedule C	Business income and deductions
IRS Instructions for Schedule SE	Self-employment tax

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

https://www.irs.gov/instructions/i1040sc

https://www.irs.gov/instructions/i1040sse

https://www.irs.gov/instructions/iw2g

https://www.govinfo.gov/content/pkg/PLAW-119publ21/pdf/PLAW-119publ21.pdf

https://supreme.justia.com/cases/federal/us/480/23/

15. JS Morlu LLC: Professional gambler tax advisory

JS Morlu LLC assists taxpayers with gambling trade-or-business classification reviews, Schedule C preparation, gambling transaction reconciliations, wagering-loss computations, federal and state returns, estimated-tax planning, self-employment tax, and IRS correspondence.

Our approach begins with the actual facts and records. We do not recommend Schedule C classification, business deductions, or professional status without supportable legal and factual analysis.



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Can a professional gambler deduct a home office?

QUESTION: I work from home researching games, analyzing odds, tracking wagers, and maintaining my gambling records. Can I claim a home office deduction?

ANSWER: Yes, potentially - but only if the requirements are met.

A professional gambler whose gambling activity qualifies as a genuine trade or business may be eligible for a home office deduction under IRC Section 280A.

The space generally must be used regularly and exclusively for that business and qualify as the principal place of business, including a place used for substantial administrative or management activities when there is no other fixed location for those activities.

Using a kitchen table, living room, or shared bedroom for occasional sports research generally fails the exclusive-use requirement. A separate room is not always necessary, but the qualifying business area must be identifiable and exclusively used.

Two common methods are the simplified method (generally $5 per qualifying square foot, up to 300 square feet, for a maximum $1,500) and the actual-expense method (allocating eligible costs such as rent, utilities, insurance, and depreciation where applicable).

The deduction is subject to the applicable home-office income limitation and other tax rules. Gambling-specific costs must also be analyzed under IRC Section 165(d), as amended for 2026; a home office cannot be used to bypass the wagering-loss limitation.

A recreational gambler generally cannot deduct a home office merely because they spend substantial time researching bets. Professional status, exclusive business use, and adequate records must all be established.

EXAMPLE

A qualifying professional gambler uses a dedicated 180-square-foot office exclusively for the gambling business. Under the simplified method, the preliminary deduction is 180 x $5 = $900, subject to the applicable limitations.

DOCUMENTS TO RETAIN: Floor plan and square footage; dated photographs; records of exclusive and regular use; proof of business activity; expense statements; and the calculation supporting the method selected.