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SPECIALIZED TAX GUIDE 01 OF 06 • 2026 EDITION • LEGAL REVIEW: NOVEMBER 12, 2026

Sports Betting Taxes in 2026: How to Report Winnings, Deduct Losses, and Avoid Costly IRS Mistakes

The complete U.S. federal tax guide to sportsbooks, NFL and NBA betting, parlays, live betting, bonuses, withholding, and tax planning.

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The biggest surprise for sports bettors in 2026 is that you can break even—or even lose money—and still owe federal income tax on your betting activity.

This guide explains why, how the rules work, and what records taxpayers need to protect themselves.

Executive summary: What changed in 2026?

2025 loss deduction	2026 loss deduction
100% — Up to wagering gains, if otherwise deductible	90% — Up to wagering gains, if otherwise deductible

The practical impact: A bettor with $100,000 in winnings and $100,000 in qualifying losses could have $10,000 of income remaining after the maximum gambling-loss deduction, even though the actual betting profit was zero.

Assumes the bettor itemizes and can substantiate the deduction. Authority: IRC §165(d), as amended by Public Law 119-21.

1. What types of sports betting are taxable?

The federal gambling rules generally apply to traditional sports wagers, regardless of whether bets are placed at a physical sportsbook or through a mobile application.

Type of betting	Example	General treatment
Moneyline	Betting on an NFL team to win	Gambling
Point spread	Betting a team will cover the spread	Gambling
Over/under	Betting total points exceed a number	Gambling
Parlays	Combining multiple selections	Gambling
Same-game parlays	Several outcomes in one game	Gambling
Prop bets	Betting on player statistics	Gambling
Live betting	Betting while a game is underway	Gambling
Futures	Betting on the next Super Bowl winner	Gambling
Esports betting	Betting on competitive gaming	Generally gambling
Sports event contracts	Buying contracts on a prediction exchange	Requires separate contract classification

For ordinary sportsbook wagers, winning money is generally taxable whether the sportsbook is DraftKings, FanDuel, BetMGM, Caesars, or another operator.

A sports-related event contract traded on a prediction market requires separate analysis. The fact that it concerns a sporting event does not, by itself, settle its federal income tax classification.

2. When does a sports betting win become taxable?

Generally, gambling winnings are included in income when paid or made available to the taxpayer without substantial restrictions.

A bettor cannot ordinarily avoid tax simply by leaving available winnings in a sportsbook wallet.

However, placing money into a sportsbook account is not itself a gambling win, and withdrawing existing account funds is not automatically a second taxable event.

Example: A $100 NFL wager

Transaction	Amount
Original wager	$100
Total payout, including returned stake	$190
Economic profit	$90

The bettor made $90 from that winning wager.

The original $100 returned to the bettor is not an additional $100 of economic profit. Tax reporting must distinguish the original stake, the winning proceeds, and other losing wagers.

3. How are sports betting winnings and losses reported?

For a recreational bettor, the normal federal reporting structure is:

Item	Reporting location
W-2 employment income	Form 1040
Gambling winnings	Schedule 1, Form 1040
Deductible gambling losses	Schedule A, Form 1040
Federal gambling withholding	Form 1040 payment credits
Estimated tax payments	Form 1040
State gambling income	Applicable state return

A recreational bettor generally cannot simply report annual net betting profit as a single Schedule 1 amount.

The taxpayer must first establish the proper winnings and losses under a supportable accounting method.

4. The 2026 gambling-loss limitation

Under IRC §165(d), as amended by Section 70114 of Public Law 119-21, the allowable wagering-loss deduction is limited to 90% of qualifying losses, capped at wagering gains.

The change applies to tax years beginning after December 31, 2025.

Sports betting tax-impact calculator — illustrated at $100,000

Calculation	2025	2026
Annual wagering gains	$100,000	$100,000
Annual qualifying losses	$100,000	$100,000
Maximum deductible losses	$100,000	$90,000
Income remaining after losses	$0	$10,000

Increase in income remaining under the 2026 rules: $10,000. This is additional income remaining after the maximum loss deduction, not the additional tax owed.

The interactive online calculator allows users to enter their own annual wagering gains and losses. This PDF preserves its explanatory content and provides the illustrative calculation.

The standard deduction problem

A recreational bettor who takes the standard deduction generally cannot also claim a separate Schedule A gambling-loss deduction.

This means the taxpayer may report gambling winnings without receiving any separate federal deduction for losing bets.

A CPA should compare the complete return using the standard deduction and itemized deductions before choosing the better approach.

5. Sports betting Form W-2G rules for 2026

Sportsbook operators must issue Form W-2G when the applicable reporting requirements are met.

For 2026, the general sports-wagering reporting rule uses an applicable $2,000 threshold together with a requirement that winnings be at least 300 times the wager. Identical wagers may need to be combined.

Practical examples

Wager	Total payout	W-2G result
$100 wager	$250	Generally no W-2G
$10 wager	$1,500	Generally no W-2G under the $2,000 threshold
$10 wager	$3,500	Generally W-2G required
$20 wager	$8,020	Generally W-2G required, with regular withholding if the proceeds exceed $5,000

These examples assume the wagers are otherwise subject to the ordinary sports-wagering rules and are not affected by special aggregation circumstances.

Important: The absence of Form W-2G does not make the winnings tax-free.

6. Federal withholding on sports betting

Regular federal gambling withholding generally applies at 24% when both conditions are satisfied:

- Winnings minus the wager exceed $5,000.
- Winnings are at least 300 times the wager.

For example, a $20 wager returning $8,020 produces $8,000 of proceeds.

$8,000 × 24% = $1,920

The withholding is a payment toward the taxpayer's final income tax liability, not necessarily the final tax.

Backup withholding rules may also apply if a taxpayer fails to provide a correct taxpayer identification number.

7. Parlays, same-game parlays, and futures

Parlays can create larger payouts from relatively small wagers, making the 300-times-wager test especially important.

A parlay combines multiple selections. The entire ticket may win only if all required selections are successful.

Example: A bettor places a $25 parlay that pays $10,025 if successful.

Item	Amount
Original wager	$25
Total payout	$10,025
Economic winnings	$10,000

Item	Amount
Payout-to-wager ratio	401 times
Federal withholding at 24%	$2,400

The transaction generally meets the sports-wagering W-2G and regular withholding requirements.

What about futures bets?

Suppose a bettor places a $500 bet in September 2026 that a team will win the championship in February 2027.

The wager remains unsettled on December 31, 2026.

For an ordinary cash-method recreational gambler, placing the wager generally does not create a completed gambling loss in 2026. The ultimate result generally belongs to the year the wager settles.

The bettor should maintain records of the open wager and the amount committed.

8. Bonuses, free bets, and sportsbook promotions

Sportsbooks offer incentives that may include deposit matches, bonus bets, free bets, odds boosts, and referral payments.

Their tax treatment depends on the actual terms and the rights received.

Promotion	Tax question
Deposit match	Is the credit immediately withdrawable or restricted?
Free bet	What value is received and when?
Odds boost	How is the winning payout determined?
Referral bonus	Is the payment compensation or a gambling incentive?
Cashback	Is it a rebate, promotional payment, or other income?
Loyalty rewards	Is there taxable value and when is it received?

A promotional credit that cannot be withdrawn and has no independent cash value should not automatically be treated the same as unrestricted cash.

Likewise, a referral payment should not automatically be classified as gambling winnings.

The taxpayer should provide the promotion terms and transaction history so the preparer can determine the appropriate treatment.

9. Sports betting while working a full-time job

A full-time W-2 employee may gamble regularly, but frequent betting alone does not establish a gambling trade or business.

The Supreme Court's decision in Commissioner v. Groetzinger provides the foundation for evaluating gambling as a business.

Relevant factors include continuity, regularity, profit motive, time commitment, and businesslike operations.

Example: An employee earns $150,000 in wages and spends 20 hours weekly analyzing sports wagers.

The employee may have extensive gambling activity, but the tax preparer must evaluate the facts before concluding that Schedule C is appropriate.

Professional status is not an election. It also does not eliminate the wagering-loss limitations of IRC §165(d).

10. State income taxes: Why location matters

Sports bettors may face different tax consequences depending on their state of residence and where gambling income is earned.

A state may have different rules for:

- Deducting gambling losses.
- Claiming gambling withholding.
- Reporting nonresident gambling winnings.
- Claiming credits for taxes paid to another state.
- Reconciling federal and state taxable income.

For Virginia residents, the federal return is generally the starting point for determining Virginia income tax. However, Virginia-specific deductions, adjustments, and nonresident tax credits must be reviewed separately.

A taxpayer who lives in Virginia but places bets while visiting another state should not automatically assume that only one state has a potential tax interest.

11. Tax planning strategies for sports bettors

Effective tax planning begins before the taxpayer files the return.

First, maintain complete records. Download transaction histories from every sportsbook. Separate deposits, withdrawals, winning wagers, losing wagers, bonuses, fees, and unsettled bets.

Second, estimate taxes during the year. A W-2 employee with significant gambling income may be able to increase payroll withholding to help cover the additional liability.

Third, compare itemizing with the standard deduction. A large gambling-loss deduction may make itemizing beneficial, but the full return must be calculated.

Fourth, review the 2026 loss limitation before increasing betting volume. A strategy producing small economic gains can create substantial taxable income after the 90% limitation.

Fifth, do not form an LLC solely to avoid the gambling rules. The IRS examines the actual activity, not merely the business name.

Sixth, separate traditional sports bets from prediction-market contracts. The tax treatment of event contracts must be established independently.

12. What records should a sports bettor give their CPA?

- ☐ All Forms W-2G and other tax statements
- ☐ Full transaction exports from every sportsbook
- ☐ Winning and losing wagers, including ticket IDs
- ☐ Beginning and ending account balances
- ☐ Bank deposits, withdrawals, and payment records
- ☐ Parlays, futures, and unsettled wagers at year-end
- ☐ Bonus bets, promotions, and referral payments
- ☐ Records of federal and state tax withheld
- ☐ States where wagers were placed
- ☐ Prior-year returns and relevant IRS notices

Recommended transaction register

Date	Bet type	Stake	Payout	Result
Jan. 10	NFL moneyline	$100	$190	+$90
Jan. 12	NBA spread	$200	$0	-$200
Jan. 15	NFL parlay	$50	$450	+$400
Jan. 20	NHL over/under	$100	$0	-$100
Total		$450	$640	+$190

The $190 is the combined economic result. It should not automatically be used as the single taxable gambling-income figure.

13. IRS audit risks and common mistakes

The most common errors include reporting only net annual sportsbook profit, omitting winnings because no W-2G was received, claiming unsupported losses, confusing deposits with wagers, treating bonuses incorrectly, and failing to account for identical wagers.

Other significant risks include incorrectly claiming professional gambler status and assuming every sports-related prediction contract is taxed as a traditional sports wager.

A strong tax file should include a complete transaction reconciliation, evidence supporting deductions, a documented reporting method, and an explanation of material adjustments to information returns.

14. Frequently asked questions

Do I owe tax on a $500 sports betting win?

Generally yes, even without Form W-2G.

Can I deduct losing parlays?

Qualifying losing wagers may support a deduction, subject to the applicable rules and substantiation.

Can I deduct losses against my W-2 salary?

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

Does DraftKings automatically report everything to the IRS?

Do not assume that platform reporting captures every taxable transaction. The taxpayer remains responsible for reporting taxable income.

Are winnings taxable if I leave them in the sportsbook account?

Generally yes, once paid or unconditionally available.

Can I deduct a futures wager before the event happens?

Generally not merely because the wager was placed and remains unsettled.

Does the 90% limitation apply in 2025?

No. The amendment applies to tax years beginning after December 31, 2025.

Can I carry forward unused recreational sports betting losses?

Generally no.

15. Primary legal authorities

Authority	Application
IRC §61	Taxability of gambling income
IRC §165(d)	Wagering-loss limitations
IRC §63	Standard and itemized deductions
IRC §3402(q)	Gambling withholding
IRC §6001	Recordkeeping
IRC §6654	Estimated-tax underpayments
Public Law 119-21, §70114	2026 wagering-loss amendment
Commissioner v. Groetzinger, 480 U.S. 23 (1987)	Gambling trade or business
IRS Topic 419	Gambling income and losses
2026 Instructions for Forms W-2G and 5754	Reporting, withholding, identical wagers

Primary references:

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

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

https://uscode.house.gov/us/usc/t26/s165

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

16. How JS Morlu LLC can help

Sports betting taxation can become complicated when taxpayers use multiple platforms, receive large payouts, maintain thousands of transactions, or have significant losses.

JS Morlu LLC can assist with gambling transaction reconciliations, federal and state tax returns, professional gambler classification reviews, estimated-tax planning, IRS notices, and complex prediction-market tax issues.

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Legal review date: November 12, 2026. Next scheduled review: November 2027, or earlier if Congress, the Treasury Department, or the IRS changes applicable rules. This article provides general educational information and does not replace advice based on a taxpayer's particular facts. Examples are simplified and assume supportable amounts and classifications. State-specific rules require separate verification.

Publication note: The central 2026 statutory change and sports W-2G requirements have been checked against current primary sources; final publication should still receive a technical sign-off for state-specific applications and the tax treatment of unusual betting products.