

Revenue Procedure 77-29, Section 3

SECTION 1. PURPOSE.

The purpose of this revenue procedure is to provide guidelines to taxpayers concerning the treatment of wagering gains and losses for Federal income tax purposes and the related responsibility for maintaining adequate records in support of winnings and losses.

SECTION 2. BACKGROUND.

Income derived from wagering transactions is includible in gross income under the provisions of section 61 of the Internal Revenue Code of 1954. Losses from wagering transactions are allowable only to the extent of gains from such transactions, under section 165 (d) of the Code, and may be claimed only as an itemized deduction.

Temporary regulations section 7.6041-1 (T.D. 7492, 1977-2 C.B. 463), effective May 1, 1977, require all persons in a trade or business who, in the course of that trade or business, make any payment of \$1,200 or more in winnings from a bingo game or slot machine play, or \$1,500 or more in winnings from a keno game, to prepare Form W-2G, Statement for Certain Gambling Winnings, for each person to whom the winnings are paid.

In determining whether such winnings equal or exceed the \$1,500 reporting floor and in determining the amount to be reported on Form W-2G in the case of a keno game, the amount of winnings from any one game shall be reduced by the amount wagered for that one game. In the case of bingo or slot machines, the total winnings will not be reduced by the amount wagered. Forms W-2G reporting such payments must be filed with the Internal Revenue Service on or before February 28 following the year of payment.

Winnings of \$600 or more, unreduced by the amount of the wagers, must also be reported for every person paid gambling winnings from horse racing, dog racing, or jai alai, if such winnings are at least 300 times the amount wagered.

Winnings of \$600 or more, unreduced by the amount of the wagers, must also be reported for every person paid gambling winnings from state conducted lotteries.

Under Section 6001 of the Code, taxpayers must keep records necessary to verify items reported on their income tax returns. Records supporting items on a tax return should be retained until the statute of limitations on that return expires.



SECTION 3. PROCEDURES.

An accurate diary or similar record regularly maintained by the taxpayer, supplemented by verifiable documentation will usually be acceptable evidence for substantiation of wagering winnings and losses. In general, the diary should contain at least the following information:

1. Date and type of specific wager or wagering activity;
2. Name of gambling establishment;
3. Address or location of gambling establishment;
4. Name(s) of other person(s) (if any) present with taxpayer at gambling establishment; and
5. Amount(s) won or lost.

Verifiable documentation for gambling transactions includes but is not limited to Forms W-2G; Forms 5754, Statement by Person Receiving Gambling Winnings; wagering tickets, canceled checks, credit records, bank withdrawals, and statements of actual winnings or payment slips provided to the taxpayer by the gambling establishment.

Where possible, the diary and available documentation generated with the placement and settlement of a wager should be further supported by other documentation of the taxpayer's wagering activity or visit to a gambling establishment. Such documentation includes, but is not limited to, hotel bills, airline tickets, gasoline credit cards, canceled checks, credit records, bank deposits, and bank withdrawals.

Additional supporting evidence could also include affidavits or testimony from responsible gambling officials regarding wagering activity.

The Service is required to report to the Congress by 1979 on the issue of whether casino winnings should be subject to withholding. In the absence of legislation requiring withholding on casino winnings, the instructions for preparing Form 5754 will not be applicable to winnings from keno, bingo, or slot machines. However, all other items of documentation to verify gambling losses from casino winnings are applicable.

With regard to specific wagering transactions, winnings and losses may be further supported by the following items:

- .01 Keno-Copies of keno tickets purchased by the taxpayer and validated by the gambling establishment, copies of the taxpayer's casino credit records, and copies of the taxpayer's casino check cashing records.
- .02 Slot Machines-A record of all winnings by date and time that the machine was played. (In Nevada, the machine number is the number required by the State Gaming Commission and may or may not be displayed in a prominent place on the machine. If not displayed on the machine, the number may be requested from the casino operator.)
- .03 Table Games: Twenty One (Blackjack), Craps, Poker, Baccarat, Roulette, Wheel of Fortune, Etc.-The number of the table at which the taxpayer was playing.

Casino credit card data indicating whether the credit was issued in the pit or at the cashier's cage.

- .04 Bingo-A record of the number of games played, cost of tickets purchased and amounts collected on winning tickets. Supplemental records include any receipts from the casino, parlor, etc.
- .05 Racing: Horse, Harness, Dog, Etc.-A record of the races, entries amounts of wagers, and amounts collected on winning tickets and amounts lost on losing tickets. Supplemental records include unredeemed tickets and payment records from the racetrack.
- .06 Lotteries-A record of ticket purchases, dates, winnings and losses. Supplemental records include unredeemed tickets, payment slips and winnings statement.

SECTION 4. LIMITATIONS.

The recordkeeping suggestions set forth above are intended as general guidelines to assist taxpayers in establishing their reportable gambling gains and deductible gambling losses. While following these will enable most taxpayers to meet their obligations under the Internal Revenue Code these guidelines cannot be all inclusive and the tax liability of each depends on the facts and circumstances of particular situations.