

Wisconsin Taxation of Pari-Mutuel Wager Winnings

There are no substantive changes since the last version of this publication.

I. INTRODUCTION

The purpose of this publication is to address various questions about the taxation of pari-mutuel wager winnings and withholding of Wisconsin income tax from such winnings.

CAUTION

The information in this publication reflects the position of the Wisconsin Department of Revenue of laws enacted by the Wisconsin Legislature that are effective as of May 15, 2011. Laws enacted after this date, administrative rules, and court decisions may change the interpretations in this publication.

II. TAXATION OF PARI-MUTUEL WAGER WINNINGS

Federal: Winnings from a pari-mutuel wager are considered gambling winnings and must be included in federal taxable income, regardless of the amount of the winnings.

Wisconsin: A *resident* of Wisconsin is taxed on winnings from a pari-mutuel wager, whether the winnings are from a Wisconsin racetrack or other racetrack.

A *nonresident* of Wisconsin is taxed on winnings from a pari-mutuel wager that are paid by a Wisconsin racetrack. However, a nonresident of Wisconsin must have Wisconsin gross income, including any winnings, of \$2,000 or more before the nonresident is required to file a Wisconsin income tax return and pay Wisconsin income tax on the winnings.

Example 1: You are a resident of Wisconsin and won \$50 from a pari-mutuel wager you made at a Wisconsin racetrack. The \$50 you won must be reported as taxable income on your federal and Wisconsin income tax returns.

Example 2: You are a resident of Wisconsin and won \$500 from a pari-mutuel wager you made at an Iowa racetrack. The \$500 you won must be reported as taxable income on your federal and Wisconsin income tax returns.

Example 3: You are a nonresident of Wisconsin and won \$500 from a pari-mutuel wager you made at a Wisconsin racetrack. You have no other gross income taxable by Wisconsin. Although the winnings are taxable for federal and Wisconsin income tax purposes, you are not required to file a Wisconsin income tax return and report the taxable winnings, because your Wisconsin gross income is less than \$2,000 for the year.

Sharing of Pari-Mutuel Wager Winnings For both federal and Wisconsin income tax purposes, two or more persons may share the winnings from a single wager. The persons may also share in the taxation of those winnings.

If two or more persons agree to share in any potential winnings from a pari-mutuel wager, the amount of the winnings is reportable as taxable income by the person or persons who "own" the wager ticket at the time the event (for example, dog race) that determines the winner takes place. To share in the taxation of any potential winnings, an agreement to share in winnings must be made **prior** to the start of the event that determines the winner.

An agreement to share in winnings made **after** the start of the event that determines the winner will preclude the persons from sharing in the taxation of such winnings.

Note: If questioned, you must be able to show to both the Internal Revenue Service (IRS) and the Wisconsin Department of Revenue that an agreement was made to share in the winnings before the start of the event that determined the winner.

Example: You and two of your friends agree to share equally in a pari-mutuel wager before the time the race begins. You and your friends win a total of \$1,500 from the wager. You and your two friends should each report \$500 ($\$1,500 \div 3 = \500) as taxable income for each person's share of the winnings.

Reporting the Sharing of Winnings to the Racetrack If there was an agreement to share in winnings from a single wager that are a) more than \$600 and at least 300 times the amount of the wager or b) subject to Wisconsin withholding (see Part V), you must take the following steps to ensure that the winnings will be reported by the proper persons:

1. Obtain federal Form 5754, *Statement by Person(s) Receiving Gambling Winnings*, from the IRS. This form informs the racetrack that two or more persons are sharing in the proceeds from a wager and indicates each person's share of the winnings.
2. Fill in the information requested on Form 5754. This information enables the racetrack to issue separate information returns (Forms W-2G) indicating the amount of taxable income to each person sharing winnings, and the amount of each person's share of income tax withheld, if any.
3. Return Form 5754 to the racetrack for preparation of the Forms W-2G. Forms W-2G must be issued to the winners by January 31 following the year the winnings are paid.

III. DEDUCTIONS FOR PARI-MUTUEL WAGER LOSSES

Federal: You may deduct gambling losses, including pari-mutuel wager losses, only if you itemize deductions. However, the amount of losses you deduct may not be more than the amount of gambling income reported on your return. Claim your gambling losses on Form 1040, Schedule A, as a miscellaneous itemized deduction that is not subject to the 2% limit. To deduct your losses, you must be able to provide receipts, tickets, statements, or other records that show the amount of both your winnings and losses.

Note: If you claim the federal standard deduction, you are not allowed any deduction for gambling losses.

Wisconsin: Amounts allowed as miscellaneous itemized deductions on federal Schedule A, including pari-mutuel wager losses, may **not** be used in computing the Wisconsin itemized deduction credit. No deduction is permitted on the Wisconsin income tax return.

Example: You won \$100 from a pari-mutuel wager at a Wisconsin racetrack. The following week, you lost \$200 from a pari-mutuel wager at the same track. You had no other gambling winnings or losses during the year. On Schedule A for federal income tax purposes, you may deduct \$100 of pari-mutuel wager losses (limited to the amount of the winnings) as a miscellaneous itemized deduction. You may not use the \$100 miscellaneous itemized deduction in computing your Wisconsin itemized deduction credit.

IV. CREDIT FOR TAXES PAID TO OTHER STATES

If you were a Wisconsin resident and paid a net income tax to another state or the District of Columbia on winnings, you may be entitled to claim a credit for such income tax on your Wisconsin

income tax return. To qualify for the credit, the winnings that were taxed by the other state must also be included in your Wisconsin income and be taxed by Wisconsin. For more information, see the instructions for Wisconsin Form 1 and Schedule OS.

V. WITHHOLDING OF WISCONSIN INCOME TAX FROM PARI-MUTUEL WAGER WINNINGS

Wisconsin income tax will be withheld from winnings of more than \$1,000 paid by a Wisconsin racetrack on a single wager. For purposes of the \$1,000 limit, winnings means the total winnings from a single wager, not each person's share of the winnings from that wager.

Example: You and two other people make a single pari-mutuel wager and agree to share in any potential winnings from that wager before the start of the race. You and your friends win a total of \$1,500 from the wager. Wisconsin income tax will be withheld from the total winnings, even though each winner's individual share in the winnings (\$500) is less than \$1,000.

In addition to the taxable amount of winnings reported on Form W-2G, Wisconsin withholding will also be shown, if applicable. If there was a sharing of the winnings that was reported to the racetrack, withholding will be shared in the same proportion and reported as such on Form W-2G.

Wisconsin income tax will be withheld at the highest rate that applies to individuals at the time of winning.

Note: Although Wisconsin income tax will not be withheld from winnings of \$1,000 or less, the winnings are still subject to Wisconsin income tax.

VI. ADDITIONAL QUESTIONS?

If you have any questions about the taxation of pari-mutuel wager winnings for federal income tax purposes, please contact the IRS at 1-800-829-1040.

If you have questions about the taxation of pari-mutuel wager winnings for Wisconsin income tax purposes, you may visit any Department of Revenue office or contact the department as follows:

By phone - (608) 266-2772

By mail - Wisconsin Department of Revenue
Mail Stop 5-77
PO Box 8949
Madison WI 53708-8949

By e-mail - income@revenue.wi.gov