



Before you spend lottery, gambling or other winnings, understand the tax rules

It's easy to focus on the excitement of a big win. But federal tax law generally treats lottery prizes, gambling winnings and other awards as taxable income. Knowing the basic rules can help you avoid surprises when you file your 2026 return next year.

Lottery prizes

Of course, the chances of winning big in the lottery are slim. But many people win smaller, yet not insignificant, amounts that can increase their tax liability — in some cases, substantially.

Lottery winnings are taxable for federal purposes. This is the case for both cash prizes and the fair market value of noncash prizes, such as a car or vacation. Depending on the amount won and your other income, the winnings could push you into a federal tax bracket as high as 37%. Your winnings may also be subject to state income tax.

You must report lottery winnings as income in the year, or years, you actually receive them. In the case of noncash prizes, this would be the year you receive the prize. With cash, if you take the winnings in annual installments, you report each year's installment as income for that year.

Gambling winnings

For federal tax purposes, it doesn't matter if you win at the casino, a bingo hall or elsewhere. You must report 100% of your gambling winnings as taxable income. They're reported on an "Other income" line of your 1040 tax return. To measure your winnings on a particular wager, use the net gain. For example, if a \$50 bet at the racetrack turns into a \$150 win, you've won \$100, not \$150.

You must separately keep track of losses. They may be deductible, but only if you itemize deductions. Therefore, if you take the standard deduction, you can't deduct gambling losses.

In addition, you can deduct only 90% of gambling losses, and only up to the amount of gambling winnings. So if your losses exceed your winnings, you might be able use losses to "wipe out" gambling income — but you can't offset *other* income with the losses.

Maintain good records of your losses during the year. Keep a detailed diary in which you note the date, place, amount and type of loss, as well as the name of anyone who was with you. Save all documentation, such as checks or credit slips.

Note: Different rules apply to people who qualify as professional gamblers.

Withholding and estimated tax payments

If you win more than \$5,000 in the lottery or certain types of gambling, 24% must be withheld for federal tax purposes. You'll receive a Form W-2G from the payer (lottery agency, casino, etc.) showing the amount paid to you and the federal tax withheld. (The payer also sends this information to the IRS.) If state tax is withheld, that amount may also be shown on Form W-2G.

Because your federal tax rate can be up to 37%, which is well above the 24% withheld, the withholding may not be enough to cover your federal tax bill. Therefore, you may have to make estimated tax payments to cover the rest of the liability — and you might be assessed a penalty if you fail to do so.

Have you won big?

Lottery, gambling or other winnings can increase income taxes and create estimated tax obligations. (There might also be state and local tax consequences.) If the winnings are large enough, you may need to revisit your wealth management strategy and revise your estate plan. Please contact us if have questions. We'll help you understand the tax impact and meet your tax obligations.

