



An unwelcome surprise—Gambling losses under the One Big Beautiful Bill Act

A comprehensive overview for gamblers and stakeholders





Introduction

The taxation of gambling winnings and the deductibility of gambling losses have long been subjects of scrutiny and debate within the US tax code. Gamblers, tax professionals, and policymakers alike have closely followed changes in these rules, as they significantly affect both the gaming industry and individual taxpayers. This document provides a detailed summary of the historical tax rules regarding gambling loss deductions, the changes introduced by the Tax Cuts and Jobs Act of 2017 (TCJA), and amendments included in the One Big Beautiful Bill Act (OBBB), which was enacted on July 4, 2025.

1.

Historical tax rules regarding the deduction of gambling losses by gamblers

1.1. Treatment of gambling income

The Internal Revenue Code (IRC) has always required that all gambling winnings be included in a taxpayer's gross income, regardless of the source, amount, or location where the gambling activity took place.¹ This includes winnings from lotteries, casinos, sports betting, and even informal wagers among friends, regardless of whether a taxpayer receives a Form W-2G or equivalent tax form.

1.2. Deductibility of gambling losses

Historically, the deductibility of gambling losses by individual gamblers has been governed by Section 165(d) of the IRC, which dates back to the Revenue Act of 1954. This provision established that:

- Gambling losses are deductible, but only to the extent of reported gambling winnings.
- The deduction is available only if the taxpayer itemizes deductions on Schedule A (Form 1040).²

In other words, a taxpayer cannot use gambling losses to offset other forms of income, nor can they deduct more in losses than they report in winnings. For example, if a player reports \$10,000 in gambling winnings and \$12,000 in losses, only \$10,000 of those losses may be deducted, resulting in a net gambling income of zero (not a net loss).

¹ IRC §61(a)

² IRC §165(d)



1.3. Documentation requirements

Taxpayers seeking to deduct gambling losses must maintain adequate records, including receipts, tickets, statements, or other documentation to substantiate both their winnings and losses. The Internal Revenue Service (IRS) has historically required a diary or log of gambling activity, with details such as dates, locations, amounts won or lost, and the types of wagering activities engaged in.³

1.4. Distinction between professional and casual gamblers

A further nuance in the historical treatment is the distinction between professional and casual gamblers:

- Professional gamblers (those for whom gambling is a trade or business) could deduct ordinary and necessary business expenses in addition to losses, though losses were still limited to the amount of gambling winnings under Section 165(d), although some court cases allowed related business expenses to be deducted, creating a situation where a professional gambler could generate a personal net operating loss carryforward, a position later adopted by the IRS and affirmed in a Tax Court case.^{4,5}
- Casual gamblers (e.g., everyone else) could only deduct losses in the manner described above.

A discussion of whether a person satisfies the requirements to be considered a professional gambler is beyond the scope of this article. However, one can point to a 1987 Supreme Court ruling⁶ as well as a nine-factor test used to determine intent to make a profit under the hobby loss rules to decide whether a taxpayer is a professional gambler.⁷

³ Rev. Proc. 77-29

⁴ Chief Counsel Advice Memorandum AM 2008-013

⁵ *Mayo*, 136 T.C. 81 (2011)

⁶ *Groetzinger*, 480 U.S. 23 (1987)

⁷ Reg. Sec. §1.183-2(b)(1)

2.

Changes to gambling loss deduction rules under the 2017 tax reform legislation

The most significant overhaul of U.S. tax law in recent history came with the TCJA,⁸ signed into law in December of that year. While the TCJA did not fundamentally change the core rule limiting the deduction of gambling losses to the amount of gambling winnings, it did clarify and, in some respects, broaden the scope of what could be considered a “gambling loss.”

2.1. Expansion of the definition of gambling losses

Prior to the TCJA, there had been ambiguity regarding the deductibility of certain expenses incurred by professional gamblers—such as travel, lodging, and other costs associated with pursuing gambling as a business. Some courts allowed these as separate business expenses, beyond the gambling losses limitation imposed by Section 165(d).⁹

The TCJA revised Section 165(d) to clarify that “losses from wagering transactions” now include not only the actual losses from wagers but also all other expenses incurred in the pursuit of gambling as a trade or business.¹⁰ This means:

- For tax years 2018 through 2025, all expenses incurred in carrying out wagering transactions—such as travel expenses to and from casinos,

admission fees, and similar business costs—are considered gambling losses for purposes of the deduction limitation.

- This change prevents professional gamblers from creating a personal net operating loss carryforward by deducting business-related expenses in excess of their gambling winnings, closing a perceived loophole.

2.2. Itemized deduction limitation remains

The TCJA retained the requirement that nonprofessional gamblers must itemize deductions to benefit from offsetting gambling losses against gambling winnings. Given the TCJA’s significant increase in the standard deduction, far fewer taxpayers were expected to itemize deductions, making it less common for casual gamblers to benefit from the gambling loss deduction.

2.3. Sunset provision

Under the TCJA, the expanded definition of gambling losses was set to expire for tax years beginning after December 31, 2025.

⁸ P.L. 115-97

⁹ *Ibid*

¹⁰ H.R. Report No. 115-409, 115th Congress, 1st Session 167 (November 13, 2017)

3.

Unexpected change in the recently enacted OBBB

3.1. New limitation on deducting gambling losses

Included in the more than 900-page bill is an amendment to Section 165(d) to limit deductions for wagering losses to 90 percent of such losses, effective for tax years beginning after December 31, 2025.¹¹

3.2. Extension of TCJA definition of gambling losses

The 90 percent cap also applies to “any deduction otherwise allowable under this chapter incurred in carrying on any wagering transaction.” This appears to be in reference to nongambling loss expenses that may be incurred by professional gamblers, including but not necessarily limited to travel expenses, entry fees/admissions costs, data subscriptions, and other business expenses, seemingly extending the expanded 2017 TCJA definition that included such costs as part of gambling losses.

3.3 Illustrative examples

Let’s leverage three examples here:

1 Assume a player has \$10,000 in gambling winnings and has \$8,000 in gambling losses. Under the new 90 percent limitation, only \$7,200 of those losses may be deducted, resulting in net gambling income subject to tax of \$2,800 even though the player has only realized net winnings of \$2,000. Using a 25 percent

illustrative tax rate, they would pay \$700 starting in 2026 ($\$2,800 \times 25\%$), resulting in an effective rate on such amount of 35% ($\$700 / \$2,000$ net winnings). Contrast this result with a tax liability of \$500 in 2025 under the prior limitation rules ($\$2,000 \times 25\%$).

2 Assume a player has \$101,000 in gambling winnings and \$100,000 in gambling losses. Under the new limitation, only \$90,000 of those losses may be deducted, resulting in net gambling income subject to tax of \$11,000 even though the player has only realized net winnings of \$1,000. Using the same 25 percent tax rate, the player would pay \$2,640 starting in 2026 ($\$11,000 \times 25\%$), resulting in an effective rate on such amount of **264%** ($\$2,640$ tax / $\$1,000$ net winnings). Contrast this result with a tax liability of \$250 in 2025 under the prior limitation rules ($\$1,000 \times 25\%$).

3 Lastly, consider a fully “phantom income” example. Here, we assume a player realizes \$100,000 in gambling winnings and has \$110,000 in gambling losses. Under the new limitation, only \$99,000 of those losses may be deducted, resulting in gambling income subject to tax of \$1,000 even though the player has realized a net loss of \$10,000 from wagering activities.

In the scenarios above, the player might pay (1) a higher effective tax rate on their winnings because of the loss limitation rule, without any ability to benefit from carrying the excess loss forward; (2) more in federal income tax than their entire net

¹¹ <https://www.congress.gov/bill/119th-congress/house-bill/1/text> (see Sec. 70114, *Extension and modification of limitation on wagering losses*)



winnings; or (3) depending upon the numbers involved, potential taxes even when gambling losses equal or at least narrowly exceed gambling winnings, all of which are very unfavorable to differing degrees.

3.4. Rationale behind the proposed changes

It is believed that the limitation was included largely as a revenue offset to other tax cuts enacted or extended by the legislation, given the estimate that it will raise approximately \$1.1 billion in tax revenues over eight years. Following similar themes seen in recent tax legislation affecting the online gambling industry, it may have been viewed by many in Congress as relatively noncontroversial provision of the bill, given the perception that it affects a limited demographic that is generally outside of the low- and middle-income segments of the population. This would primarily include:

- Professional gamblers (e.g., “sharps”)
- High-net-worth gamblers wagering significant amounts (e.g., “whales”)¹²

- Large bettors on horse racing (e.g., “punters”), even though racehorse owners themselves are viewed as benefiting overall from the legislation with the extension of bonus depreciation^{13,14}
- A limited segment of casual gamblers who have gambling winnings offset by gambling losses and itemize their deductions in computing their taxable income (e.g., IRS data from 2020 indicates approximately 0.4 percent of total personal income returns for that year reflected itemized deductions for gambling losses).¹⁵

In addition, it should be noted that the enactment of limitations on deductions for certain items is by no means unprecedented. Examples of other such limitations include, but are not limited to, those related to deducting meals and entertainment expenses, executive compensation, interest expense, net operating loss carryforwards, and other limitations on various itemized deductions.

¹² <https://x.com/ZakTheCPA/status/1940603433289130072>

¹³ <https://www.thoroughbreddailynews.com/gambling-tax-changes-in-big-beautiful-bill-could-hit-bettors-racing/>

¹⁴ <https://paulickreport.com/news/the-biz/big-beautiful-bill-good-news-for-horse-owners-bad-news-for-horseplayers>

¹⁵ <https://straighttothepoint.substack.com/p/the-one-big-beautiful-newsletter>

4.

Immediate stakeholder reaction

Professional gamblers, land-based and online gambling, and horse racing industry stakeholders, as well as elected representatives from states with significant gaming interests, are already exploring potential options for a legislative fix. Many have voiced significant objections to the limitation, articulating various concerns around potential reductions in player attendance at high-profile poker tournaments, declines in land-based and iCasino handle, reduced tourism in destinations with robust gambling options, further erosion in an already declining horse racing industry, and pushing high-dollar/high-value gamblers to unregulated and black market gambling options, both land-based and online.^{16,17}

Some who follow the industry closely are further implying that a combination of these factors could contribute to an overall decline in tax revenues generated from regulated gambling activities and have also pointed to the potential to push high-volume sports bettors to another rapidly growing, but very controversial, segment of the industry—predictions markets.¹⁸ KPMG recently published an article highlighting some of the potential tax implications for Commodity Futures Trading Commission-regulated sports events contracts, depending upon whether they are classified as futures contracts or sports betting.¹⁹

¹⁶ <https://www.newsweek.com/trump-big-beautiful-bill-threatens-professional-gambling-2093514>

¹⁷ <https://thehill.com/homenews/house/5382946-nevada-democrat-trump-megabill-gamblers/>

¹⁸ <https://x.com/SquirrelSigma/status/1940833862810050902>

¹⁹ <https://kpmg.com/kpmg-us/content/dam/kpmg/pdf/2025/potential-tax-implications-cftc-report.pdf>





Conclusion

The rules governing the deduction of gambling losses by gamblers have evolved significantly from their origins in the mid-20th century. While the basic principle—that losses may only offset winnings—has persisted, the details have shifted, especially in response to court decisions, the TCJA, and most recently, the OBBB. Without a clear pathway to a legislative fix for the gambling loss limitation just enacted, it marks a potential watershed moment for the gambling industry in the United States given the significant personal tax leakage issue for gamblers who may wind up paying a higher federal effective tax rate on their overall net gambling winnings; owe taxes even when they otherwise just break even or, in some scenarios, have realized modest net gambling losses; or, in more extreme examples, owe more in taxes than their entire net winnings.

Given the slim majority currently held by the Republican Party in both the House and Senate, narrow margin for passage of the OBBB including a tie-breaking vote by the vice president in the Senate, and overall highly partisan environment, a quick legislative fix may be a tall order, as evidenced by a lack of success in modifying or repealing the federal excise tax on wagering activities, long an industry priority as well.

How KPMG can help

As always, taxpayers are advised to keep thorough records and consult with tax professionals regarding their individual situations.

KPMG has a dedicated industry team of Tax professionals who are deeply experienced in assisting clients navigate complex and constantly shifting tax regulations applicable to the industry. Our team can assist with understanding these changes so operators can more effectively communicate with their player and customer base regarding relevant tax updates, information reporting requirements, as well as how the recent changes potentially impact professional gamblers and casual bettors alike.

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