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## Gambling tax hits SSA payouts — even when you lose

By Dana Anspach



I'll admit I enjoy a trip to Vegas now and then, but I've never been much of a gambler. Gambling has a cost, a hidden tax embedded in your winnings, even if those winnings are offset by gambling losses.

If you're a regular gambler in retirement, your fun can cost you thousands more in [taxes](#) and increased Medicare Part B & D premiums each and every year.

To see how this works, let's take a look at one of my clients, David (name changed for privacy). David is in his early 70s, lost his wife many years ago, still works part-time in his business which is now primarily run by his son — and by the looks of his tax return I am guessing he spends quite a bit of time at the local casino.

Why would I guess he spends a considerable amount of time at the casino?

Last year he reported over \$550,000 of gambling winnings on his tax return. Lucky guy, right? Not really. He reported the same amount in losses.

OK, well, win some, lose some, no big deal, right? Wrong.

Casinos are required to report gambling winnings if they exceed a certain limit (\$1,200 of slot machine winnings for example). Gambling winnings get reported on the first page of your tax return on line 21. They affect your adjusted gross income (AGI) and your modified adjusted gross income (MAGI).

Gambling losses get claimed as an itemized deduction, in section 28 in "Other Miscellaneous Deductions". You are only allowed to claim losses up to the amount of winnings.

This means if the casino reports \$550,000 of winnings, but throughout the year you lost a total of \$600,000 (by gambling all your winnings plus some of your own funds), you can't claim that \$50,000 loss on your tax return.

But at least you get to deduct the losses so you don't pay income taxes on the winnings, right? Well, sort of.

Although your gambling winnings are offset by losses, the way winnings are reported they inflate your MAGI before they are offset by any losses. MAGI is different than taxable income, and MAGI is a major deciding factor in determining how much tax you pay in many other areas.

For example, your MAGI will affect all the following:

- Your [eligibility to make a Roth IRA contribution](#)
- The amount of your [Social Security benefits subject to taxation](#)
- The [amount of Medicare Part B & D premiums](#) that you pay
- [Phaseouts of exemptions and itemized deductions](#)
- Applicability of the [3.8% Medicare surtax on investment income](#)
- Your [eligibility for a tax credit/subsidy for the purpose of purchasing health insurance](#) (starting in 2014)

My client's 2012 MAGI would have been less than \$80,000 without the gambling. Instead it was over \$630,000. Instead of paying Medicare Part B premiums at \$105 a month he'll be paying \$335 a month, an increase of \$2,760 per year. In 2013, given the same numbers, this MAGI level would cause him to lose about \$11,400 of his itemized deductions, costing him another \$2,850 in taxes (at the 25% marginal rate).

**Bottom line:** Gambling winnings, even if offset by the same amount of losses, can cause you to pay thousands more in taxes.

For lower income retirees, tax increases occur because increased MAGI increases the amount of your Social Security benefits subject to taxation and reduces your eligibility for a tax credit on health insurance.

For higher income retirees, increased taxes may come in the form of a loss of deductions due to the phaseout limits, increased Medicare Part B & D premiums, and the applicability of the 3.8% Medicare surtax on investment income.

Is this fair? It doesn't matter. It's just the way it is.

If you or your adviser has carefully crafted a retirement income plan designed to keep you under certain threshold amounts for tax purposes one trip to the casino can destroy the plan. Just something to keep in mind.

Did your retirement plan projection account for this extra expense? Likely not.