

Over \$1 Billion Could Be Collected in Taxes From Unreported Gambling Winnings

Cross References

- TIGTA Report No. 2024-300-064, September 30, 2024

A recent Treasury Inspector General for Tax Administration (TIGTA) report concluded that the IRS has not enforced income tax return filing requirements for recipients of millions of Forms W-2G, *Certain Gambling Winnings*, reporting billions of dollars in gambling winnings. TIGTA reviewed all Forms W-2G issued to individual taxpayers during Tax Years (TY) 2018 through 2020 (as of March 2023) and found 148,908 individuals, who were issued Forms W-2G with a total amount of more than \$15,000 per individual in gambling winnings, did not file a tax return. These nonfilers were associated with approximately \$13.2 billion in total gambling winnings. Further, TIGTA analysis determined that 139,045 of these nonfilers were included in the IRS's nonfiler case creation process inventory. In response to TIGTA's audit work, the IRS analyzed 17,436 (TY 2018) high-income nonfilers with total positive income greater than or equal to \$100,000 and calculated that it could potentially increase tax revenue by approximately \$1.4 billion through addressing the 139,045 individual nonfilers with gambling winnings.

In addition, hundreds of Forms W-2G do not include a Taxpayer Identification Number (TIN) required to trace the income to the recipient. Finally, the IRS has few processes in place to identify potential excise tax noncompliance by entities accepting wagers, particularly in emerging areas such as online sports wagering.

TIGTA recommended that the Commissioner, Small Business/Self-Employed Division:

- 1) Begin appropriate enforcement actions for nonfilers with gambling winnings from TYs 2018 through 2020;
- 2) Review nonfilers with gambling winnings for TYs 2018 through 2020 who were not identified by the IRS's nonfiler system;
- 3) Analyze Forms W-2G with missing TINs to determine what forms of wagering and/or gambling institutions may be noncompliant;
- 4) Expand the wager codes to specifically include sports betting; and
- 5) Conduct an environment scan of the current and potential future conditions of the sports betting and online gambling industries.

The IRS agreed with three recommendations and plans to begin enforcement action, if appropriate, and scan the conditions of the sports betting and online gambling industries. However, the IRS disagreed with analyzing Forms W-2G with missing TINs to determine what forms of wagering and/or gambling institutions may be noncompliant. Lastly, the IRS partially agreed to explore the potential productivity and feasibility of expanding the wager codes.