

# Income Tax Treatment of Gambling Winnings and Losses in Connecticut

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## Issue

How are gambling winnings and losses taxed in Connecticut? What is the threshold for reporting and withholding income taxes on gambling winnings?

## Summary

As Department of Revenue Services (DRS) [guidance](#) explains, the tax treatment of gambling winnings (other than [lottery winnings](#)) in Connecticut depends on whether the winner is a resident, part-year resident, or nonresident. Connecticut residents who meet the income threshold for paying the state income tax (i.e., the gross income test) are subject to state income tax on any gambling winnings included in their federal adjusted gross income (AGI). (This is because the starting point for calculating Connecticut's income tax is federal AGI.) Part-year residents who meet the gross income test are similarly subject to state income tax on winnings included in their federal AGI if they received those winnings during the part of their tax year in which they resided in Connecticut. Nonresidents, on the other hand, are not subject to Connecticut tax on their gambling winnings, regardless of where they received those winnings.

Unlike the federal income tax, Connecticut's income tax law does not allow taxpayers to deduct certain gambling losses to offset their taxable winnings. The federal deduction for gambling losses is a "below-the-line" deduction, meaning it is claimed as an itemized deduction after calculating AGI, and so is not included in Connecticut's state income tax calculation. (This federal deduction applies only to casual gamblers who are not in the trade or business of gambling. Different rules apply to professional gamblers.)

The thresholds for reporting gambling winnings to DRS and withholding Connecticut income tax from those winnings are the same as for the federal income tax. They depend on (1) the type of gambling, (2) the amount of gambling winnings, and (3) generally the ratio of the winnings to the wager, as we describe below. Connecticut income tax withholding is only required if the (1) payer maintains an office or transacts business in Connecticut, (2) payment is subject to federal income tax withholding, and (3) payment is made to a resident or someone receiving the payment on a resident’s behalf. In general, federal taxes on gambling winnings are withheld at a flat rate of 24% and Connecticut state income tax is withheld at a flat rate of 6.99%.

## Reportable Gambling Winnings

### *Federal Income Tax*

**Reporting Thresholds.** Under federal law, payers of gambling winnings must report winnings to the Internal Revenue Service (IRS) if the winnings are subject to federal income tax withholding (see below) or meet the thresholds shown in Table 1 below.

**Table 1: Reportable Gambling Winnings by Type of Gambling**

Type of Gambling	Amount of Winnings Subject to Reporting	Winnings Reduced by Wager?
Bingo game or slot machine	\$1,200 or more	No
Keno game	\$1,500 or more	Yes
Poker tournament	More than \$5,000	Yes (wager or buy-in)
All other games	<ul style="list-style-type: none"> <li>• \$600 or more and</li> <li>• at least 300 times the wager amount</li> </ul>	At the payer’s option

Source: IRS, [Instructions for Forms W-2G and 5754](#); [26 C.F.R. § 1.6041-10\(b\)](#)

In determining whether the reporting thresholds are applicable, payers must combine all winnings received from all wagers made during one bingo game (e.g., all winnings from all cards played during one bingo game). Similarly, they must combine all winnings received from all wagers made during one keno game (e.g., all winnings from all “ways” on a multi-way keno ticket). Winnings from different types of games, however, are not combined.

**Aggregate Reporting Method.** Federal regulations allow payers to use an optional “aggregate reporting method” to report winnings from bingo, keno, and slot machine play, subject to certain limitations. This method allows payers who make more than one payment of reportable gambling winnings to the same payee from the same type of game during an “information reporting period”

(generally a 24-hour period) to report the aggregate amount of the winnings on one form. Payers using this method must meet certain recordkeeping requirements ([26 C.F.R. § 1.6041-10\(g\)](#)).

***Safe Harbor Method for Determining Gains or Losses From Certain Slot Machine Play.*** [Proposed federal regulations](#) provide an optional safe harbor method (often referred to as the “session method”) for taxpayers to determine their gains or losses from electronically tracked slot machine play. They effectively allow taxpayers to net the amount of winnings earned from slot machine play during a single session (i.e., generally a calendar day) against the total amount of wagers placed during the same session. Although these proposed rules apply only to this type of slot machine play, some tax professionals have noted that it could potentially extend to other methods of gambling as well (see e.g., this [CPA Practice Advisor](#) article).

## ***Connecticut State Income Tax***

The federal reporting thresholds also apply for Connecticut state income tax purposes. If the payer has an office or transacts business in Connecticut, it must report to DRS any payments of gambling winnings made to state residents (or to someone else on a resident’s behalf) that must be reported to the IRS. Other payers are not required to report payments to DRS (but the IRS provides information about Connecticut residents’ gambling winnings to DRS). [DRS guidance](#) notes that even if a payer was not required to report a payment of gambling winnings to the IRS, winners must still report those winnings for federal and Connecticut income tax purposes.

## **Income Tax Withholding From Gambling Winnings**

### ***Federal Income Tax***

There are two types of federal income tax withholding on gambling winnings: (1) regular withholding at 24% (31.58% for certain noncash payments), and (2) backup withholding that is also at 24%. In the case of bingo, keno, slot machines, or poker tournaments, regular withholding does not apply and backup withholding generally only applies if the winner does not provide a valid taxpayer identification number (IRS, [Instructions for Forms W-2G and 5754](#)).

***Regular Withholding.*** Regular withholding is required if the winnings minus the wager are more than \$5,000 and are from sweepstakes, wagering pools, lotteries, or other wagering transactions. (For other wagering transactions, the winnings must also be at least 300 times the amount wagered). It does not apply to winnings from bingo, keno, slot machines, or poker tournaments. Regular withholding is calculated based on the total amount of gross proceeds (i.e., the amount of winnings minus the amount wagered), not merely on the amount in excess of \$5,000.

***Backup Withholding.*** Backup withholding is required for gambling winnings (including from bingo, keno, slot machines, and poker tournaments) if the (1) winner does not provide a correct taxpayer identification number; (2) regular withholding was not withheld; and (3) winnings meet the threshold for reporting them to the IRS (i.e., \$1,200 from bingo or slot machines, \$1,500 from keno, more than \$5,000 from a poker tournament, or \$600 and 300 times the wager).

(Backup withholding is calculated based on the total amount of the winnings minus, at the payer's option, the amount wagered).

### ***Connecticut State Income Tax***

For state income tax purposes, gambling winnings are subject to withholding at 6.99% if all of the following conditions are met:

- the payer has an office or transacts business in Connecticut,
- the payment is subject to federal income tax withholding, and
- the payment is made to a resident or someone receiving the payment on the resident's behalf.

Connecticut withholding is calculated on the same amount subject to federal income tax withholding (DRS, [Connecticut Tax Guide for Payers of Nonpayroll Amounts](#), Informational Publication 2024(8)).

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