

Tax Tip
Week of December 29, 2008

Winnings at U.S. Casinos

Although CRA is unable to tax most gambling profits, this is not the case in the United States. Casinos and other gambling establishments are required to apply a withholding tax of 30% on certain gambling winnings. The withholding tax does not apply to all types of gambling and the threshold at which it applies can vary. Withholding tax may not be a problem for American citizens as they can use the withholding tax as a credit on their U.S. tax return. However, for most Canadians, the U.S. withholding tax cannot be used as a credit on their Canadian return. As a result, many Canadian gamblers consider the U.S. withholding tax as “a cost of gambling” and settle for 70% of their winnings.

However, for Canadians that do win and have a withholding tax applied, there is a method that may recover all or a portion of this tax. In order to make such a recovery, Canadian taxpayers must take the following steps:

- obtain a U.S. Tax Identification Number
- file form 1040 – U.S. Non-resident alien income tax form
- file form 1042-S with the tax return. The casino provides this form at the time the tax is withheld
- on the U.S. tax return, gambling losses are used to offset the winnings on the amount that was subject to withholding taxes. Normally gamblers make a series of bets before becoming successful and the losses from other bets will reduce the amount of the gambling winnings that are subject to tax

Although individuals could file their own U.S. tax return, one should consider utilizing the services of a firm that has experience in this field. This would include a U.S. tax preparation firm, a Canadian tax or accounting firm with experience in this area or a tax refund services that specializes in helping Canadians recover withholding tax on gambling income.