

Is \$3,000 Unreported Gaming Income Too Small to Report

This is very simple case that may be useful to share with some of your clients.

Joel Arseo filed his 2015 tax return showing his wages of a little over \$25,000. He also claimed an IRA deduction of \$6,500 and used the standard deduction.

The case summary doesn't mention what triggered the IRS to look at Mr. Arseo's return but it was determined he didn't report \$25 of interest income and \$2,994 of gambling income. It was also determined that Mr. Arseo had not made an IRA contribution.

Mr. Arseo chose to represent himself at Tax Court. He agreed he had received the interest income of \$25 and the gambling income of \$2,994. He stated he gambled as a form of entertainment and didn't expect to win much. He stated he did not maintain records of his gambling activity, but he lost more than he won.

He supported his IRA contribution deduction by explaining that he took the \$2,890 of pretax contributions to the Arizona State Retirement System and doubled it to account for the employer matching contribution.

He finally complained that IRS' lack of responsiveness during the administration process of his case caused him stress.

Tax Court briefly supported IRS position on all issues – the interest income is taxable, the gambling income is taxable, the taxpayer did not itemize nor show itemized deductions would be higher than the standard deduction, and the taxpayer did not make a contribution to an IRA (and he could not deduct a pretax contribution to the state retirement system).

Points of this case – IRS decided the return was worth the time to conduct an examination. Maybe it was a combination of the interest income, gambling income, and no matching Form 5498 for an IRA contribution. Overall – less than \$10,000 of difference in adjusted gross income, yet IRS chose to pursue.

Maybe we should share this with some of our clients so they know we are serious when we ask our many questions.

Joel H Arseo, TC Summary Opinion 2019-8

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