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Personal tax tip #59

Gambling Winnings and Your Maryland Tax Obligations

Who must pay Maryland income taxes on their winnings?

Anyone who receives winnings from lottery games, racetrack betting or gambling must pay income tax on the prize money. Both residents and nonresidents of Maryland are subject to Maryland income tax on their winnings.

If I won more than \$5,000 in the lottery, why was my check for less than that amount?

Income tax will automatically be withheld, just as it is from your paycheck, if your winnings total more than \$5,000. According to Maryland law, prize winnings of more than \$5,000 are subject to withholding for both federal and state income tax purposes. Maryland taxes will be withheld at a rate of 8.75 percent on a resident's winnings. For a nonresident, the withholding rate is 7.00 percent.

If I won more than \$5,000 from pari-mutuel wagering (horseracing), why was the payoff less?

Income tax will automatically be withheld if the proceeds from the wager exceed \$5,000 and are at least 300 times as large as the amount of the original wager.

Do I have to file an extra state tax form if my winnings were more than \$500?

Yes. If your winnings are more than \$500, and you did not have Maryland tax withheld, you must file Form 502D, Declaration of Estimated Tax, and pay the tax on that income within 60 days of the time you receive the prize money. You can claim a credit for taxes paid with the 502D on your annual income tax return. Failure to pay the estimated tax due or report the income could result in penalty and interest charges.