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Italy is Enforcing Tax on On-line Gaming winnings

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Will the Italian enforcement efforts to force reporting of on-line gaming winnings be implemented in the U.S.? How will the sites adapt to the reporting requirements? The following article is of interest on these points.

Online Winnings To Be Included In Italian Tax Returns, by Ulrika Lomas, Tax-News.com, Brussels
Wednesday, January 05, 2011

On-line winnings, whether through betting or other games, are classified as ‘other income’ and therefore should be included on an individual’s tax return.

This was clarified by the Italian Revenue Agency, in a tax resolution issued on January 3, 2011. The Agency stated that all of the income from winnings realized on an online website that does not have an establishment in Italy, and which, therefore, does not withhold Italian tax at source, should be declared on a taxpayer’s return. Such income is subject to personal income taxation on the entire amount, without any allowable deduction for expenses incurred.

The Agency also explained that, if the taxpayer operates his gaming online by way of a non-interest bearing foreign bank account (with an example quoted of winnings made on an online casino by way of an account held by a financial intermediary in the Isle of Man), running the account could be classified as an external financial activity, subject to monitoring.

In that case, if the foreign account has a balance of more than EUR10,000 (USD13,450), and if movements across the account in any one year also reach over that amount, it will need to be declared as a financial asset that could produce foreign income liable to be subject to Italian taxation.

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The taxpayer will need to indicate the balance of the external account as at December 31, and that he receives no interest (with proof of such from the foreign bank holding the account). Furthermore, in the tax return, all transfers made from Italy to the foreign account should be declared, as well as transfers from that account to the taxpayer's Italian account.

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