

# **The Internet Gambling Regulation and Tax Enforcement Act of 2010**

## **What is the objective of this bill?**

The Internet Gambling Regulation and Tax Enforcement Act of 2010 would raise revenue for the U.S Treasury, as well as for each State and Tribal Government that allows online gambling within their jurisdiction, primarily through ensuring that applicable individual taxes, corporate taxes and license fees on regulated Internet gambling activities are collected. The legislation would also apportion 25 percent of the federal revenue collected, estimated by the Congressional Joint Committee on Taxation at nearly \$42 billion over 10 years, to provide assistance for those in foster care.

## **How is this bill different from the Internet Gambling Regulation and Tax Enforcement Act of 2009?**

The most significant change from earlier versions of the legislation is a provision that allows each State and Tribal Government to be paid six percent of deposits placed in their jurisdiction with licensed online gambling operators. This license fee combined with other applicable taxes would generate an estimated \$30 billion or more in new revenue for States and Tribal Governments over 10 years. In addition, the legislation now would apportion approximately \$10.5 billion over ten years for providing support to those in foster care.

## **How much revenue would be generated from regulated Internet gambling?**

Despite the current prohibition, millions of Americans wager close to \$100 billion annually with offshore Internet gambling operators. This legislation would ensure all applicable license fees and taxes are collected, rather than continuing to allow this much-needed revenue stream to flow offshore.

Specifically, the Joint Committee on Taxation estimates that up to \$42 billion in new revenue could be collected over the next decade for the U.S. Treasury in a regulated environment. Additionally, States and Tribal Government could collect approximately \$30 billion over the next decade.

## **How would this bill tax Internet gambling operators?**

Each licensed Internet gambling operator, on a monthly basis, would be required to pay a federal license fee equivalent to two percent of all funds deposited by individuals during the preceding month. Further, the legislation allows each State and Tribal Government to be paid six percent of all deposits placed by residents from their jurisdiction unless they opt to apply other fees or restrictions on the activity. These license fees would be paid solely by the Internet gambling operator and would not be deducted from the customer's deposit. This fee is designed to equalize the lower costs of operation in providing gambling services online than in a land-based venue, and would only be applied to licensed Internet gambling operators. The collection of the same individual and corporate income taxes currently applicable to play at land-based casinos would be required for licensed online gambling operators.

**Does this bill impose any taxes on individuals?**

Individuals would be required to pay annual income taxes on their net winnings, just like players who collect winnings in land-based casinos do today. Individuals who place bets with licensed Internet gambling operators would not have to pay any new taxes on funds deposited. However, individuals that deposit funds into accounts with unlicensed (“illegal”) operators will be liable to pay a fee of 50 percent of their deposit. The fee is intentionally considerable to deter individuals from gambling with unlicensed operators.

**Are individuals subject to withholding?**

If a player’s net winnings exceed \$5,000 annually, they would be subject to withholding. Withholding would apply only after withdrawals of net winnings exceed \$5,000 in a calendar year. Backup withholdings would apply if the taxpayer fails to provide a valid taxpayer identification number.

**What reporting requirements does this bill impose?**

The bill requires Internet operators to distribute an annual statement to individuals placing bets or wagers online. The statements would include gross winnings and losses, as well as the amount of tax withheld for each person during the calendar year.

**Would international operators be required to pay U.S. taxes on Internet gambling revenue?**

The bill updates existing U.S. law (the Internal Revenue Code of 1986) to incorporate online gambling by defining the territorial scope to include bets placed within the United States with any operator, regardless of the location of the operator.

**Who would enforce the requirements established in the legislation?**

The Secretary of the Treasury is responsible for designing enforcement mechanisms to ensure the collection of licensing fees and taxes required by this legislation.

**What happens if an operator fails to pay fees or taxes?**

Operators who fail to pay the fees or taxes required by this legislation would be in violation of U.S. law. The Secretary of the Treasury has the authority to suspend or revoke Internet gambling licenses for noncompliant operators.

**What happens if an individual fails to pay fees or taxes?**

Individuals gambling online would be responsible for paying income taxes on winnings, just as they are today. The bill does not impose any new taxes on individual gamblers engaged in lawful activities. If they chose to bet illegally with an unlicensed operator, such as a firm operating offshore that is in violation of U.S. laws, they would be responsible for paying the taxes that would otherwise be paid by the operators on their bets. This provision is intended to encourage individuals engaged in online gambling while in the U.S. to bet solely with licensed operators.

**How would Internet gambling operators be licensed?**

The Internet Gambling Regulation, Consumer Protection & Enforcement Act (H.R. 2267), a companion bill recently introduced by House Financial Services Chairman Barney Frank (DMA), requires in order to qualify for an Internet gambling license, applicants must demonstrate they have established, and can maintain, the following requirements, at minimum:

- Safeguards to verify the identity and age of each customer
- Safeguards to combat compulsive gambling

- Safeguards to verify the customer's location at the time he or she attempts to place a bet or wager
- Safeguards to ensure that the individual placing the bet or wager is physically located in a jurisdiction that permits that form of Internet gambling
- Protections against fraud, identity theft and money laundering
- Safeguards to protect customer's privacy and security