

The Internet Gambling Regulation and Tax Enforcement Act of 2009

What is the objective of this bill?

The Internet Gambling Regulation and Tax Enforcement Act of 2009 would raise revenue for the U.S Treasury primarily through ensuring that applicable individual taxes, corporate taxes and license fees on regulated Internet gambling activities are collected.

How much revenue would be generated from regulated Internet gambling?

Despite the current prohibition, millions of Americans wager more than \$100 billion annually with offshore Internet gambling operators. This legislation ensures all applicable license fees and taxes are collected, rather than continuing to allow this much-needed revenue stream to flow offshore. A recent analysis by the Joint Committee on Taxation estimated that up to \$41 billion in federal revenue could be collected 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 licensing fee equivalent to two percent of all funds deposited by individuals during the preceding month. The license fee 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 legislation also requires the collection of the same individual and corporate income taxes currently applicable to play at land-based casinos.

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 have to pay a fee of 50 percent of their deposit. The fee is intentionally considerable to deter individuals from gambling with unlicensed regulators.

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 or individual fails to pay fees or taxes?

Operators and individuals 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.

How is this bill different from the Internet Gambling Regulation and Tax Enforcement Act of 2008?

One change is that the Secretary of the Treasury has full regulatory jurisdiction over the licensing and operation of Internet gambling. In earlier versions of the bill, this power was designated to the Director of the Financial Crimes Enforcement Network (FinCEN). The new legislation also includes changes to the bill title and other minor technical and clarifying modifications to the 2008 bill.

How would Internet gambling operators be licensed?

Under The Internet Gambling Regulation, Consumer Protection & Enforcement Act, a companion bill recently introduced by House Financial Services Chairman Barney Frank (D-MA), 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