WRITTEN TESTIMONY FROM
THE HONORABLE JIM MCDERMOTT
Submitted to the
HOUSE COMMITTEE ON THE JUCICIARY
For the hearing on
Establishing Consistent Enforcement Policies in the Contest of Online Wagers
November 14, 2007

Mr. Chairman, thank you for the opportunity to submit written testimony at this hearing. As you are aware, I introduced legislation earlier this year, H.R. 2607, which would provide for the taxation of licensed Internet gambling in the U.S. I introduced this bill not because I am a proponent of Internet gambling – I am not – but because I am not blind to the fact that people will continue to gamble online regardless of any prohibition against it. I therefore believe that the only appropriate, reasoned response is to regulate Internet gambling, so consumers are afforded certain protections and so revenue that would otherwise flow to foreign jurisdictions stays here in the U.S.

My legislation would ensure that for any Internet gambling that occurs in the U.S., all taxes due under federal and state law will be collected – it is a complement to legislation introduced by House Financial Services Chairman Barney Frank (D-MA), which would establish a regulatory regime for licensed Internet gambling. It requires all corporate and personal withholding taxes be collected, but does not impose any additional taxes on U.S. residents. In recent weeks, we have shaped some policy improvements to the legislation that would allow us to provide greater protections against tax cheating relating to online gambling, and thereby increase much-needed revenue. As amended, my legislation, would:

- Impose a fee equal to 2% of deposits placed during the prior 30 days with or on behalf of a licensee for the purposes of wagering.
- Impose a .25% wagering tax on all authorized online gambling (and a 2% wagering tax on all unauthorized online gambling.
- Impose 30% withholding on withdrawals of net winnings by non-U.S. persons.
- Authorize 50 states and DC to impose indirect taxes on licensees with respect to wagers placed by persons within their jurisdictions.
- Require licensees' senior management to reside in the U.S. and computer equipment to be located in the U.S., thereby maximizing availability of corporate taxes.

To be clear, most of the revenues generated would come from taxes required under existing law that we currently lose because of a misguided belief that we can actually stop Internet gambling. Specifically, these are not *new* taxes, but rather taxes on existing activity that is currently unregulated, unsupervised, and underground. The exception is that my legislation also imposes a fee equal to 2% of deposits placed with a licensed gambling operator. This fee would be paid by the operator, not the individual gambler, and it would help level the playing field for land-based casinos that are concerned about Internet gambling affecting their business. Obviously, the overhead for a land-based casino is greater than that of an online casino, but the 2% fee *on Internet gambling sites only* helps narrow that gap. The provision does not, nor is it intended to, impose any new tax on the operations of land-based casinos. To do so would violate the very purpose of the provision as an equalizer between the land-based and the online industries.

In putting together my legislation, I reviewed various studies and estimates on the amount of Internet gambling that occurs in the U.S. to estimate how much revenue my bill might provide when combined with the proposal by Chairman Frank. In addition, it is my understanding that a private sector analysis was performed to estimate the revenues that would be generated through regulating Internet gambling in the U.S. by adopting legislation based on Chairman Frank's bill and my current proposal. This analysis preliminarily estimates that regulating Internet gambling would generate between about **\$3.1 billion to \$15.2 billion** in federal revenues during its first five years, and between about **\$8.7 billion to \$42.8 billion** over its first ten years. In fact, assuming that states permit the same gambling activities online as they currently do offline, and assuming the sports leagues opt-out entirely, my proposal would raise about **\$6.3 billion** over five years and **\$17.6 billion** over ten years.

Because the estimates are based on both bills, and Chairman Frank's bill permits individual states and sports leagues to prohibit any Internet gambling, the lower number would reflect a situation in which sports leagues and most states opted-out of the system. The higher number would reflect a situation without opt-outs. Notably, the single largest component of the revenues – more than 50% of the total -- would be generated from individuals reporting gambling winnings not captured under the current prohibition regime. The 2% fee on deposits and the 0.25% wager tax would each constitute slightly less than 22% of the total, and the corporate tax on operators would constitute an average of about 5% of the total.

Even under the most conservative estimates, licensing and regulating Internet gambling – and collecting the taxes that are due – will provide much-needed revenue to the U.S. Treasury. This is money we are currently losing to other jurisdictions, for no other reason than some of my colleagues think we can actually stop people from gambling online. It is money we will continue to lose if we ignore the fact that if grown adults in America want to gamble online, they can and they will.