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## Congress of the United States

JOINT COMMITTEE ON TAXATION  
1015 LONGWORTH HOUSE OFFICE BUILDING  
WASHINGTON, DC 20515-6453  
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OCT 23 2009

Honorable Jim McDermott  
U.S. House of Representatives  
1035 Longworth House Office Building  
Washington, D.C. 20510

Dear Mr. McDermott:

This letter responds to your request of October 1, 2009, for revenue estimates of modifications of two bills to regulate and tax internet gambling. The first bill, H.R. 2267, the "Internet Gambling Regulation, Consumer Protection, and Enforcement Act," establishes a regulatory framework for lawful internet gambling. The second, companion bill, H.R. 2268, the "Internet Gambling Regulation and Tax Enforcement Act of 2009," imposes a license fee, information reporting requirements, and backup withholding obligations on licensed providers of internet gambling services.

Under present law, the U.S. Department of Justice takes the position that all internet wagering is prohibited. The Unlawful Internet Gambling and Enforcement Act prohibits financial institutions from transferring funds to an internet gambling site. The Internet Gambling Regulation, Consumer Protection, and Enforcement Act establishes a Federal licensing and regulatory framework for internet gambling that would require providers of internet gambling services to obtain a license from the Secretary of the Treasury. These licenses are valid for five years and may be revoked for any violation or if the licensee is determined under the provision to be unsuitable for licensing. Prospective licensees must agree to submit to U.S. jurisdiction, and must pay a user fee sufficient to cover the costs of administering the licensing program. Among other things, licensees are required to implement appropriate safeguards to ensure that individuals placing wagers are of legal age, to ensure that such individuals reside in a location that permits internet gambling, to ensure that all taxes and fees are paid, and to combat compulsive gambling. The bill also provides that no financial transaction providers shall be held liable for engaging in financial activities related to lawful internet gambling. Furthermore, no licensee may knowingly accept wagers from persons who reside in any State or Indian tribal land which provides notice that it will prohibit such wagers. Online wagering on professional and amateur sports will remain prohibited.

The Internet Gambling Regulation and Tax Enforcement Act of 2009 imposes a license fee on internet gambling licensees equal to two percent of all funds deposited by customers into an account used for the purpose of internet gambling. Persons making deposits for the purpose of placing a bet or wager with an unlicensed internet gambling operator are subject to a tax of 50 percent on such deposits. The bill also establishes information reporting requirements for internet gambling licensees. These licensees must provide the name, address, and tax identification number of the licensee and each person placing a bet with such licensee as well as certain information on the annual winnings, wagers, losses, and deposits for each person placing

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a wager. Provisions are also made for backup withholding and withholding of tax on nonresident aliens. Finally, section 4404(2) of the Internal Revenue Code is amended to expand the territorial extent of the tax on wagers to include wagers placed within the United States or any Commonwealth, territory, or possession thereof by any U.S. citizen or resident.

We have assumed that H.R. 2268 will be modified so that the wagering tax levied under section 4401 applies to all wagers placed with internet gambling operators, and that wagers placed from within a State that has not opted out of the framework provided by H.R. 2267 will be considered State authorized wagers for purposes of the wagering tax.

We have also assumed that the Internet Gambling Regulation, Consumer Protection, and Enforcement Act will be modified to require internet gambling licensees to be incorporated in the United States, and senior management and computer equipment to be located in the United States.

We have also provided estimates of the bills, incorporating the modifications discussed above, such that: (1) the licensee fee imposed by H.R. 2268 is four percent, (2) the licensee fee imposed by H.R. 2268 is six percent, and (3) no State or tribal government will be permitted to limit Federally licensed internet gambling operators from providing online gambling services in their jurisdictions.

For revenue estimating purposes we have assumed that these bills will be enacted on December 1, 2009. While H.R. 2268 is effective for bets or wagers placed after the date of enactment, the regulatory and licensing framework established by H.R. 2267 is not applicable until 90-days after the publication of regulations which are required to be published before the end of the 180-day period beginning on the date of enactment. Therefore, we have assumed that lawful internet gambling commences nine months after the date of enactment. The Congressional Budget Office estimates that the license fee imposed upon prospective licensees by H.R. 2267 will be sufficient to cover the costs of the licensing regime. Estimated effects of these modified bills on Federal fiscal year budget receipts are the following:

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<u>Item</u>	<u>Fiscal Years</u> [Millions of Dollars]											
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2010-14</u>	<u>2010-19</u>
H.R. 2267 and 2268 amended to ensure application of the wagering tax and to require U.S. presence ...	53	581	770	902	1,035	1,161	1,277	1,357	1,413	1,468	3,340	10,017
H.R. 2267 and 2268 amended to ensure application of the wagering tax and to require U.S. presence with a 4 percent license fee.....	63	692	898	1,052	1,208	1,354	1,489	1,580	1,645	1,709	3,913	11,689
H.R. 2267 and 2268 amended to ensure application of the wagering tax and to require U.S. presence with a 6 percent license fee.....	73	789	1,009	1,182	1,359	1,522	1,673	1,774	1,847	1,918	4,412	13,146
H.R. 2267 and 2268 amended to ensure application of the wagering tax and to require U.S. presence with a 2 percent license fee and no State opt-outs.....	218	2,415	3,212	3,765	4,320	4,848	5,332	5,670	5,904	6,131	13,930	41,815

NOTE: Details may not add to totals due to rounding.

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I hope this information is helpful to you. If we can be of further assistance in this matter, please let me know.

Sincerely,

A handwritten signature in cursive script that reads "Thomas A. Barthold". The signature is written in black ink and is positioned above the printed name.

Thomas A. Barthold