

House effort would legalize, tax online gambling

April 26 2010, By Michael Beller

Americans looking to satisfy their gambling itch can do so now at the close to 1,700 casinos across the country. A bill in the House of Representatives could bring casino gambling to the approximately 86.8 million American homes with Internet access.

Reps. Barney Frank, D-Mass., and Jim McDermott, D-Wash., are leading a group that proposes to repeal the Unlawful Internet [Gambling Enforcement Act](#), which is set to go into effect June 1. Their plan would legalize and tax [online gambling](#).

"We have an activity going on illegally in this country and we're pretending it doesn't exist," McDermott said. Internet gambling "people have said 'We want to be legal and we're certainly willing to pay taxes,' and we need the money. On every count, this is a net positive."

The bill calls for a 6 percent tax on all deposits to be paid to state and tribal governments made by residents of their jurisdiction. For example, if someone living in Missouri puts \$1,000 into an online gambling account anywhere in the country, \$60 would go to Missouri's state government.

Additionally, 2 percent of all deposits would go to the federal government. The congressional Joint Committee on Taxation estimated the bill would generate \$30 billion for state and tribal governments and \$42 billion for the [federal government](#) over the next 10 years.

"This is a huge boon to the state governments," McDermott said. "If you look across the country you're seeing programs cut. In Arizona, they just cut out a program for children's health for 40,000 kids. Here's a source of money" to keep that going.

Along with much-needed funds, Frank made a libertarian argument supporting new legislation.

"American adults want to be able to do what they want with their own money without the government interfering," Frank said.

Opponents of Internet gambling aren't standing by idly, and are lining up to oppose Frank and McDermott in the House.

Last week, a Republican memo tying jailed lobbyist Jack Abramoff to online gambling made its way around Capitol Hill. Professional sports leagues are against the bill because they think it will expand wagers placed on their games.

Other influential groups, such as the nonprofit conservative Christian organization Focus on the Family, are firmly against any extension of legal gambling.

Chad Hills, policy and research analyst for Focus on the Family, said addictive gambling is already a problem in America and passage of this legislation would only exacerbate that problem.

"This basically creates a national casino and there's no time they won't be operating," Hills said. "We already have between 15 and 20 million people in the U.S. with a pathological gambling problem."

The bill was set to be considered earlier this month by the House Financial Services Committee, but the hearing was canceled due to a

scheduling overload. Frank, the panel's chairman, plans to get a vote this spring, and is confident the House will pass the bill.

There is no companion bill in the Senate, but Sen. Robert Menendez, D-N.J., introduced a bill last August seeking to legalize and tax poker and games of chance on the Internet.

The casino industry always kept an eye on Internet gaming as a potential business opportunity in case its legal status ever changed. Casino operators often think of the online gamer as a completely different beast from the gambler who will spend a night or a weekend at the tables. That means an untapped source of revenue is out there, and the industry may be positioned better than anyone to get in right away.

"Casinos are uniquely poised to quickly enter this market and to benefit because it's a new activity, it's a new revenue stream," said Michael Waxman, executive director of the Safe and Secure Internet Gambling Initiative, an advocacy group that lobbies on behalf of the Internet gaming industry.

The land-based casino industry and the American Gaming Association were initially opposed to Internet gambling because they didn't think the proper technology existed to protect consumers. In December 2008, the American Gaming Association set out to determine whether the appropriate technology could be implemented, a test that gambling websites passed unanimously, according to Frank Fahrenkopf, president and CEO of the AGA.

With that concern out of the way, most casinos see Internet gambling as another source of revenue rather than a competitor.

"The Internet, no matter how hard it tries, will never be able to substitute that personal interaction that guests desire and our team members

provide," said Troy Stremming, the senior vice president of government relations and public affairs for Ameristar Casinos Inc.

Fahrenkopf, who was the chairman of the Republican National Committee from 1983 to 1989, agreed.

"If there was going to be cannibalization, it's already taking place," he said. "Ten years ago, if we took a look at the financial statement of MGM Mirage, for example, 65 to 70 percent of its bottom line would've come from gaming revenue. Three years ago, it was 45 percent."

The gambling industry continues to make more of its money away from the casino floor with each passing year. In 2000, 60 percent of MGM's revenue after promotional expenses came from gambling. In 2007, the last year casinos roundly turned a profit, 42 percent of MGM's revenue was from gambling, even though its net revenues had more than doubled. Now more than ever, casinos build their bottom lines through room rentals, food, beverages and entertainment.

Under the Unlawful [Internet Gambling Enforcement Act](#), the banking industry will be responsible for policing Americans trying to play poker or place wagers online. The act requires banks to monitor credit card transactions to ensure that none are going to offshore gambling websites.

The banks are confident they can enforce the law, but say it will take time to implement changes, and that some transactions will be able to slip through the cracks.

Steve Kenneally, the vice president of the American Bankers Association, said that there would be no way for banks to stop people from writing a check or making a wire payment to an Internet gambling site. He said banks can easily prevent credit and debit card payments, provided the online casinos are labeled as such.

He also said banks will incur extra costs associated with their new responsibilities, and that ambiguities in the law make determining what is actually an "unlawful transaction" challenging.

"We're just telling all of our bankers to be prepared on June 1," Kenneally said.

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