

Taxing online sports betting, fantasy sports may help states cover pandemic losses

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Taxing online fantasy sports and sports betting may help states recoup some of the sales tax revenue lost during the coronavirus pandemic, according to a finance expert at Rice University's Baker Institute for Public Policy.

Joyce Beebe, a fellow in public finance, writes that COVID-19 has

saddled state governments with large revenue shortages, highlighted by a 21% plunge in average sales tax revenue in May 2020 compared with a year earlier. Some [states](#) have been exploring creative ways to raise money—like imposing excise taxes on sports betting and daily fantasy sports (DFS).

"When excise taxes are levied on potentially harmful goods and activities, such as cigarettes, gambling and [alcoholic beverages](#), they are often called 'sin taxes,'" Beebe wrote. "Over time, what constitutes 'sinful' products varies as a result of evolving cultural, health and social perspectives. Although 'sin taxes' arguably focus on goods and activities that aren't overly controversial, the [public debate](#) is no less intense, because the tax is imposed, in part, to change people's behaviors."

The U.S. Supreme Court overturned a federal law prohibiting sports betting in 2018, allowing states to decide on the issue for themselves. As of 2020, sports betting is legal—and providing tax revenue—in 23 states and Washington, D.C. Yet, not all of these states allow DFS, and not all states that allow DFS permit sports betting.

"The distinction generally lies in whether the fantasy sports are considered a 'game of chance' or a 'game of skills' under state law, where the former falls in the definition of gambling and the latter is generally authorized," Beebe wrote. "As such, some DFS industry groups maintain the distinction between DFS and sports betting by emphasizing the skill element of DFS, hoping to increase the chance of legalizing DFS—although their goal is to ultimately legalize both."

COVID-19 has provided an unexpected environment for DFS to flourish due to social distancing measures, Beebe argues. She wrote that such measures may continue to "fuel the popularity of online sports betting, and the pandemic will motivate more states to accelerate its legalization."

"When debating whether to legalize sports betting, the real gain is that states can regulate the activities and provide a legitimate environment that protects consumers from disreputable operations and limits the risk of addiction," Beebe wrote.

More information: Be a good sport (and pay your taxes):
blog.bakerinstitute.org/2020/09/17/be-a-good-sport-and-pay-your-taxes/

Provided by Rice University

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