

INTERNET POKER AND GAMES OF SKILL REGULATION, CONSUMER PROTECTION AND ENFORCEMENT ACT SUMMARY

THIS BILL WOULD LICENSE AND REGULATE ENTITIES WHO WANT TO RUN ONLINE GAMES OF SKILL IN THE UNITED STATES

PURPOSE:

Internet poker has become a worldwide phenomenon which has continued to grow for more than a decade. It is estimated that approximately 10 to 15 million Americans play Internet poker with some regularity. The average Internet poker player spends \$10 to \$20 of their recreational dollars on a given poker Web site. This is less than the cost of dinner or going to the movies.

Currently, companies that offer Internet poker are licensed, regulated and taxed in foreign jurisdictions. **However, to date the United States has failed to exercise oversight and control of Internet gaming even though the U.S. represents the largest percentage of Internet poker players worldwide.** The millions of Americans who play Internet games of skill will benefit greatly from the additional protections U.S. regulation can provide.

This bill establishes the needed licensing and regulatory framework for the United States to exercise appropriate control and oversight over Internet poker and other games of skill that currently is lacking. **This oversight includes a thorough vetting of potential licensees; mandatory implementation of technologies to protect against underage gambling and to monitor and detect individuals with excessive gaming habits; high standards to thwart fraud and abuse of customers; regulation to prevent money laundering; and, processes to prevent tax avoidance.** Licensing and regulation of other gaming modalities have proven successful in protecting consumers as well as eliminating “bad actors” from the marketplace.

In addition, the bill proposes to create meaningful enforcement against Internet poker companies that seek to operate outside of the licensing process as well as companies that take unlawful Internet sports bets, or that accept bets from minors under age 21. By licensing good actors and blacklisting bad ones, the bill brings needed clarity that would allow Treasury to pursue black market sportsbooks and gambling shops.

Finally, the bill would give states and the federal government needed revenue from an industry that currently only pays taxes in foreign jurisdictions. The bill provides for the appropriate taxation of players’ net winnings as income and imposes taxes on Internet poker entities comparable to the taxes paid by other gaming entities. Conservative estimates have shown that more than \$3 billion in annual revenue can be raised by licensing and regulating Internet poker.

While some might like to wipe the poker industry off the map, the reality is that internet poker has continued to thrive in the U.S. It is simply a question of whether the federal government wants to have a say in how Americans can play.

SUMMARY:

This legislation provides a licensing, regulatory and taxation framework to establish a legitimate online skill game industry in the United States, while creating enhanced enforcement against those who accept illegal Internet gambling from the United States.

LICENSING:

- Require applicants to undergo a thorough review by the Department including the financial condition of applicant, business record, and background checks
- In addition to any further documentation requested by the Department, the applicant must submit a full financial statement, corporate structure documentation, and a certification that applicant agrees to be subject to US gambling laws.
- The burden of proof is on the licensees. The Department has wide latitude to deny licenses for anybody who they do not feel meets the criteria set by the Department for honesty, integrity, business probity, and experience, and financial capabilities facility.
- Automatic denial to anybody previously convicted anywhere in the world of gambling, financial, or information security law.
- License term will be five years in length; renewal subject to same requirements
- License will be revoked for failure to comply with any provision in this legislation, or conviction of a crime that would lead to denial of license.

REGULATION:

- Any state or Indian tribe can opt out of regulations, and it will be illegal to accept bets from individuals residing in these jurisdictions.
- Treasury must require periodic financial reports from each licensees; and in turn submit an annual report to Congress on the status of the online skill game industry.
- Violations of this legislation will be punished by fines and prison terms of a maximum of 5 years.

CONSUMER PROTECTION:

This legislation directs the Department of the Treasury to develop the following regulations that licensess must follow in order to retain their license:

- Appropriate Safeguards to ensure age verification
- Ensure bettors are physically located in a jurisdiction where gambling is legal.
- Ensure all taxes due are collected
- Safeguards to combat fraud and money laundering.
- Safeguards to ensure games are fair.
- Safeguards to combat compulsive internet gambling
- Privacy safeguards for bettors
- Any other safeguards the Director of FCEN believes necessary

TAXATION:

This legislation imposes appropriate taxes on providers of Internet games of skill, which can yield billions of needed dollars state and Federal government.

- Licensed sites must pay a 10% tax on all deposits into playing accounts, the proceeds of which are split evenly between the federal government and the government of the state where the player is situated.
- Appropriate withholding of taxes on the net winnings of players.
- Appropriate payment of corporate taxes by licensed companies.

PROBLEM GAMBLING AWARENESS, RESEARCH AND TREATMENT

The legislation provides unprecedented funding for programs to promote problem gambling awareness, research and treatment.

- Authorizes \$200,000 per year over five years for problem gambling awareness education.
- Authorizes \$4 million per year over five years for problem gambling research.
- Authorizes \$10 million per year over five years for grants to help states, localities and non-profits provide treatment to individuals with gambling problems.