CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 22, 2010

H.R. 2267
Internet Gambling Regulation, Consumer Protection, and Enforcement Act

As ordered reported by the House Committee on Financial Services on July 29, 2010

SUMMARY

H.R. 2267 would amend existing law that regulates Internet gambling. The legislation would establish a framework for federal regulations and enforcement and would require Internet gambling operators to obtain licenses to accept wagers from individuals in the United States.

CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting H.R. 2267 would increase revenues by $971 million and direct spending by $688 million over the 2011-2020 period. Those changes in revenues and direct spending would reduce future budget deficits by $283 million over the same period. Because the legislation would affect direct spending and revenues, pay-as-you-go procedures apply.

H.R. 2267 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

By requiring all Internet gambling facilities to be licensed by the federal government, H.R. 2267 would impose a private-sector mandate, as defined in UMRA, on businesses that are currently authorized to offer online gambling services. Based on information from industry sources and the Department of the Treasury, CBO estimates that the aggregate cost of the mandate would fall below the annual threshold established in UMRA for private-sector mandates ($141 million in 2010, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2267 is shown in the following table. The costs of this legislation fall within budget function 800 (general government).

	By Fiscal Year, in Millions of Dollars											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2015	2011-2020
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	20	40	60	80	82	83	85	87	88	90	282	715
Estimated Outlays	14	34	54	74	81	83	84	86	88	90	257	688
CHANGES IN REVENUES												
Treasury User Fees	15	30	45	60	61	62	64	65	66	68	211	536
Taxes on Increased Gambling Income	1	17	25	34	41	47	54	62	72	82	118	435
Total Changes in Revenues	16	47	70	94	102	109	118	127	138	150	329	971
NET INCREASE OR DECREASE(-) IN THE BUDGET DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Net Deficit Impact	-2	-13	-16	-20	-21	-27	-33	-41	-50	-60	-72	-283

Note: Amounts may not sum to totals because of rounding.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted in 2010. Enacting the bill would increase both direct spending and revenues, but have no significant impact on spending subject to appropriation.

Direct Spending

CBO expects that enacting H.R. 2267 would increase the workload of the U.S. Treasury because the department would be required to establish regulations and to issue licenses to operators of Internet gambling sites. The department would be required to review an applicant's financial condition and corporate structure, business experience, suitability, and stability and conduct a background check before issuing those licenses. The legislation also would allow the Treasury to revoke or terminate the license of any operator.

Under the legislation, the department would be authorized to collect a fee to offset the costs of regulating the Internet gambling industry. Amounts collected would be available for the Treasury's use without further appropriation. Based on information from the department and the cost of similar programs, such as the Financial Crimes Enforcement Network, CBO estimates that when fully implemented, H.R. 2267 would cost about $85 million annually, mostly for salaries, benefits, expenses, and training of additional lawyers, accountants, and computer specialists. We expect that it would take about four years to reach that level of effort; over the 2011-2020 period, CBO estimates that costs would total about $670 million.

Revenues

Because the fees that would be collected under this bill would be compulsory payments arising from an exercise of the government's sovereign authority, CBO believes that those amounts should appear in the budget as revenues. Furthermore, because fees paid to the Treasury would reduce the base of income and payroll taxes, those new fees would lead to reductions in revenues from income and payroll taxes. As a result, the fees collected by the Treasury from gambling operators would be partially offset by a loss of receipts from income and payroll taxes estimated to total 25 percent of the fees. CBO estimates that net receipts would total $536 million over the next 10 years.

Staff of the JCT expects that enacting this bill would increase taxable income and federal revenues. Those increases would occur because gambling winnings and losses would both increase under this legislation and are treated differently in the tax system. For nonprofessional gamblers, winnings are taxable under the individual income tax, and such winnings can be offset by gambling losses only for taxpayers who itemize their deductions. In addition, gambling losses that exceed gambling winnings are not deductible from income for such taxpayers. Staff of the JCT estimates that additional revenues would total $435 million over the 2011-2020 period.

H.R. 2267 also would establish new federal crimes related to Internet gambling; enacting the bill thus could increase civil and criminal penalties. CBO estimates that any additional collections would not be significant because of the small number of cases likely to result. Civil crimes are recorded in the budget as revenues. Criminal fines also are recorded as revenues, deposited in the Crime Victims Fund, and subsequently spent without further appropriation.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 2267 as ordered reported by the House Committee on Financial Services on July 27, 2010

	By Fiscal Year, in Millions of Dollars												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2010-2015	2010-2020
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	-2	-13	-16	-20	-21	-27	-33	-41	-50	-60	-72	-283

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 2267 contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

By requiring all Internet gambling facilities to be licensed by the federal government, H.R. 2267 contains a private-sector mandate, as defined in UMRA, on businesses that are currently authorized to offer online gambling services. Online services, for example, facilities that offer gambling where permitted by state or tribal law and facilities that offer gambling on horse races, would have to comply with new federal standards for Internet gambling. According to information from industry sources, approximately 20 facilities offer online gambling on horse races, earning about $100 million in annual revenues, and no Web sites currently offer other types of gambling either within a state or on tribal land.

The cost of the mandate would include redesigning Web sites, changing business operations to meet the new federal standards, and paying user fees to the Department of the Treasury. Based on the current number of online gambling sites and information from industry sources on the costs of adhering to licensing requirements, CBO estimates that the cost of the mandate would fall below the annual threshold established in UMRA for private-sector mandates ($141 million in 2010, adjusted annually for inflation).

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