U.S. iGaming State Tax Revenue Potential

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About This Report

This report, produced on behalf of Light & Wonder, provides independent forecasts for the potential tax revenue that state governments could conservatively expect to earn if internet gaming, or iGaming, were legal in each state that currently has either legal land-based casino gaming or online sports betting, or both.

iGaming is defined as the offering of virtual casino-style games, including slots and table games such as blackjack and roulette, made available via digital platforms through players' own devices. It does not include online or mobile sports betting, which involves wagers on real-life sporting events. State tax revenue forecasts included in this report therefore reflect iGaming only, and do not include additional tax revenue that could be derived from mobile sports betting.

Notable Numbers

$53.03bn
Total size of the U.S. commercial gaming industry, including land-based casinos, iGaming and sports betting, by gross revenue in 2021, according to the American Gaming Association.

$30.37bn
Potential size of the U.S. iGaming market by annual revenue if iGaming were legalized in all 42 states that currently have legal land-based commercial or tribal casinos or mobile sports betting.

$970m
Direct gaming tax revenue generated by legal iGaming for state and tribal governments in 2021 in just six states where online gaming is currently legal, versus $560m generated in the 30 states with legal sports betting.

$6.35bn
Estimated annual tax revenue that could be generated by legal iGaming if legalized in all 42 states with legal land-based casinos or mobile sports betting, assuming a 20 percent tax rate in newly authorized states.

US iGaming Market Map
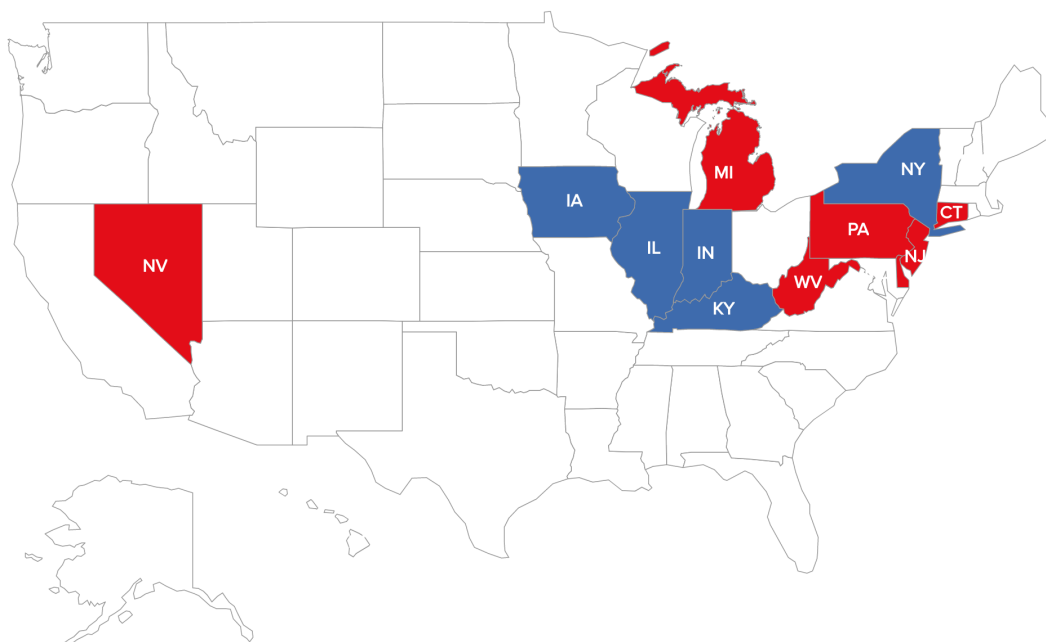
● iGaming Legal
● iGaming legislation considered in 2022

U.S. iGaming Tax Revenue Potential

State and local governments would conservatively generate almost **$6.35bn** in annual tax revenue from legal internet gaming, or iGaming, if iGaming were permitted in each of the states that presently allows land-based casino gaming or mobile sports betting.

iGaming involves the operation of casino-style games, including slots, blackjack and roulette, offered via digital platforms through players' own devices. It is distinct from sports betting, which involves betting on real-world sporting events.

At present, legal iGaming is restricted to just six states – Connecticut, Delaware, Michigan, New Jersey, Pennsylvania and West Virginia – and Nevada permits online poker, but not the casino-style games that are also available in the other states. Internet gaming in those six states generated total tax revenue of approximately $970m in 2021, compared with

approximately $560m from sports betting, despite the latter being offered in 30 states during the year.

Evidently, internet gaming has not expanded at the same rapid pace as legal sports betting since the 2018 U.S. Supreme Court ruling that permitted all 50 states to legalize wagering on sporting events, as state policymakers have so far been more hesitant in authorizing online casino games and poker. This hesitancy bucks the trend seen in Europe, Canada and various other parts of the world, where governments have generally tended to regulate internet gaming at the same time as mobile sports betting.

Internet gaming was first launched in New Jersey and Delaware in late 2013. Pennsylvania's internet gaming market launched six years later, followed by West Virginia in 2020, and Michigan and Connecticut in 2021. Legislation to authorize internet gaming or online poker has been introduced for consideration in

several states, including Illinois, Indiana, Iowa and New York.

Tax Revenue from iGaming vs Sports Betting (US$m) - 2021
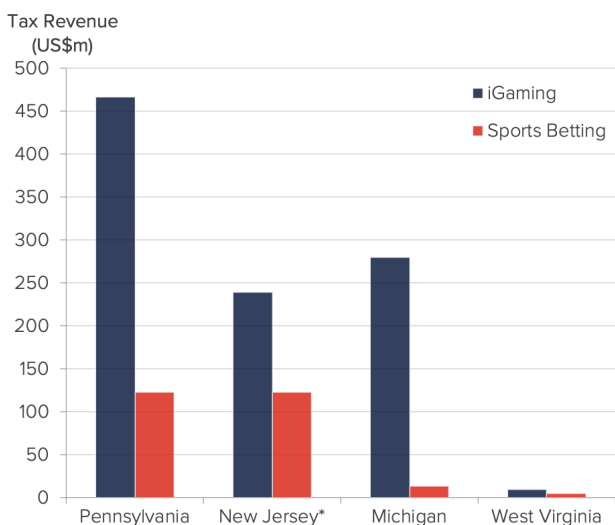
Source: State gaming commissions   *Includes estimated Investment Alternative Tax contributions

The $6.35bn tax revenue forecast assumes that each state with legal land-based casino gaming or mobile sports betting would generate similar average revenue per adult as four of the established iGaming states in Michigan, New Jersey, Pennsylvania and West Virginia. Given that the first three of those states generate significantly higher revenue on a per capita basis than less populous West Virginia, it is possible this projection is conversative.

For the 36 states, with the exception of Nevada, that have yet to legalize iGaming, it is assumed that a 20 percent tax would be applied to operators' gross gaming revenue, or the money won by the operator after winning players are paid out.

Current tax rates applied to legal iGaming in the six established iGaming states range from 15 percent in West Virginia to 54 percent applied to slot-style games in Pennsylvania, with New Jersey, Connecticut and Pennsylvania (for table games and poker) applying rates of 16 to 18 percent and a graduated rate of 20-28 percent applied in Michigan depending on revenue thresholds.

Generally speaking, it is widely held that online gaming can be operated at somewhat higher tax rates

than those currently being applied to mobile sports betting in various states due to the higher-margin nature of iGaming relative to sportsbook operations.

In reality, each state would ultimately determine its own tax rate applicable to iGaming based on local public policy factors that include the current gaming tax rates paid by incumbent land-based casinos, state budgetary policies and other matters. Notably, policymakers could also choose whether to apply taxes on a gross or net revenue basis, potentially enabling operators to deduct player bonuses and promotions offered to customers, or a limited amount of them, from taxable revenue.

It should be noted that the forecasted tax revenue for each state reflects an iGaming market that has reached a point of maturity, potentially in the second or third year of full operations, or later. However, it should also be noted that Michigan in particular has demonstrated that a state's regulated iGaming market could ramp up to a point of relative maturity very quickly and come to generate significant tax dollars within just a few months if accompanied by suitable marketing and product investment on the part of operators, including through the promotion of iGaming offerings to sports bettors.

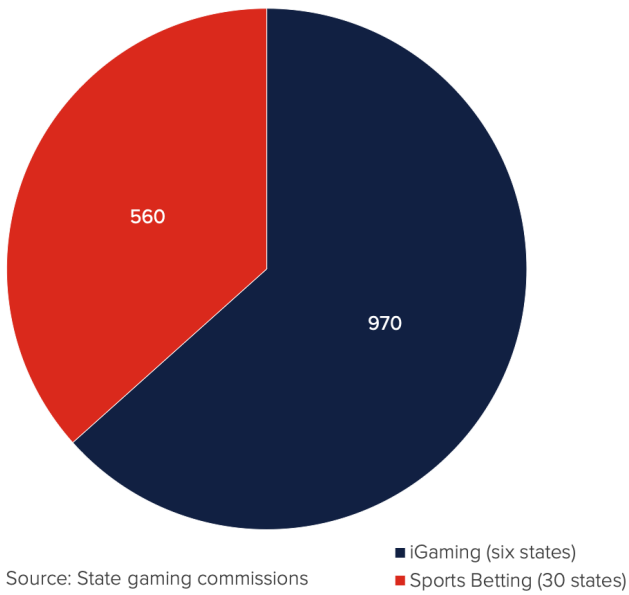**United States: iGaming GGR (US$bn) - 2018Q1 to 2022Q1**
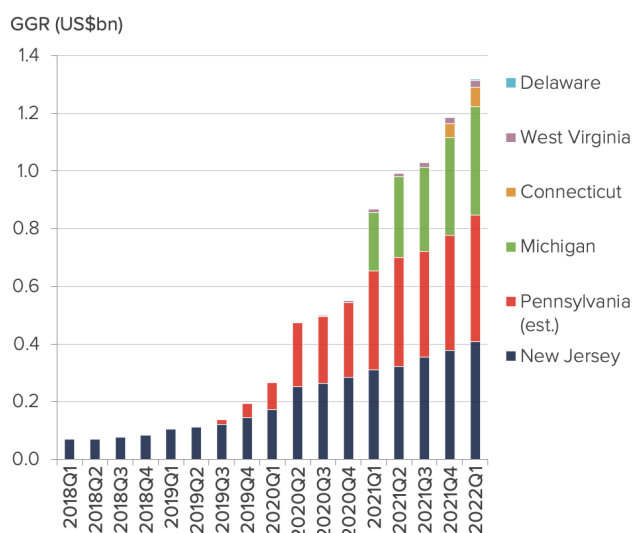
Source: State gaming commissions, VIXIO GamblingCompliance estimates
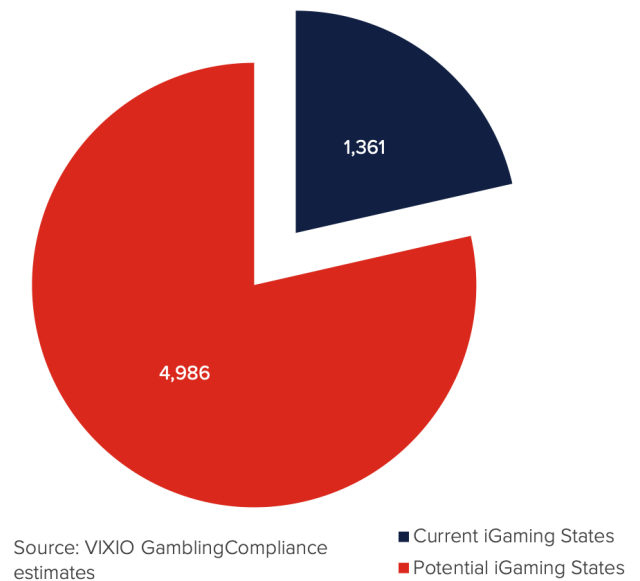
US iGaming tax forecasts

	Adult Population (m)	iGaming GGR Potential (US$m)	iGaming Tax Revenue Potential (US$m)
Arizona	5.78	805.6	161.1
Arkansas	2.33	325.1	65
California	30.58	4,265.5	853.1
Colorado	4.56	635.8	127.2
Connecticut*	2.84	297.0	53.5
Delaware*	0.78	14.0	8
DC	0.58	81.4	16.3
Florida	17.48	2,438.8	487.8
Idaho	1.38	191.9	38.4
Illinois	9.81	1,368.4	273.7
Indiana	5.19	723.8	144.8
Iowa	2.44	340.1	68
Kansas	2.22	309.3	61.9
Louisiana	3.56	497.2	99.4
Maine	1.10	153.7	30.7
Maryland	4.72	658.7	131.7
Massachusetts	5.55	774.5	154.9
Michigan*	7.84	1,744.0	402.3
Minnesota	4.36	607.7	121.5
Mississippi	2.27	317.2	63.4
Missouri	4.78	666.8	133.4
Montana	0.86	118.7	23.7
Nebraska	1.46	204.0	40.8
Nevada**	2.44	219.0	14.8
New Hampshire	1.11	155.2	31.1
New Jersey*	6.95	1,760.0	308
New Mexico	1.64	227.9	45.6
New York	15.35	2,141.1	428.2
North Carolina	8.29	1,157.1	231.4

North Dakota	0.58	81.4	16.3
Ohio	9.12	1,272.9	254.6
Oklahoma	3.03	422.3	84.5
Oregon	3.38	471.6	94.3
Pennsylvania*	10.16	1,365.0	572.3
Rhode Island	0.86	119.3	23.9
South Dakota	0.67	94.1	18.8
Tennessee	5.37	749.6	149.1
Virginia	6.72	928.0	187.6
Washington	6.03	840.9	168.2
West Virginia*	1.43	116	17.4
Wisconsin	4.57	638.1	127.6
Wyoming	0.45	62.7	12.5
TOTAL	**210.6m**	**$30.371bn**	**$6.347bn**

State Tax Revenue: iGaming vs Sports Betting (US$m) - 2021

560

970

■ iGaming (six states)
■ Sports Betting (30 states)

Source: State gaming commissions

iGaming Tax Revenue Forecasts: Current vs Potential States (US$m)

1,361

4,986

■ Current iGaming States
■ Potential iGaming States

Source: VIXIO GamblingCompliance estimates

Methodology

Internet gaming tax revenue forecasts for all 36 states, beyond the six established iGaming states of Connecticut, Delaware, Michigan, New Jersey, Pennsylvania and West Virginia, that have either existing land-based commercial or tribal (Class III) casino industries, or legal mobile sports betting operations, were arrived at first by estimating the internet gaming revenue potential for each state.

This was achieved by applying the average trailing 12-month (TTM) internet gaming gross revenue per adult from Michigan, New Jersey, Pennsylvania and West Virginia to the equivalent adult population of each state. Official revenue statistics reported by state regulatory agencies in each state were used to calculate TTM gross revenue, while U.S. Census Bureau data for 2020 was used to total the number of adults in each of the four states. The TTM average revenue per adult from the four states was $139.5, reflecting significant variances between New Jersey ($215 per adult) and West Virginia ($56), with Michigan ($168) and Pennsylvania ($119) in the middle. Notably, it is likely that Pennsylvania's gross revenue per adult figure was materially higher than the $119 derived from revenue figures reported by the Pennsylvania Gaming Control Board, which reflect net internet gaming revenues following the deduction of bonuses and other promotions. For the purposes of arriving at an average revenue per adult figure across existing iGaming states, Delaware was discounted as it materially underperforms other iGaming states from a revenue perspective (at just $15 per adult), whereas Connecticut was not included as its iGaming market is less than 12 months old, having launched in October 2021.

To calculate iGaming revenue forecasts for each of the 36 states, the $139.5 average revenue per adult was applied to the total number of adults aged over 18 in each state, as reported by the U.S. Census Bureau based on the 2020 United States Census.

An exception to this methodology was made for Nevada, which is unique among U.S. states in generating a disproportionately large amount of gaming revenue from out-of-state tourists. For Nevada, VIXIO GamblingCompliance's forecast of $219m in revenue in the third year of an iGaming market that includes online casino games in addition to poker was used. Meanwhile, for the six established iGaming states, VIXIO GamblingCompliance's forecasted revenue totals for 2022, based on current market performance, were used.

In order to forecast potential iGaming tax revenue for each state based on its projected revenue, a blanket tax rate of 20 percent of gross internet gaming revenue was applied. The 20 percent rate was chosen because it approximates the average (21.4 percent) of the effective tax rates applied in five of the six existing states (Delaware was excluded as a much higher-tax, lottery-run regulatory model); in turn, a 20 percent rate is broadly in line with the rates applied to iGaming in several prominent international jurisdictions. As noted elsewhere in this report, states would ultimately have to make their own policy determinations as to the specific tax rate they would seek to apply to iGaming revenue, including whether to apply taxation on gross basis (as in New Jersey, Connecticut and West Virginia) or a net basis that allows for deduction of certain promotional expenses (as in Michigan and Pennsylvania). For the six existing iGaming states, the applicable current iGaming tax rates were used to forecast for tax revenue for the calendar year of 2022. In Nevada, the state's 6.75 percent headline tax rate was used, since that rate has historically been applied to all forms of gaming, including online poker.

The forecast of $6.347bn in total iGaming tax revenue for all 42 states (six existing iGaming states and 36 prospective states) was generated by adding the forecasted tax revenue of each state based on the above methodology.

About VIXIO GamblingCompliance

VIXIO GamblingCompliance is the leading provider of independent legal, regulatory and business intelligence to the global gambling industry. Trusted by leading names all over the world, our independent analysis of legal and policy developments helps power more informed understanding and effective decision making.

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