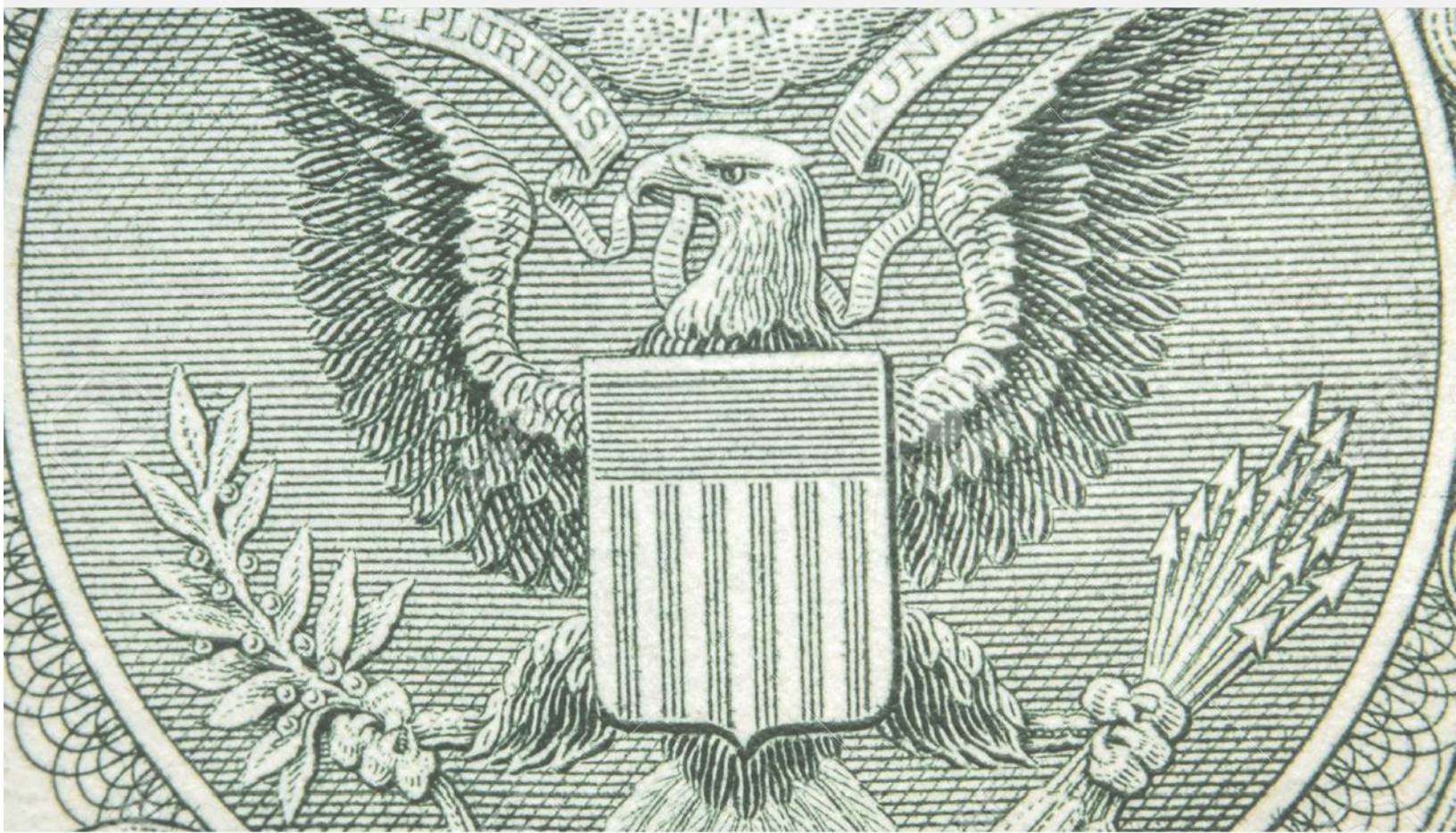


Early Bets Are In: Is Sports Betting Paying Off?



In just two and a half years following the Supreme Court's decision to end the near-nationwide prohibition on sports betting, more than half of the country has taken action to legalize it. Sports betting is currently offered in 20 states and the District of Columbia. It is legal but not yet operational in another five of them. A handful of states, including North Carolina, New Mexico and Washington, do not have state-approved gambling but have worked with Native American governments to authorize it at tribal casinos.

Sports Betting Growth

Only 26 states have legal casino operations, so when it comes to sports betting legalization one might think the craze is due to taper off. However, sports betting has blurred the lines between lottery and casino gambling. Many states that don't have casino-style gambling, including Montana, New Hampshire, Oregon, and Tennessee, have legalized sports betting and offer it as a lottery product. Of the 15 states that have introduced sports betting legislation in 2021, at least nine of them do not have legal casino gaming.

Mobile Sports Betting

Intrastate mobile sports betting has been implemented or authorized in 14 states, D.C. and Puerto Rico, so bettors can place bets from their phone or computer. (In Tennessee, sports betting is only available online.) Of the states that have not broadly legalized mobile betting, three states allow it very narrowly: Mississippi, Montana, and Washington only allow bets from a mobile phone to be placed while on casino premises. The evidence suggests mobile gaming creates a more productive revenue stream, but there are potential costs to weigh, too. Lawmakers have expressed concerns that making gambling opportunities available online could lead to higher rates of gambling addiction and destructive personal financial decisions.

In general, sports betting is a relatively low-margin venture compared to other types of gaming. Most wagers received are paid out in the form of prizes; nationwide, the average hold for sportsbooks is [7.2 percent](#). Even in the most productive sports betting state, New Jersey, sports betting brings in roughly 20 times less revenue than the lottery and is only [a fraction](#) of total casino gambling revenue. Still, the potential revenue has been a big selling point for legalizing sports betting in many states. From that perspective, mobile options appears likely to increase.

New Jersey currently has the largest sports betting market. In calendar year 2020, it brought in \$49.4 million in new tax revenue. Mobile betting accounts for the vast majority of total amount wagered in the state, almost 95 percent. In Pennsylvania, the state brought in a total of \$38.7 million in state tax revenue in fiscal year 2020. Roughly three-quarters of that was attributable to mobile sports betting. Sports betting revenues have been relatively lower in states that don't allow mobile wagering. New York brought in just over \$1 million in all of calendar year 2020. Mississippi collected slightly over \$4 million in sports betting tax in FY 2020. Part of the disparity between mobile and retail gambling numbers was surely exacerbated by the effects of COVID as retail sportsbooks had to close up shop for several months in the spring while mobile operators were able to stay somewhat buoyant.

In-Person Registration Required

The mobile numbers in several states (Iowa, Nevada, Rhode Island) have been notably less robust than in some of their peers. In Nevada's case, this could be due to the magnetism of The Las Vegas Strip, but all three states require gamblers to register in-person at casinos to set up a mobile gaming account. This is a responsible gaming measure intended to better prevent underage gaming or other unauthorized users that most of the mobile sports betting states have not adopted. There is a revenue trade-off

[Gaming industry research](#) suggests that prospective gamblers find in-person registration to be inconvenient and even prohibitive in some cases. In Iowa, this measure was temporary and expired at the start of 2021. Rhode Island repealed the requirement over the summer and mobile revenues have grown as a share of total revenues in recent months. Additional revenue information is available in Table 1 below.

Tax Rates and Licensing Fees

The tax rates states have imposed on sports betting vary widely (see table 2 below). Most states have tax rates between 5% to 20%. In Pennsylvania, the state gets more than a third of all revenues and a few of the states with lottery-run operations take half of the total profit or more. In general, the tax rates for retail operators and mobile operators are the same. New Jersey is unique in that it charges a higher tax rate for mobile betting.

Higher rates may better maximize state revenues, however some states have pursued low rates to help ensure that legal sports betting products will be priced competitively with illegal market products and thus encourage more gamblers to leave the black market. Based on the revenue numbers in the states so far, there is no clear relationship between tax rates and revenue performance like there is between mobile wagering and revenues.

Some states have also generated fairly sizeable sums of money through licensing fees (see table 3). Illinois and Pennsylvania imposed an initial licensing fees of \$10 million and Tennessee should generate several million each year through annual licensing fees as well.

Sports Betting Contributions to State Funds

Justifications for gaming expansion are often rooted in how the money will be used, and states have been known to direct gambling dollars to important spending categories such as education or retirement programs. However, expenditures in these areas often grow faster and gambling revenues cannot keep pace. (Gambling expansion typically results in a quick increase in revenue that plateaus or even declines over time, until a new game is introduced.) States looking to close budget gaps with sports betting revenue may be disappointed, especially as more and more states legalize and take their slice of the market.

A handful of states have chosen to deposit all or most sports betting revenue in the general fund. Others have designated the money for specific purposes (see table 2 below).

Official League Data Requirements

In the initial stages of sports betting legalization, the professional sports leagues vied for the implementation of “integrity fees” to be paid to professional sports leagues, essentially as compensation for increased anti-corruption policing within the league. While this idea did not gain momentum, three states (Illinois, Michigan, and Tennessee) have included requirements that sports betting operators use official league data for setting odds for certain types of bets (typically in-game wagers).

Table 1. Select State Sports Betting Revenues

Arkansas*	FY 2020 State Tax Collected: \$312,689
Delaware*	FY 2020 Tax Collected: \$11,315,301
Mississippi*	FY 2020 State and Local Tax Collected: \$4,392,978
New York*	CY 2020 Tax Collected: \$1,076,873
Indiana	CY 2020 Tax Collected: \$12,171,443
Iowa	Retail Net Receipts FY 2020: \$11,941,612 Mobile Net Receipts FY 2020: \$13,790,229 State Tax Revenue FY 2020: \$1,788,198 Retail Net Receipts FY 2021 YTD: \$16,188,732 Mobile Net Receipts FY 2021 YTD: \$30,332,398 State Tax Revenue FY 2021 YTD: \$3,140,176.29
New Jersey	Calendar Year 2020 Retail Sports Betting Revenue: \$2,732,333 Calendar Year 2020 Internet Sports Betting Revenue: \$46,700,068 Calendar Year 2020 Total Revenue: \$49,432,401
Nevada	Calendar Year 2020 Total Tax Revenue: ~\$17,738,798 (sports pool win x 6.75%)
Pennsylvania	FY 2020 retail sports betting tax revenue: \$9,646,774 FY 2020 mobile sports betting tax revenue: \$29,019,644 FY 2020 total revenue: \$38,666,418
Rhode Island	Retail Book Revenue FY 2020: \$14,897,786 Mobile Book Revenue FY 2020: \$3,808,671 Total Book Revenue FY 2020: \$18,706,457 Tax: \$9,540,293 Retail Book Revenue FY 2021 YTD: \$8,753,266 Mobile Book Revenue FY 2021 YTD: \$8,577,590 Total Book Revenue FY 2021 YTD: \$17,330,856 Tax: \$8,838,736

*Does not allow mobile sports betting.

Table 2. Sports Betting Tax Rates and Contributions to State Funds

State	Tax Rates	Contributions to State Funds
Arkansas	13% to 20%	The majority of gaming tax revenue goes to the state's general fund. Race purses, county and city governments are the other beneficiaries.
Colorado	10%	Sports betting tax revenue goes towards funding the implementation of the state water plan and other public purposes.
Delaware	State receives 50% of total win.	General fund

DC	10%; revenue minus expenses for state online lottery operations.	First \$200,000 directed to the Department of Behavioral Health for gambling addiction and treatment programs. Of the remaining amount, half is used to fund the Birth-to-Three for All DC Amendment Act of 2018 and half is deposited in the Neighborhood Safety and Engagement Fund.
Illinois	15%	Capital Projects Fund (improvements to roads, bridges, mass transit, schools, universities).
Indiana	9.5%	General fund, cities and counties, gambling addition services.
Iowa	6.75%	Deposited in Sports Wagering Receipts Fund to be used as directed by the General Assembly.
Louisiana	N/A	N/A
Maryland	N/A	N/A
Michigan	8.4%. Cities that impose municipal service fees on casinos can impose them on sports betting operators.	30% to host cities, 5% to the agriculture equine industry development fund, 65% to the Internet Sports Betting Fund (monies in this fund are dedicated to compulsive gambling and the first responder presumed coverage fund, with the remainder deposited in the School Aid Fund).
Mississippi	12 percent gaming tax (8% state/4% local)	Casino gaming tax revenue is allocated to the general fund, with \$3 million distributed to a separate state highway construction fund.
Montana	State collects revenue minus expenses.	First \$12.4 million to the general fund; excess directed to STEM scholarship fund.
New Hampshire	Lottery's agreement with Draft Kings gives the state 51% of gross gaming revenue (GGR) from online wagering and 50% of GGR from retail wagers.	Education Trust Fund, gambling addiction services
New Jersey	8.5 percent of gross sports pool revenues, 14.25 percent of online sports betting revenues.	Casino Revenue Fund (supports a variety of health and human services programs), general fund, Atlantic City marketing/promotion, local economic development.
New York	10%	Gaming tax revenue is allocated to statewide education programs, local municipal and county governments, and provides property tax relief to New York citizens.
Nevada	8.5 percent of gross sports pool revenues, 14.25 percent of casino-run online sports betting revenues, 14.25 percent of	Gaming revenue goes to gaming funds in state aid education, local government, the state general fund, and problem gambling.

	racetrack run online sports betting revenues.	
Oregon	State collects revenue minus expenses.	Revenue from the lottery's sportsbook app is specifically dedicated to help pay down the state's public pension liability.
Pennsylvania	34% tax with a 2% local assessment	General Fund
Rhode Island	51% of sports wagering revenue	General Fund
South Dakota	N/A	N/A
Tennessee	20%	80% of revenue directed to the Lottery for Education account, 15% to general fund, 5% to mental health and substance abuse services.
Virginia	15%	2.5% to problem gaming initiatives, 97.5% to the state's general fund
West Virginia	10% of licensee's adjusted gross sports wagering receipts.	First \$15 million to the Lottery Fund, additional revenue directed to the Public Employees Insurance Agency Financial Stability Fund.

Sources: American Gaming Association, NCSL research

Table 3. Licensing Fees

State	Fee
Arkansas	No license fees
Colorado	The Master License Fee is \$2,000 and a retail operator and mobile operator fee is \$1,200 each. These are also the renewal fees every two years.
DC	Up to \$500,000 initial license fee. \$250,000 every five years renewal fee.
Delaware	No additional fee for sports wagering.
Illinois	Land-based: \$10 million initial license fee. Online: \$20 million initial license fee. \$1 million every four years renewal fee.
Indiana	\$100,000 initial fee; \$50,000 annual renewal.
Iowa	\$45,000 initial fee; \$10,000 annual renewal.
Michigan	\$150,000 licensing fee; \$50,000 application fee; \$50,000 yearly renewal fee.
Mississippi	No additional fee for sports wagering.
Montana	\$1,000 annual fee for platform operators; \$100 fee per kiosk.
New Hampshire	None

New Jersey	\$100,000 annual fee.
New York	No additional fee for sports wagering.
Oregon	None
Pennsylvania	\$10 million initial license fee. \$250,000 renewal fee every five years.
Rhode Island	No additional fee for sports wagering.
Tennessee	\$750,000 annual fee.
Virginia	\$250,000 3 yr. license; \$200,000 renewal; \$50,000 application fee.
West Virginia	\$100,000 fee; renewed every five years.

NCSL Contact:

[Jackson Brainerd](#), 303-856-1346