

Pennsylvania Betting Tax Rate May Be Ultimate Sports Fantasy

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Pigs will fly before a 36 percent tax rate on sports betting works in Pennsylvania, according to industry observers.

The tax rate and accompanying legal regime for sports betting is included in a huge [new gambling expansion bill](#) signed into law on October 30 by Democratic Governor Tom Wolf.

Thirty-four percent of the sports-betting tax would go to the state and the remaining 2 percent to local governments.

"It's a nonstarter," said [Eugene Christiansen](#), a gambling industry consultant and chairman of Christiansen Capital Advisors, LLC.

"A sports-betting service would have to be price-competitive with the illegal suppliers who are ubiquitous in the United States," Christiansen said.

The tax rate proposed by Pennsylvania is almost five times higher than the 6.75 percent tax in Nevada, the only state with legalized sports betting on single games.

"Sometimes, I hear numbers that sports gaming is going to generate and I don't know where they come up with those numbers," said [Jay Kornegay](#), who manages the largest sportsbook in Las Vegas at Westgate Resorts.

"There are lots of times we lose, and suffer heavy losses," Kornegay said. "There are a lot of sharp players out there. You have to have limits to suppress their knowledge and success. They will pick you apart if allowed."

Sports betting and the revenue it generates should not be confused with gambling on slot machines or table games, according to [Art Manteris](#), vice president of race and sports operations for Station Casinos.

"It looks to me like some jurisdictions are going to kill the golden goose before the eggs ever hatch," Manteris said about Pennsylvania's tax rate for sports betting.

Christiansen said states tend to have "an exaggerated idea of the revenue potential of sports betting."

Tom Willer, director of marketing for [USFantasy Sports](#) in Las Vegas, said he does not see how a sportsbook in Nevada or anywhere else could survive with a 36 percent tax rate.

"In effect, the industry would concede to the illegal bookmakers," Willer said.

Sports betting is still illegal in Pennsylvania but that would change if the U.S. Supreme Court overturns the federal ban included in the [Professional and Amateur Sports Protection Act \(PASPA\)](#) of 1992.

The court is scheduled to issue a ruling next spring after hearing oral arguments on December 4.

New Jersey, which is appealing the sports-betting ban in PASPA, is ready to [flip the switch](#) almost immediately on sports betting in Atlantic City casinos and online if the state wins its case in the Supreme Court.

The effective tax rate on gross gaming revenue in New Jersey casinos is 9.25 percent, and the sports-betting tax rate is likely to be about the same if the state wins its case in the Supreme Court.

Online gaming revenue in New Jersey is taxed at a 17.5 percent rate.

State-regulated sports-betting operations are also subject to a federal excise tax of 0.25 percent of handle.

"Sportsbooks are a high volume-low margin business. If the taxes are too high, the economics will not work," said Gary Ehrlich, a gaming industry consultant and former deputy director of the New Jersey Division of Gaming Enforcement.

Pennsylvania's relatively high tax rate for sports betting is still less than its 54 percent tax rate on internet slot games.

"This reminds me of the yacht tax enacted by Congress [in January 1990]," Ehrlich said.

"It was supposed to be a 'tax the rich' plan that would generate millions in taxes," he said. "Instead, it caused the US yacht-building industry to relocate offshore, costing jobs and producing zero dollars in tax revenue."

Barbara DeMarco, a gaming lobbyist who represents racetrack operators in New Jersey, agreed that traditional sportsbooks have not been a "cash cow" for casinos in Nevada.

"The caveat to that is online sports betting, even if it's just intrastate," DeMarco said. "That's when you start seeing the multipliers. Compacting [with other states and countries] and advanced deposit wagering could open up interstate sports betting online and add even more multipliers."

DeMarco said the high tax rate on online gambling and sports betting in Pennsylvania might pressure the new administration of [New Jersey Governor-elect Phil Murphy](#) to raise the relatively low tax rate in the Garden State.

"New Jersey's tax rate was adopted before casinos in Atlantic City invested in other states where they are paying much higher rates and still prospering," DeMarco said.

Ohio, another state bordering Pennsylvania, has language in its constitution which permits gambling expansion in response to expansion in other states.

"It is likely that this expansion of gambling in Pennsylvania will increase calls for lawmakers to expand gambling options in Ohio to meet the competition," said Kevin Braig, a gaming attorney with Shumaker, Loop & Kendrick in Columbus, Ohio's state capital.

Still, Braig said the Pennsylvania tax rate on sports betting may be an insurmountable obstacle "to designing a fundamentally sound and sustainable sports betting market."

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