The Regulation of Internet Gambling in the United States: It's Time for the Federal Government to Deal the Cards

Benjamin Miller

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The Regulation of Internet Gambling in the United States: It’s Time for the Federal Government to Deal the Cards

By Benjamin Miller*

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I. INTRODUCTION

Over the last decade, Internet gambling, as an industry,\(^1\) has been on a roller coaster ride in terms growth and regulation; the industry has experienced extreme peaks and valleys in its success in the United States.\(^2\) After what seemed like a crippling defeat in the Legislature,\(^3\) the legality of Internet gambling has changed in such a way that seemingly will result in widespread growth and legalization within the states, with state laws continually testing the boundaries of current federal Internet gambling laws.\(^4\) Government regulation of this recent expansion is currently limited to state law enacted within the framework of the vague, overarching federal gambling law, but the need for some specific federal regulation of Internet gambling has been recognized and attempted.\(^5\)

This comment will provide an overview of the history of gambling laws and regulations in the United States to establish a

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\(^1\) For players, “the industry” has evolved from what most would consider a recreational activity into a profession, especially for Internet poker players. \textit{See} Biggest Poker Winners, \textit{HIGH STAKES DATABASE}, http://www.highstakesdb.com/poker-players.aspx?sortby=winners (last visited Aug. 1, 2014) (showing professional poker players with the most total profit playing Internet poker).

\(^2\) \textit{See infra} Part III.

\(^3\) Internet poker specifically has suffered defeats at the hands of the federal government due to enforcement of the Unlawful Internet Gambling Enforcement Act of 2006 against online poker players in 2009 and the largest online poker sites in 2011. \textit{See infra} Part III.C–D. As a result, players’ accounts were frozen and poker sites exited the United States market. \textit{See infra} Part III.C.

\(^4\) \textit{See infra} Part IV.

\(^5\) \textit{See} Internet Gambling Regulation, Enforcement, and Consumer Protection Act of 2013, H.R. 2282, 113th Cong. § 101(a)(5) (2013) (as referred to the H. Subcomm. on Crime, Terrorism, Homeland Sec., and Investigations, July 15, 2013), \textit{available at} http://www.gpo.gov/fdsys/pkg/BILLS-113hr2282ih/pdf/BILLS-113hr2282ih.pdf (recognizing the need for federal enforcement because purely state regulation of Internet gambling, including consumer safeguards, varies widely between and among states, and states may not be able to adequately meet the challenges inherent in enforcing Internet gambling restrictions within their borders, especially against sophisticated out-of-state operators).
framework for the analysis of regulation of Internet gambling. Next, this comment will discuss the current state of the law regarding Internet gambling in the United States and the effects of recent legal developments in the industry. This comment will expound on state action in the realm of Internet gambling, including proposed legislation, the expansion of state gambling commissions, and successfully enacted legislation. Finally, this comment will analyze the implications of state actions and how they relate and contribute to federal proposals for national regulation of Internet gambling, including the establishment of a federal gambling commission.6

II. HISTORICAL BACKGROUND

A basic understanding of the history of gambling laws in the United States provides an important perspective in analyzing the many arguments for and against recent changes in Internet gambling laws, as well as the roles of gambling commissions in enforcing such laws. This section illustrates the history of gambling laws in the United States and the rationale behind them. Many of the same concerns that have applied throughout history are considered in current Internet gambling regulations. Specifically, some of the most important considerations that lawmakers must balance in regards to gambling laws are: (1) the revenues that gambling generates, (2) the issues of controlling cheating and corruption within gambling frameworks, and (3) the social concerns that legalized gambling promotes.7 There are many types of “games” that fall within the

6 For a detailed, comprehensive “best practices” analysis of the elements that compose an Internet gambling regulatory scheme (such as licensing, taxation, financial transactions, technical compliance, fraud or cheating, age verification, and more), see ANTHONY CABOT & NGAI PINDELL, REGULATING INTERNET GAMING: CHALLENGES AND OPPORTUNITIES (Anthony Cabot & Ngai Pindell eds., 2013).

7 See I. NELSON ROSE, GAMBLING AND THE LAW 29–30 (Gambling Times Inc., 1986) (“Why regulate at all? The standard reasons given are to ensure competency of the operators while keeping organized crime out. Perhaps more important are the twin issues of money and image. . . . And legal gambling is always subject to attack from outsiders; like alcohol, the industry has to be extremely careful about its reputation for causing harm or it can find itself easily outlawed again.”); see also JOHN LYMAN MASON & MICHAEL NELSON, GOVERNING GAMBLING 83 (The Century Found. Press, 2001) (“The most widely discussed problems with Internet
umbrella of the term “gambling,” and technological innovations like the Internet have only increased the ways and means by which gambling can occur.8 This discussion is especially relevant for the topic of Internet gambling. History shows that the technology is usually ahead of the regulation, and there is no clearer example of this than Internet gambling law.9

Gambling in the United States started in the Colonial era, primarily in the form of lotteries.10 Early gambling posed many challenges in terms of cheating and corruption, but the revenue was always the driving factor for those in the lottery business.11 Each of the thirteen original colonies started lotteries to raise revenues, and this practice continued within the states after the United States became an independent nation.12 However, these early nineteenth century lotteries often struggled with corruption, in part because of the lack of adequate oversight.13 Public outcry over corruption and the regarded immorality of gambling led the majority of states to prohibit lotteries by the mid-1800s.14 Predictably, this led to the establishment of many illegal lotteries.15 Instead of establishing a regulatory scheme that could effectively extinguish corruption and other problems with state lotteries, states prohibited them

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8 See Mason & Nelson, supra note 7, at 82 (“Technological advances continue to make it faster and easier to download from gambling websites the software needed to play games and place bets, and the speed of the games . . . is increasing.”).

9 See infra Part III. This section explicates federal statutes regulating Internet gambling enacted prior to the advent of the Internet.


11 Id.


13 See id. (“lottery passed by Congress in 1823 for the beautification of Washington D.C.” never paid out); see also Clotfelter & Cook, supra note 10, at 37.

14 See Dunstan, supra note 12 (“By 1840, most states had banned lotteries. By 1860, only Delaware, Missouri, and Kentucky still allowed state-authorized lotteries.”).

15 See id.
altogether. This pattern is one that recurs time and again in United States gambling laws, and is particularly apparent in the relatively recent laws specific to Internet gambling.

Laws banning gambling faded quickly when the government’s outlook dramatically changed after the economic devastation of the Great Depression. As states began to rediscover the value of gambling for generating revenue—especially during periods when taxes were heavily opposed—state lotteries returned and some states legalized casino gambling. Soon after the return of state lotteries, Congress began to enact federal laws applicable to gambling on a broader scope, many of which apply to Internet gambling.

III. FEDERAL INTERNET GAMBLING LAW

In order to fully comprehend the current federal law on the topic of gambling, it is essential to understand the relationship between state and federal law. Under the Tenth Amendment of the Constitution, states’ police powers give them the power to regulate gambling within their respective state jurisdictions. States have

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16 See id.
17 See Dunstan, supra note 12; see generally infra Part III. This section will illustrate federal laws banning Internet gambling in response to the same societal concerns of corruption and immorality, as well as the forums commonly utilized to participate in illegal Internet gambling.
18 See Dunstan, supra note 12 (“Legalized gambling was looked upon as a way to stimulate the economy. . . . Bingo was legal in 11 states by the 1950s . . . . During the 1930s, 21 states brought back racetracks.”).
19 Id. Two years after the stock market crash in 1929, Nevada became the first state to legalize casino gambling, with New Jersey following suit in 1978.
20 See generally I. Nelson Rose & Rebecca Bolin, Game on for Internet Gambling: With Federal Approval, States Line Up to Place Their Bets, 45 CONN. L. REV. 653, 659 (2012) (“Today’s federal laws governing Internet gambling are a patchwork that reflects disparate treatment for different types of gaming, uncertainty about the laws’ application for particular types of technology and gaming, and questionable federal interference into state gambling policies.”).
21 See U.S. CONST. amend. X (“The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.”); Ah Sin v. Wittman, 198 U.S. 500, 505–06 (1905) (“The suppression of gambling is concededly within the police powers of a state, and legislation prohibiting it, or acts which may tend to or facilitate it, will not be interfered with by the court . . . .”); Johnson v. Collins Entm’t Co., 199 F.3d 710,
wide latitude in exercising this regulation, and the spectrum ranges from Nevada, which offers the gambling oasis of Las Vegas, to Utah, which is one of only two states in the United States that has not legalized some form of gambling.\textsuperscript{22} As for whether an activity constitutes gambling, most jurisdictions apply the “dominant factor” test, which evaluates whether chance rather than skill is the dominant factor in controlling the award.\textsuperscript{23} While states have the power to regulate gambling policy within their borders, the federal government may step in if gambling activity crosses state or national borders through its power under the Commerce Clause of the Constitution.\textsuperscript{24} Using this power, Congress has enacted several statutes that have been applied to the regulation of Internet gambling, and the following subsections will discuss the most relevant of the statutes in detail. These statutes are often unclear and, in some ways, seem to contradict each other.

\section*{A. The Wire Act}

Enacted in 1961, The Wire Act\textsuperscript{25} is the oldest piece of federal legislation analyzed in this section. In section (a), it provides:

\begin{quote}
Whoever being engaged in the business of betting or wagering knowingly uses a wire communication facility for the transmission in interstate or foreign commerce of bets or wagers or information assisting
\end{quote}

\footnotesize

\textsuperscript{22} See Utah Crim. Code §§ 76-10-1101 to 1109 (1953) (statutes prohibiting gambling). The second state without legalized gambling is Hawaii. Haw. Rev. Stat. §§ 712-1220 to 1231 (1973). Hawaii’s state law makes gambling a misdemeanor and defines gambling as when a person "stakes or risks something of value upon the outcome of a contest of chance." \textit{Id.}


\textsuperscript{24} U.S. Const. art. I, § 8, cl. 3 ("To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes.").

in the placing of bets or wagers on any sporting event or contest, or for the transmission of a wire communication which entitles the recipient to receive money or credit as a result of bets or wagers, or for information assisting in the placing of bets or wagers, shall be fined under this title or imprisoned not more than two years, or both.26

It was originally enacted to combat the then-rampant organized crime activity of sports betting via telegraph.27 The Wire Act essentially prohibits three types of “wire” transmissions in interstate or foreign commerce: (1) bets, wagers, or information “assisting in the placing of bets or wagers on any sporting event or contest,” (2) communications that “entitle[] the recipient to receive money or credit as a result of bets or wagers,” and (3) “information assisting in the placing of bets or wagers . . . .”28

One of the most striking ambiguities of the Wire Act is whether its language outlaws wagering and betting specifically on sporting events or contests across state or national boundaries, or whether it prohibits all forms of betting and wagering across state or national boundaries. This distinction is central to the question of how federal law affects the legality of Internet gambling, because the Wire Act may only reach sports betting if the limiting phrase “on any sporting event or contest,” which clearly applies to the first type of prohibited wire transmission listed in the Act, also extends to the second and third listed prohibited acts, effectively limiting the scope of the entire Wire Act to sports-specific gambling.29 If it does, then online gambling via casino games such as poker, blackjack, and craps, would presumably not be prohibited by the Wire Act. For a time, there was also some question as to whether the term “wire

26 Id.
29 The statute prohibits “bets or wagers or information assisting in the placing of bets or wagers,” but the prohibition of this behavior is specifically limited to bets on sports and contests. 18 U.S.C. § 1084(a) (2012). It is unclear whether the other two prohibitions of receiving money or credit from bets and information assisting in the placement of bets are also limited to bets on sports.
"wire communication" applied to Internet transmissions, but it has since been settled that it does apply.\textsuperscript{30}

There are two cases that have explicitly considered the previous question of whether the Wire Act only applies to sports betting. \textit{In re Mastercard International Inc.}\textsuperscript{31} was one case that decided on the applicability of the Wire Act. While it was ultimately affirmed by the Fifth Circuit Court of Appeals, the key analysis occurs in the district court opinion.\textsuperscript{32} In this case, credit card holders filed a class action lawsuit against several credit card companies seeking to avoid debts they incurred when they used their credit cards to purchase digital "chips" to be used at online casinos.\textsuperscript{33} The Fifth Circuit affirmed the district court’s analysis that the “Wire Act does not prohibit non-sports [I]nternet gambling, [and] any debts incurred in connection with such gambling are not illegal.”\textsuperscript{34}

The District Court of Utah disagreed with the Fifth Circuit in \textit{United States v. Lombardo}.\textsuperscript{35} The defendants argued that their business, which provided out-of-state payment processing services to gambling websites, fell outside the Wire Act because the Wire Act only applied to sports betting.\textsuperscript{36} The court disagreed with the defendant’s reading of the Wire Act considering the Fifth Circuit decision, but ultimately decided that the Wire Act “is not confined entirely to wire communications related to sports betting or wagering.”\textsuperscript{37} The court admitted that the statute does limit the first prohibition on the interstate transmission of actual bets or wagers to those placed on sporting events or contests. However, the court


\textsuperscript{31} 313 F.3d 257 (5th Cir. 2002).

\textsuperscript{32} \textit{In re Mastercard Int'l Inc., Internet Gambling Litig.}, 132 F. Supp. 2d 468 (E.D. La. 2001) \textit{aff'd sub nom. In re Mastercard Int'l Inc.}, 313 F.3d 257 (5th Cir. 2002) (applying the Wire Act as written to only include sports betting and not other forms of gambling).

\textsuperscript{33} 313 F.3d at 259–60.

\textsuperscript{34} \textit{Id.} at 263.

\textsuperscript{35} 639 F. Supp. 2d. 1271 (D. Utah 2007).

\textsuperscript{36} \textit{Id.} at 1278.

\textsuperscript{37} \textit{Id.} at 1281.
declined to extend this limitation to the second and third prohibitions of interstate transactions that allow the recipient to receive money as a result of bets, or receive information assisting in placing bets.\(^{38}\)

Despite these differing court outcomes, the Department of Justice consistently interpreted the Wire Act to apply to all forms of betting and wagering until changing its interpretation in 2011.\(^{39}\) This meant that the Department of Justice could, theoretically, prosecute Internet gambling of all kinds that crossed state lines.\(^{40}\) However, use of the Wire Act in the prosecution of Internet gambling operations has typically been limited to operations of sports betting.\(^{41}\) In *United States v. Cohen*, the defendant, Cohen, was accused of violating the Wire Act by operating an online bookmaking business on American sports events out of Antigua.\(^{42}\) The Second Circuit affirmed Cohen’s conviction for violating the Wire Act.\(^{43}\) Cohen’s business only facilitated sports betting, so the Court did not explicitly address whether the Wire Act reached other forms of online gambling.\(^{44}\) The primary enforcement methods used by the Department of Justice were through publications and preemptive communications of its continuing position that the Wire Act applied to all forms of Internet gambling.\(^{45}\) It should be noted, however, that few others agreed with the Department of Justice’s expansive interpretation.\(^{46}\) By retaining this position until 2011, the Department of Justice continued the federal government’s propensity to simply prohibit gambling rather

\(^{38}\) *Id.*  
\(^{39}\) *See* Rose & Bolin, *supra* note 20, at 670 (citing DOJ statements interpreting the Wire Act to apply to all gambling that involves wire transmissions); Charles P. Ciaccio, Jr., *Internet Gambling: Recent Developments and State of the Law*, 25 BERKELEY TECH. L.J. 529, 538 (2010) (citing federal prosecution under the Wire Act to show that the Department of Justice has continuously interpreted the Wire Act to apply to all gambling that involves wire transmissions). The Department of Justice’s changed interpretation in 2011 is discussed in detail in Part III.D.  
\(^{40}\) *See* Rose & Bolin, *supra* note 20, at 670.  
\(^{41}\) *See id.;* Ciaccio, *supra* note 39, at 538. The only published opinion that has found the Wire Act to cover non-sports wagering is United States v. Lombardo, 639 F. Supp. 2d 1271 (D. Utah 2007). *See supra* text accompanying notes 35–38.  
\(^{42}\) 260 F.3d 68, 70–71 (2d Cir. 2001).  
\(^{43}\) *Id.* at 78.  
\(^{44}\) 260 F.3d 68.  
\(^{45}\) *See* Rose & Bolin, *supra* note 20, at 670; Romoser, *supra* note 23, at n.83.  
\(^{46}\) Rose & Bolin, *supra* note 20, at 670.
than attempt to control it with proper regulation. Making matters worse, the government did so by extending a “1961 law designed for telegraph wires” into the technological age of the 21st century.47

B. Illegal Gambling Business Act

The Illegal Gambling Business Act of 197048 (the Act) provides yet another example of a law predating the Internet that currently regulates Internet gambling. The Act criminalizes the activity of “[w]hoever conducts, finances, manages, supervises, directs, or owns all or part of an illegal gambling business . . . .”49 An “illegal gambling business” is defined as a gambling business that violates state law, involves a minimum number of people in the business, and meets a certain threshold for either length of time in operation or gross revenue.50 This statute functions by piggybacking off of state gambling regulations.51 To violate the Illegal Gambling Business Act, one would first have to violate an underlying state law. This dependency on state law is a major difference with the Wire Act, which criminalizes its own distinct set of activities instead of relying on state law violations.52 In comparison with the Wire Act, one can see that the language of the Illegal Gambling Business Act is much clearer; states may set their own gambling policies, and then violations of those policies may be federally prosecuted under the Illegal Gambling Business Act. In contrast, the Wire Act confuses

47 Id. at 662 (comparing it to “using stone tools to perform brain surgery—it might work, but it would be extremely messy”).
49 Id. § 1955(a).
50 Id. § 1955(b)(1)(i)–(iii). The threshold requirements are that it “(ii) involves five or more persons who conduct, finance, manage, supervise, direct, or own all or part of such business; and (iii) has been or remains in substantially continuous operation for a period in excess of thirty days or has a gross revenue of $2,000 in any single day.” Id.
51 Id. § 1955(a). (“Whoever conducts, finances, manages, supervises, directs, or owns all or part of an illegal gambling business.”) (emphasis added). The Act only makes already illegal gambling acts illegal under federal law.
52 For example, the Wire Act prohibits the interstate or foreign wire transmission of sports bets, regardless of state law. See supra Part III.A. And, prior to the 2011 Department of Justice interpretation, it prohibited interstate Internet gambling of all forms, regardless of state law. Id.
state and federal power to regulate Internet gambling. Consequently, under the Wire Act, there are inconsistencies in the legality of certain Internet gambling practices.\(^{53}\)

### C. Unlawful Internet Gambling Enforcement Act of 2006

The Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA)\(^{54}\) focuses on the prohibition of financial transactions related to illegal Internet gambling.\(^{55}\) Somewhat controversially, the statute was “hastily tacked onto the end of unrelated legislation.”\(^{56}\) Attached as Title VIII of the SAFE Port Act,\(^{57}\) it states, in relevant part, that “[n]o person engaged in the business of betting or wagering may knowingly accept, in connection with the participation of another person in unlawful Internet gambling[,] . . . credit, . . . electronic fund transfer, . . . check, . . . [or] the proceeds of any other form of financial transaction . . . .”\(^{58}\) It also only prohibits the transfer of money in connection with unlawful gambling, meaning that it does not reach the underlying betting activity.\(^{59}\) This is congruent with the original purpose of the UIGEA, which was to target Internet gambling through its primary lifeblood—the payment systems.\(^{60}\) To accomplish this, section 5364 mandates that the Secretary and Board

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\(^{53}\) States can legalize Internet gambling under their own statutes, but Internet gambling conducted between states, even if it was legal in each of the states, would violate federal law under the Wire Act. See supra Part III.A.


\(^{55}\) Id; see also Rose & Bolin, supra note 20, at 667.

\(^{56}\) Poker face off, THE ECONOMIST (Apr. 20, 2011), http://www.economist.com/node/18586698?story_id=18586698&CFID=162740365&CFTOKEN=42729011; see also Rose & Bolin, supra note 20, at 667 (discussing how the UIGEA was attached to a must-pass, unrelated antiterrorist bill).


\(^{59}\) See Rose & Bolin, supra note 20, at 667–68 (discussing the acts that the UIGEA directly regulates, which excludes betting).

\(^{60}\) 31 U.S.C. § 5361(a)(1)–(4) (2012) (Congressional finding that “Internet gambling is primarily funded through personal use of payment system instruments, credit cards, and wire transfers” and “[n]ew mechanisms for enforcing gambling laws on the Internet are necessary . . . .”).
of Governors of the Federal Reserve System implement regulations that would require designated payment systems to identify and block transactions restricted under the statute.\textsuperscript{61}

Given that the UIGEA prohibits participation in “unlawful Internet gambling,” the Act’s definition of that term dictates the exact activity UIGEA criminalizes:

The term “unlawful Internet gambling” means to place, receive, or otherwise knowingly transmit a bet or wager by any means which involves the use, at least in part, of the Internet where such bet or wager is unlawful under any applicable Federal or State law . . . in which the bet or wager is initiated, received, or otherwise made.\textsuperscript{62}

This definition illustrates a similarity with the Illegal Gambling Business Act in that the UIGEA also only criminalizes activity that is already illegal under a different law.\textsuperscript{63}

The UIGEA also contains exceptions that confuse and possibly undermine the Wire Act as it was interpreted by the Department of Justice until 2011. The first of such exceptions is for fantasy sports games, which could be characterized as interstate Internet gambling and therefore prohibited under the Wire Act.\textsuperscript{64} Another exception is

\begin{itemize}
  \item \textsuperscript{61} Id. § 5364(a).
  \item \textsuperscript{62} Id. § 5362(10)(A).
  \item \textsuperscript{63} The UIGEA even states that “[n]o provision of this subchapter shall be construed as altering, limiting, or extending any Federal or State law or Tribal-State compact prohibiting, permitting, or regulating gambling within the United States.” Id. § 5361(b).
  \item \textsuperscript{64} Id. § 5362(1)(E)(ix)(I)–(III) (stating that “[t]he term ‘bet or wager’ . . . does not include . . . participation in any fantasy or simulation sports game . . . ”). For more information on fantasy sports and their relation to Internet gambling, see \textit{The Daily Fantasy Sports Industry}, FANDUEL, https://www.fanduel.com/legal (last visited Aug. 15, 2014) (identifying that most states consider fantasy sports a game of skill and therefore legal, but not offering paid entry of daily fantasy sports games to residents of Arizona, Iowa, Louisiana, Montana, and Washington, where the legality of fantasy sports is unclear or questionable); see also Matt Hunt, \textit{How Fantasy Football Works}, \textit{How Stuff Works}, http://entertainment.howstuffworks.com/fantasy-football.htm (last visited Aug. 15, 2014) (providing an overview of fantasy football, including the rise of its
found within the statute’s definition of unlawful Internet gambling, where it excludes intrastate Internet gambling as long as it is in accordance with the laws of the state in which the gambling occurs and the bet is initiated and received within that state’s borders.\(^{65}\) In addition, the UIGEA specifies that “[t]he intermediate routing of electronic data shall not determine the location or locations in which a bet or wager is initiated, received, or otherwise made.”\(^{66}\) Thus, an apparent conflict exists between the permissible interstate routing of electronic data related to otherwise lawful, intrastate Internet gambling under the UIGEA and the Wire Act’s prohibition of all interstate transmissions related to acts of gambling.\(^{67}\) This uncertainty surrounding the state of federal law became the landscape in which Internet gambling operators either safely withdrew from or risked remaining in the United States market.

The effect of the UIGEA was swift and ruthless; with its passage, many public companies shut down websites for gambling in the United States.\(^{68}\) The world’s largest online poker provider, PartyGaming, stated on October 2, 2006 that it would leave the United States market when the UIGEA took effect.\(^{69}\) On December 16, 2008, one of the founders of PartyGaming, Anurag Dikshit, pled guilty to using “wires to transmit bets and wagering information.”\(^{70}\)

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\(^{66}\) Id. § 5362(10)(E).

\(^{67}\) See Rose & Bolin, supra note 20, at 671–72 (discussing the conflict between the Wire Act and the UIGEA). Compare supra p. 539 and notes 65–66 (providing a UIGEA exception to illegal Internet gambling for legal, intrastate Internet gambling that is conducted within state borders, regardless of whether electronic data related to the gambling is intermediated routed out-of-state), with 18 U.S.C. § 1084 (2012) (prohibiting interstate wire transmissions related to gambling).


\(^{70}\) Press Release, U.S. Att’y S. Dist. of N.Y., Partygaming Founder Pleads Guilty in Internet Gambling Case and Agrees to $300 Million Forfeiture (Dec. 16, 2008), available at
Part of Dikshit’s plea agreement was a fine for $300 million.\footnote{Id.} Though this prosecution occurred after the enactment of the UIGEA, the plea agreement did not mention the UIGEA, and the language indicates that the charges were for violations of the Wire Act.\footnote{Id.; see also History of Party Poker Part of Partygaming, GAMBLING SITES, http://www.gamblingsites.com/history/partygaming/ (last visited Sept. 15, 2014) (stating that Dikshit was guilty for violating the Wire Act prior to the introduction of the UIGEA).} Then in April of 2009, PartyGaming signed a non-prosecution agreement with the Department of Justice in exchange for an admission that it provided Internet gambling services to United States customers prior to the enactment of the UIGEA, and payment of a $105 million fine.\footnote{Jennifer Newell, PartyGaming Settles with U.S. Dept. of Justice for $105 Million, BLUFF HOLDING COMPANY (Apr. 7, 2009), http://www.bluff.com/news/partygaming-settles-with-us-dept-of-justice-for-105-million-3012/.} Also, in 2009, in an unprecedented move, the Department of Justice seized bank accounts of 27,000 online poker players worth at least $33 million.\footnote{Matt Richtel, Web’s Poker Winners Face Delays in Collecting, N.Y. TIMES, June 9, 2009, http://www.nytimes.com/2009/06/10/business/10poker.html?_r=2&.} This federal enforcement, like the previous PartyGaming prosecutions, appeared to cite violations of the Wire Act and Illegal Gambling Business Act rather than the UIGEA.\footnote{Russell Goldman, Feds Freeze Poker Champ’s Winnings, ABC NEWS, June 11, 2009, http://abcnews.go.com/Business/story?id=7808131&page=2.} Although these enforcement efforts did not arise out of clear UIGEA violations, it seems that the passage of the UIGEA may have encouraged them.

In 2011, the largest federal crackdown against Internet gambling, dubbed “Black Friday” by online poker connoisseurs, shut down three of the largest online poker websites still operating in the United States.\footnote{Matt Richtel, U.S. Cracks Down on Online Gambling, N.Y. TIMES, Apr. 15, 2011, http://www.nytimes.com/2011/04/16/technology/16poker.html?_r=0.} On April 15, 2011, the United States Attorney for the Southern District of New York issued an indictment against PokerStars, Full Tilt Poker, and Absolute Poker (collectively, the Poker Companies), charging them with bank fraud, illegal gambling

offenses, and laundering billions of dollars in illegal gambling proceeds.\textsuperscript{77} Because United States’ banks and credit card issuers would not process the Poker Companies’ payments for Internet poker, the companies developed payment processors that would circumvent the UIGEA and deceive these financial institutions.\textsuperscript{78} The defendants, the Poker Companies, allegedly used individual payment processors for online poker credits that were disguised as payments to nonexistent online merchants for legal goods.\textsuperscript{79} The Department of Justice seized the website domains of the Poker Companies and terminated their Internet poker operations in the United States.\textsuperscript{80} On July 31, 2012, the case against the Poker Companies settled.\textsuperscript{81} Pursuant to the settlement agreement, PokerStars acquired FullTilt in a merger and paid the sum of $547 million to the federal government.\textsuperscript{82} Five years after Congress enacted the UIGEA, these events culminated in what would be remembered as one of the largest government shutdowns of Internet gambling arising out of UIGEA violations.\textsuperscript{83}

\textbf{D. Department of Justice Office of Legal Counsel Memorandum}

On December 23, 2011, the Office of Legal Counsel (OLC), under the Department of Justice, released a memo (OLC Memo) in

\begin{itemize}
\item \textsuperscript{78} Id.
\item \textsuperscript{79} Id.
\item \textsuperscript{80} Id.
\item \textsuperscript{82} Id. In the settlement, PokerStars did not admit to any wrongdoing and retained the right to apply for an Internet gambling license in the future when regulations are enacted. Id.
\end{itemize}
response to inquiries by the states of Illinois and New York regarding the lawfulness of selling lottery tickets over the Internet to in-state adults using out-of-state transaction processors.\textsuperscript{84} The OLC Memo reversed the Department of Justice’s interpretation of the Wire Act by concluding: “interstate transmissions of wire communications that do not relate to a ‘sporting event or contest’ . . . fall outside of the reach of the Wire Act. Because the proposed New York and Illinois lottery proposals do not involve wagering on sporting events or contests, the Wire Act does not . . . prohibit them.”\textsuperscript{85}

The OLC Memo also briefly discussed, but failed to definitively resolve, the specific question raised by New York and Illinois regarding the interplay between the Wire Act and the UIGEA. This question was whether the Wire Act “may prohibit States from conducting in-state lottery transactions via the Internet if the transmissions over the Internet during the transaction cross State lines, and may also limit States’ abilities to transmit lottery data to out-of-state transaction processors.”\textsuperscript{86} In their inquiries, New York and Illinois expounded upon the issue by addressing the conflict between the Wire Act and the UIGEA:

[The] UIGEA appears to permit intermediate out-of-state routing of electronic data associated with lawful lottery transactions that otherwise occur in-state. In light of this apparent conflict, [New York and Illinois] have asked whether the Wire Act and UIGEA prohibit a state-run lottery from using the Internet to sell tickets to in-state adults where the transmission using the Internet crosses state lines, and whether these statutes prohibit a state lottery from transmitting lottery data associated with in-state ticket sales to an


\textsuperscript{85} Id. at 1–2.

\textsuperscript{86} Id.
out-of-state transaction processor either during or after the purchasing process.\textsuperscript{87}

The OLC Memo responded by only confirming that the Wire Act does not reach communications that do not relate to a sporting event or contest.\textsuperscript{88} Even while coming to a conclusion in favor of New York and Illinois, and allowing the two states to conduct their online lotteries without fear of federal prosecution, the Office of Legal Counsel failed to address the concern of a possible conflict between the Wire Act and UIGEA stating, “[W]e have not found it necessary to address the Wire Act’s interaction with UIGEA, or to analyze UIGEA in any other respect.”\textsuperscript{89} The resolution of this specific issue was seemingly unnecessary, given that the OLC Memo declared that the Wire Act did not apply to the otherwise legal activity in question.\textsuperscript{90} Regardless, the changed interpretation of the Wire Act eliminated a significant federal barrier to state legalization of Internet gambling for games such as poker, blackjack, and craps. With this new interpretation, Internet gambling providers, financial institutions, transactions processors, and states no longer needed to worry about federal prosecution of Internet gambling and related transactions that crossed state lines, as long as the Internet gambling was legal in each jurisdiction in which the bets were initially placed and ultimately received.\textsuperscript{91}

E. Current State of the Law

To recap: prior to 2011, the Wire Act prohibited wire transmissions in interstate or foreign commerce relating to (1) bets, wagers, or information assisting in the placing of bets or wagers on any sporting event or contest, (2) communications that entitle the recipient to receive money or credit as a result of bets or wagers, and

\begin{itemize}
  \item \textsuperscript{87} Id.
  \item \textsuperscript{88} Id.
  \item \textsuperscript{89} Id. at 2.
  \item \textsuperscript{90} Id. at 13 (“[W]e need not consider how to reconcile the Wire Act with UIGEA, because the Wire Act does not apply in this situation. Accordingly, we express no view about the proper interpretation or scope of UIGEA.”).
  \item \textsuperscript{91} Supra p. 542 and notes 84–85; accord supra p. 539 and notes 65–67.
\end{itemize}
information assisting the placing of bets or wagers.\textsuperscript{92} The Department of Justice maintained that the Wire Act applied to both sports bets and all other forms of Internet gambling.\textsuperscript{93} Though the Department of Justice maintained this interpretation, federal courts were split as to whether the Wire Act should apply only to sports gambling or to all forms of gambling.\textsuperscript{94} The enactment of the UIGEA in 2006 added to the Wire Act’s prohibition of interstate or foreign transmissions involving Internet gambling by prohibiting financial transactions in connection with unlawful Internet gambling.\textsuperscript{95} However, the UIGEA contains a critical provision, which states that “[t]he intermediate routing of electronic data shall not determine the location or locations in which a bet or wager is initiated, received, or otherwise made.”\textsuperscript{96} This means that the UIGEA differentiates between placing, receiving, or transmitting bets and the intermediate routing of data occurring in bank transfers or financial processing transactions. Thus, in contrast to the Wire Act, under the UIGEA, only the placing, receiving, or transmitting of bets is relevant for determining the location of where the gambling takes place.

Before reading New York’s and Illinois’s concerns in the OLC Memo, one might consider whether states could comply with the Wire Act, even if it were applied to all forms of Internet gambling (as it was interpreted before 2011) by keeping the entire process of Internet gambling within state lines. While it is possible to enforce the placing of bets within states lines, as a practical matter, it is much more difficult, if not impossible, to ensure that every payment, processor transaction, bank transfer, or other wire communication relating to the operation of Internet gambling remains exclusively within a single state’s jurisdiction.\textsuperscript{97} Until 2011, this was a

\textsuperscript{92} See supra Section III.A.
\textsuperscript{93} See supra p. 535 and note 39.
\textsuperscript{94} See supra pp. 534–535 notes 32–38 (the Fifth Circuit in \textit{In Re Mastercard Int’l Inc.} found that the Wire Act did not apply to non-sports Internet gambling, whereas the District of Utah disagreed, stating that the Wire Act did not apply only to sports gambling).
\textsuperscript{95} See supra Section III.C.
\textsuperscript{97} OLC Memo, supra note 84, at 2. This was the concern of New York and Illinois in their appeal to the Office of Legal Counsel:
significant barrier to state legalization of Internet gambling.98 Then, in 2011, the OLC Memo reinterpreted the Wire Act to apply to only wagering on sports events or contests.99 This meant that the transmissions of financial or gambling information that made Internet gambling so difficult to keep within state lines no longer needed to be confined within a single state’s jurisdiction. Thus, federal law now provides that as long as the placing of bets occurs exclusively in jurisdictions where online gambling is legal, the activity is legal.100 Since 2011, the Wire Act’s clout with regard to prohibiting intrastate Internet gambling is significantly diminished, leaving the UIGEA and the Illegal Gambling Business Act as the primary federal enforcement statutes against illegal Internet gambling—and these statutes only bootstrap off of existing state law.101 Thus, if a state legalizes Internet gambling, the activity is legal and in accordance with federal law, as long as the gambling itself occurs within state lines or other jurisdictions where the activity is legal. The electronic transmissions connected with Internet gambling, such as bank transfers and payment processors, no longer need to be confined within state lines, given that the Wire Act no longer makes them illegal and they are not implicated in the UIGEA or the Illegal Gambling Business Act.102 As stated above, the OLC memo did not explicitly make this finding (it declined to analyze the UIGEA any further).103 However, New York and Illinois were permitted to run their Internet lotteries in state while transmitting data associated with

New York is finalizing construction of a new computerized system that will control the sale of lottery tickets to in-state customers. . . . New York also notes that all transaction data in the new system will be routed from the customer’s location in New York to the lottery’s data centers in New York and Texas through networks controlled in Maryland and Nevada. . . . Illinois characterizes its program as “an intrastate lottery, despite the fact that packets of data may intermediately be routed across state lines over the Internet.”

Id. (citations omitted).

98 See supra p. 542 and notes 84–85; accord supra p. 539 and notes 65–67.
99 See supra p. 542 and notes 84–85.
100 See supra p. 542 and notes 84–85; accord supra p. 539 and notes 65–67.
101 See supra Section III.D.
102 See supra Section III.B–D.
103 See supra p. 543 and notes 88–89.
the online ticket sales to out-of-state transaction processors. Therefore, the effect of the memo replaced the need for any such explicit finding, and the resulting inference described above has not been refuted by the Department of Justice in any way.104

As illustrated by this section, federal laws have often been unclear, and their enforcement has been unpredictable and inconsistent. Regulation cannot operate effectively in this way if the goal is to maximize the benefits that the Internet gambling industry can offer the United States. The following section will outline states’ regulatory schemes regarding Internet gambling and the recent trend of legalization in several states. One will see that an industry as large and complex as Internet gambling demands an overarching federal regulatory system, especially in light of developing state regulation and the resulting regulatory inconsistencies.

IV. STATE REGULATION OF INTERNET GAMBLING

States have historically served as “laboratories” for the federal government in testing novel economic, social, and regulatory “experiments.”105 The OLC Memo opened the door for states to legalize Internet gambling, giving them freedom to explore the frontier of Internet gambling regulation. Thus far, the states of Nevada, Delaware, and New Jersey have legalized and regulated Internet gambling.106 In addition, the states of Illinois and Georgia have introduced the sale of lottery tickets over the Internet.107 These

105 This phrasing was first popularized in a dissenting opinion authored by Justice Louis Brandeis. See New State Ice Co. v. Leibmann, 285 U.S. 262, 311 (1932) (Brandeis, J., dissenting) (“To stay experimentation in things social and economic is a grave responsibility. Denial of the right to experiment may be fraught with serious consequences to the nation. It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country. This Court has the power to prevent an experiment.”).
107 Id.
state “experiments” have important implications for future federal legislation and regulation of Internet gambling.

A. Nevada

Housing the gambler’s paradise of Las Vegas within its jurisdiction, the state of Nevada has long been a champion for the legalization and regulation of the gambling industry, including Internet gambling. Nevada was the first state to legalize online gambling when Governor Brian Sandoval signed Assembly Bill No. 114 into law on February 21, 2013. The regulatory system established by this statute has many practical and beneficial features that a federal regulatory scheme could adopt.

The Nevada statute operates by adding the regulation of interactive gaming to the Nevada Gaming Commission’s jurisdiction. Under the Commission’s oversight, the statute establishes fees for licenses to operate interactive gaming and to manufacture systems and equipment associated with interactive gaming. In Nevada, initial licenses to operate interactive gaming last for two years and cost $500,000, and license renewal fees for the immediately following one-year period cost $250,000. In addition

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109 Nev. Rev. Stat. § 463.750(1) (2013). The Nevada statute uses the language “interactive gaming” instead of “Internet gambling,” but the terms have the same meaning for the purposes of this article. There are different terms used for Internet gambling throughout state and federal statutes and academia, but they all essentially mean gambling of any form conducted on the Internet.

110 Id. §§ 463.760–65.

111 Id. § 463.765(1)(a)–(d). The Nevada Gaming Commission is also authorized by statute to raise the initial license fee to up to $1,000,000 and renewal license fee to $500,000 for various reasons, including: ensuring licensees have the financial capacity to operate interactive gaming, compensation for regulatory costs that require additional personnel or other regulatory expenditures, compensation for increased costs due to entering an interactive gaming agreement with other states, or compensation for federal legislation that necessitate or make advisable a higher licensing fee. Id. § 463.765(2)(a)–(d). The initial one-year license fee for a manufacturer of interactive gaming systems is $125,000. Id. § 463.760(1)(a), (2). For a manufacturer of equipment associated with interactive gaming, the initial
to the obvious revenue they generate, these hefty licensing fees ensure that licensees have the financial capacity to successfully operate an Internet gambling enterprise; this is a cautionary feature that a federal regulatory system should incorporate.\footnote{See generally John Wilkerson, Nevada Approves Internet Gambling, ABC NEWS (June 4, 2001), http://abcnews.go.com/US/story?id=93177 (Senate Judiciary Chairman Mark James R-Las Vegas, a proponent of early Internet gambling legislation, “said the $500,000 fee ensures that reputable companies undertake Internet gambling.” Of course, opponents, such as Senator Terry Car, D-Las Vegas, have the differing opinion that the high licensing “fee[s] for Internet gambling makes it impossible for small casinos and entrepreneurs to participate.”).}

A unique aspect of Nevada’s regulation of Internet gambling is that, in several instances, it extends pre-established regulations governing its “brick-and-mortar” casinos to regulate Internet gambling.\footnote{“Brick-and-mortar” is a term used for casinos in physical buildings.} For example, Nevada taxes Internet gambling revenue at the same monthly rate as brick-and-mortar casino revenue.\footnote{Id. § 463.370 (2013).} Nevada taxes gross revenue generated by gambling monthly at the maximum rate of 6.75\%.\footnote{Id. § 463.370(1)(c). There is a tiered structure governing the rate at which gross revenue is taxed: 3.5\% for gross revenue not exceeding $50,000 per calendar month, 4.5\% for gross revenue exceeding $50,000, but not $134,000, per calendar month, and 6.75\% of gross revenue exceeding $134,000 per calendar month. Id. § 463.370(1)(a)–(c).} These licensing fees and taxes on revenue are substantial considerations for states deciding whether to legalize and regulate Internet gambling.\footnote{See, e.g., Authorizing Online Poker in California, LEGISLATIVE ANALYST’S OFFICE 1, 7, 9–11 (Apr. 23, 2014), http://www.lao.ca.gov/handouts/education/2014/Authorizing-Online-Poker-in-California-042314.pdf (analyzing the potential gross revenue that legalized online poker in California could generate and the various factors affecting such revenue).}

Another example in which Nevada builds its Internet gambling regulation from its preexisting gambling laws is the requirement that a license applicant must already be in the casino business and not have operated any interactive gaming activity in violation of state or...
federal law to obtain an interactive gaming license.\footnote{117} Due to these limits, only entities that have previous experience in legal gaming operations will be able to operate interactive gaming.

One of the Commission’s most important responsibilities in the administration and regulation of Nevada’s interactive gaming is setting forth the “standards for the location and security of the computer system and for approval of hardware and software used in connection with interactive gaming.”\footnote{118} This technical compliance aspect of regulation, paired with strict licensing investigation standards, is instrumental to “ensure the protection of consumers, including minors and vulnerable persons, prevent fraud, guard against underage and problem gambling, avoid unauthorized use by persons located in jurisdictions that do not authorize interactive gaming[,] and aid in law enforcement efforts.”\footnote{119} These regulatory safeguards and the use of a central Internet gambling regulatory commission to enforce the regulations should be incorporated in a prospective federal regulatory system.

Though there are many different licensed service providers and gaming manufacturers that comprise Nevada’s Internet gambling infrastructure, only three Interactive Gaming Operator licenses have been issued by the Gaming Control Board.\footnote{120} These licenses have been issued to Caesars Interactive Entertainment, Inc., Fertitta Interactive LLC, and South Point Poker LLC.\footnote{121} Despite the issuance of

\begin{footnotesize}
\begin{enumerate}
\item\footnote{117} NEV. REV. STAT. § 463.750(3)–(9) (2013). The statute does, however, provide flexibility to the Commission to waive these requirements at its discretion.
\item\footnote{118} Id. § 463.750(2)(f).
\item\footnote{119} Id. § 463.745(2) (promulgating the fundamental goals of the regulatory structure).
\item\footnote{121} Interactive Gaming/Service Providers, supra note 120. For an updated list, see Operator Inter. Gaming, Active, STATE OF NEV. GAMING CONTROL BD.,
\end{enumerate}
\end{footnotesize}
of these licenses, Nevada “has just two poker-only Internet gaming sites.” In contrast to New Jersey, Nevada (the first state to legalize Internet gambling) has been deliberate in expanding its Internet gambling industry to include casino games other than poker and additional licensed operators.

B. New Jersey

New Jersey enacted legislation regulating Internet gambling on February 26, 2013, just after Nevada. These statutes are unique in that they specifically confine all operations of Internet gambling to Atlantic City, the only jurisdiction in New Jersey where casinos are lawfully permitted to operate. Few aspects of New Jersey’s regulation differ from Nevada’s, and the basic goals of each are the same.

New Jersey’s regulatory bodies consist of the New Jersey Casino Control Commission and the Division of Gaming Enforcement. The two share regulatory, licensing, enforcement, and adjudicatory authority over Internet gambling activities in the state. This division of labor is similar to Nevada’s two-tiered regulatory structure. Also, as in Nevada, entities wishing to operate an


See infra Section IV.B.


Id. § 5:12–95.17 k; see also N.J. CONST. art. IV, § 7, ¶ 2 D.


The Casino Control Commission has the authority to decide on license applications, review complaints by licensees, and decide appeals from violation and penalty assessment. Id. § 5:12–63. The Division of Gaming Enforcement leads investigations of license applicants, oversees hearings concerning gaming conduct operations, and enforces all gaming laws. Id. § 5:12–76.

Nevada’s two regulatory bodies are the Gaming Commission and the State Gaming Control Board. See NEV. REV. STAT. § 463.140 (2013). Similar to the way the regulatory bodies operate in New Jersey, in Nevada, one generally controls licensing and the other is generally the prosecutorial authority. Id. The Gaming
Internet gambling business in New Jersey must already have a valid brick-and-mortar casino license.\textsuperscript{130} An initial, one-year licensing fee costs at least $400,000, and annual renewal fees are no less than $250,000.\textsuperscript{131} New Jersey’s taxation of Internet gambling is based on gross revenue, which is subject to an annual 15% tax.\textsuperscript{132} In contrast, New Jersey casinos are taxed at just 8% of gross revenues.\textsuperscript{133} This disparate tax treatment of Internet gambling is a notable departure from Nevada’s taxation approach.\textsuperscript{134}

New Jersey’s basic regulatory goals in its legislative findings and declarations are fairly similar to Nevada’s in that they highlight the importance of inhibiting wagering by underage or otherwise vulnerable individuals and ensuring that Internet games are fair and safe through the use of approved hardware and software.\textsuperscript{135} Additionally, New Jersey emphasizes the policy reason of ending “the practice of sending much-needed jobs and tax revenue overseas to illegal operators while creating jobs and economic development in Atlantic City” for legalizing and regulating Internet gambling.\textsuperscript{136} This is a strong incentive for many states in efforts to legalize and regulate online gambling; the most effective way to take advantage of an industry is to eliminate its unlicensed operators.

New Jersey has quickly licensed a multitude of Internet gambling operators since November 21, 2013, when Internet gambling went live in the state.\textsuperscript{137} As of February 3, 2014, a total of sixteen

\begin{itemize}
  \item Commission controls licensing and acts in a judicial capacity to discipline entities for violations. \textit{Id.}
  \item The Gaming Control Board is the prosecutorial authority in disciplinary procedures against a gaming license. \textit{Id.}
  \item \textsuperscript{130} N.J. STAT. ANN. § 5:12–95.21 (2013).
  \item \textsuperscript{131} Id. § 5:12–95.29(a).
  \item \textsuperscript{132} Id. § 5:12–95.19.
  \item \textsuperscript{133} Id.
  \item \textsuperscript{134} \textit{Compare id.} § 5:12–95.29(a) (setting forth a 15\% annual tax rate for Internet gambling, which is nearly double the tax rate for brick-and-mortar casino gambling), \textit{with} NEV. REV. STAT. § 463.370 (2013) (taxing Internet gambling and brick-and-mortar casino gambling at the same monthly rate of 6.75\%).
  \item \textsuperscript{135} N.J. STAT. ANN. § 5:12–95.17(h) (2013).
  \item \textsuperscript{136} Id.
  \item \textsuperscript{137} \textit{New Jersey Becoming 3rd State To Offer Internet Gambling}, CBS NEW YORK (Nov. 21, 2013, 12:45 PM), http://newyork.cbslocal.com/2013/11/21/new-jersey-becoming-3rd-state-to-offer-internet-gambling/ (“A five-day trial period of
“transactional waivers” have been issued to companies authorizing engagement in Internet gambling activities. Among these companies are Caesars and Amaya, Tropicana and Gamesys, Bally’s and 888, Trump Taj Mahal and Ultimate Gaming/CAMS, Golden Nugget and Bally Technologies/Amaya, Borgata and bwin.party/Amaya/CAMS, and Trump Plaza and Betfair/GameAccount/Amaya/CAMS. The two largest-grossing companies thus far have been the Borgata Hotel Casino & Spa and Caesars Interactive, which accounted for about three quarters of New Jersey’s Internet gambling tax revenue in 2013.

C. Online Lotteries

Several states have not fully committed to legalizing all forms of Internet gambling in their jurisdictions, but have upgraded their lottery systems to enable online purchases. Currently, only Illinois

Internet gambling begins at 6 p.m. Thursday when players invited by casinos to test their systems make real-money bets online.”)


140 NJ Online Gambling Revenues Come In Below Expectations, CBS NEW YORK (Jan. 15, 2014, 11:54 AM), http://newyork.cbslocal.com/2014/01/15/nj-online-gambling-revenues-come-in-below-expectations/ (“The figures also show New Jersey’s fledgling Internet gambling industry being dominated by two main players: the Borgata Hotel Casino & Spa and Caesars Interactive, which together won $6.1 million of the $8.4 million that was taken in by New Jersey Internet gambling sites over the year’s final five weeks.”).
and Georgia have Internet lotteries with the potential for expansion into other online gaming.\textsuperscript{141} In contrast, Delaware has legalized Internet gambling for numerous table games—such as poker—in addition to online lottery sales through its state-run lottery program.\textsuperscript{142} These three distinct jurisdictions are good examples of how states are in various stages of legalization, demonstrating the utility of an overarching federal regulatory scheme in providing consistency nationwide.

Georgia is the least likely of these three states to legalize other forms of Internet gambling, aside from an online lottery, because it has the least favorable political climate for such expansion.\textsuperscript{143} Influential interest groups and Georgia’s political leadership are generally against the expansion of gambling in the state; even the incremental expansion to an online ticketing system for the state’s lottery has been met with opposition.\textsuperscript{144} As expected, the sale of lottery tickets online is accompanied by strict regulation. These regulations include mandatory player registration and monitoring of IP addresses to verify that players making purchases are physically located in Georgia, banking requirements, and playing time limits.\textsuperscript{145} Interestingly, unlike states that permit some form of Internet gambling, Georgia’s regulations are not established by statute; the


\textsuperscript{142} DEL. CODE ANN. tit. 29, § 4803(k) (2013) (defining Internet lottery as encompassing Internet ticket games, the Internet video lottery and Internet table games); \textit{id.} § 4826(a) (authorizing the Director of the State Lottery Office to operate an Internet lottery).

\textsuperscript{143} Ross, \textit{ supra} note 141.

\textsuperscript{144} \textit{Id.} “The Georgia Family Council has expressed disappointment that the ticket sales will be expanded, describing the lottery system as ‘inherently exploitative.’ . . . Governor Nathan Deal, though opposed to the expansion of gambling in Georgia, said Thursday that he is okay with online ticket sales.” \textit{Id.} (internal quotation marks omitted).

\textsuperscript{145} \textit{Id.}
approval of the online ticketing system and implementation of regulatory controls came from state lottery officials.\footnote{146}{Id.}

Illinois, on the other hand, enacted a specific statute, entitled the “Internet pilot program,” effective August 16, 2013, which authorized the online sale of lottery tickets.\footnote{147}{20 ILL. COMP. STAT. 1605/7.12 (2013).} Similar to Georgia, it contemplated regulatory requirements such as ensuring that sales are made solely within the state of Illinois by persons eighteen years of age or older and limiting the amount of purchases by any one person’s lottery account.\footnote{148}{Id. § 7.12(b).} The pilot program, as suggested by its title, is only temporary—lasting between three and four years—after which time the Lottery Study Committee will evaluate and analyze the various effects of online lottery sales.\footnote{149}{Id. § 7.12(b)–(c). Some of the effects to be evaluated and analyzed include: economic benefits to the state, local governments, and lottery retailers; player age verification; control of gambling addiction; technological, programming, and security requirements; and cost and project time estimates for implementation. Id. § 7.12(c)(1)–(9).}

The state of Delaware, meanwhile, ranks along with Nevada and New Jersey as one of the leaders in state legalization of Internet gambling, in part because Delaware has legalized all forms of Internet gambling through its Internet lottery statute.\footnote{150}{See DEL. CODE ANN. tit. 29, § 4803(k) (2013) (Internet lottery defined to encompass Internet ticket games, the Internet video lottery and Internet table games); id. § 4826(a) (authorizing the Director of the State Lottery Office to operate an Internet lottery).} As with other states with legalized online gambling, the Delaware statute provides for regulatory safeguards.\footnote{151}{DEL. CODE ANN. tit. 29, § 4826(c)(1)–(8) (2012). Specifically, these safeguards include: verification of age and location of players, procedures of financial transactions and transfers, and procedures for security and reliability of online games. Id.} Delaware’s approach to legalization is unique from other states’ approaches in that licensing fees for service providers and operators are nominal, and the gaming is strictly regulated and controlled by the Delaware State Lottery Office.\footnote{152}{See DEL. CODE ANN. tit. 29, § 4803(r), (k) (2013) (section 4803(r) defines “Office” as the State Lottery Office, and section 4803(k) defines “Internet Lottery”}
of Internet gambling and taxes on gross revenue, under the Delaware Gaming Competitiveness Act of 2012, Delaware collects all gross revenue from Internet gambling (less winnings paid to players) and deposits it in the “State Internet Lottery Fund,” which is then distributed pursuant to title 29, section 4815 of the Delaware Code.\footnote{H.B. No. 333, 146th Gen. Assemb., (Del. 2012).} From this distribution, Delaware receives about 44\% of Internet slots revenue and 29\% of revenue from all other games, excluding payments made to players.\footnote{Id.}

Because the state controls all licensed gaming agents who provide services, Delaware does not license private entities to operate Internet gambling in the same manner as Nevada and New Jersey.\footnote{See supra p. 554 and note 152.} Thus, Internet gambling in Delaware is only available through three websites operated in partnership by the Delaware State Lottery and 888 Holdings—the corporation hired by the state to provide Internet gambling services.\footnote{See Brett Collson, Delaware Selects 888 Holdings as Primary Online Gaming Provider, Pok e r News (May 3, 2013), http://www.pokernews.com/news/2013/05/delaware-state-selects-888-holdings-as-primary-online-gaming-14912.htm. Delaware operates the websites through its casino racetracks: Delaware Park, Dover Downs, and Harrington Raceway. See About Us, Delaware Park Online, http://www.delawarepark.com/igaming/about.php (last visited Nov. 26, 2014) (offering Delaware Park Online in partnership with the Delaware State Lottery and 888 Holdings as an Internet gambling website and stating that all games are lottery games controlled by the Delaware Lottery); About Us, Dover Downs, http://onlinegaming.doverdowns.com/about.htm (last visited Nov. 26, 2014) (offering Dover Downs Hotel & Casino Online in partnership with the Delaware State Lottery and 888 Holdings as an Internet gambling website and stating that all games are lottery games controlled by the Delaware Lottery); About Us, Harrington Gaming Online, http://www.harringtongamingonline.com/about.htm (last visited Nov. 26, 2014) (stating that all games are controlled by the Delaware State Lottery).}

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illustrated above present a potential opportunity for the federal government to utilize the benefits of federalism and model a federal regulatory scheme after the superior states’ approaches.

D. Internet Gambling Interstate Compacts

As exemplified by Nevada, New Jersey, and Delaware, regulatory schemes among states can differ widely.\textsuperscript{157} The next step for states that have legalized and regulated Internet gambling is to expand their intrastate operations with interstate compacts in hopes of attracting a larger pool of players.\textsuperscript{158} In September 2013, state officials acknowledged future plans to enter into such compacts: Nevada Governor Brian Sandoval had preliminary conversations with other states regarding compacts; Lisa Spengler, a spokeswoman for the New Jersey Division of Gaming Enforcement, confirmed that compacts will be considered in the future; and Delaware Finance Secretary, Thomas J. Cook, said that compacts will be looked into in 2014.\textsuperscript{159} Only a few months after these acknowledgments, on February 25, 2014, the governors of Delaware and Nevada executed the first interstate Internet gambling compact.\textsuperscript{160} The technology to implement multistate Internet gambling is still under development, but the execution of the agreement makes the activity legal.\textsuperscript{161}

The Multi-State Internet Gaming Agreement establishes a governing body, the Multi-State Internet Gaming Board, to facilitate the implementation of interstate Internet gambling and oversee

\textsuperscript{157} See supra Part IV.


\textsuperscript{159} Id.


\textsuperscript{161} See id. (declaring that federal laws leave states the ability to license and regulate Internet gambling); Aaron Nathans, Delaware signs online poker compact with Nevada, USA TODAY (Feb. 26, 2014), http://www.usatoday.com/story/news/nation/2014/02/26/delaware-signs-online-poker-compact-with-nevada/5827947/ (citing Delaware Governor Jack Markell, stating that the agreement resolves the legality of intrastate online gambling).
member state adherence to the minimum regulatory standards the agreement sets forth.\textsuperscript{162} The agreement resolves tax rate discrepancies between member states by allowing individual states to set their own rates and methods of collection.\textsuperscript{163} It further requires each state to collect revenue monthly and only allows each member state to collect revenue generated by players located within its boundaries.\textsuperscript{164} Under the agreement, member states initially offer Internet poker, but they are free to offer other games for multistate play at their discretion.\textsuperscript{165} The rapidity with which Nevada and Delaware drafted and executed an interstate compact for Internet gambling is an indicator that more such agreements will follow. These compacts represent simpler versions of regulation that proposed federal bills seek to accomplish.\textsuperscript{166}

V. FEDERAL REGULATION OF INTERNET GAMBLING

As demonstrated in the above section, state regulation of Internet gambling is a complex proposition with numerous differences among various states. Proposals for federal legislation regulating Internet gambling are similarly complex. Recent federal bills aiming for legalization and regulation of Internet gambling have gained limited traction, but they are nevertheless instructive for future efforts.

\textsuperscript{162} Multi-State Internet Gaming Agreement, supra note 160, at 5 (Article VII Governance of the agreement establishes the regulatory body). Spanning only two pages, the required minimum regulatory standards for member states contain exceedingly generalized terms, leaving member states significant latitude in how they meet the minimum standards. \textit{Id.} at 12–13.

\textsuperscript{163} \textit{Id.} at 4–5.

\textsuperscript{164} \textit{Id.}

\textsuperscript{165} \textit{Id.} at 4.

\textsuperscript{166} Compare Multi-State Internet Gaming Agreement, STATE OF DEL. OFFICE OF THE GOVERNOR (Feb. 25, 2014), http://governor.delaware.gov/docs/MultistateInternetGamingAgreement140224.pdf (the compact between Nevada and Delaware creates an overarching regulatory body to regulate interstate Internet gambling and enforce generalized minimum standards in a fourteen-page agreement), with Internet Gambling Regulation, Enforcement, and Consumer Protection Act, H.R. 2282, 113th Cong. 2013) (as referred to the H. Subcomm. on Crime, Terrorism, Homeland Sec., and Investigations, July 15, 2013) (recently proposed federal legislation accomplishes the same end with greater specificity and detail in a 134-page bill).

The Internet Gambling Regulation, Consumer Protection, and Enforcement Act of 2013 (H.R. 2282),\(^{167}\) sponsored by Representative Peter King, creates a federal regulatory body, the Office of Gambling Oversight in the Treasury Department, to establish licensing and quality control standards for states that decide to legalize Internet gambling.\(^{168}\) As with the statutes in Nevada and New Jersey, this bill sets forth many regulatory necessities. Among other things, H.R. 2282 authorizes the Office of Gambling Oversight to: set the standards by which to approve or deny licenses; require independent inspection of hardware, software, communications equipment, and other devices used in Internet gambling to assure their integrity, accountability, and security; mandate oversight of licensing and operation; provide consumer protections; and enforce and prevent violations such as cheating and money laundering.\(^{169}\) H.R. 2282 also delegates these regulatory responsibilities to any designated “qualified body.”\(^{170}\) This means that approved state Internet gambling regulatory agencies would be able to license operators of Internet gambling, as long as the applicants meet the established minimum criteria.\(^{171}\) Appropriately, the bill includes adequate federal oversight of qualified bodies to ensure that they maintain the federally established standards of licensing.\(^{172}\)


\(^{168}\) Id. § 104.  

\(^{169}\) Id. § 106(f)(2)(A) (authorizing the Secretary to revoke a license issued by a qualified body if the Secretary has reason to believe that the recipient does not...
H.R. 2282 addresses an important issue pertaining to the potential conflict with existing federal law regulating Internet gambling, such as the Wire Act and UIGEA. H.R. 2282 proposes to add a clause to the UIGEA stating that “[t]he provisions of this subchapter . . . shall not apply to any bet or wager—(A) occurring pursuant to a license issued under title I of the Internet Gambling Regulation, Enforcement, and Consumer Protection Act of 2013, subject to section 109 of that Act.” By operation of this amendment, H.R. 2282 would preempt the UIGEA. There is also a provision in H.R. 2282 that would amend the Wire Act for the same purpose. These amendments are necessary because they clarify exactly how the different federal statutes that apply to Internet gambling will interact. Given the historical ambiguity of federal law related to Internet gambling, any new federal regulatory legislation should include provisions that resolve confusion surrounding existing law.

This lengthy bill is one of the most comprehensive proposals of its kind, detailing a complete federal regulatory scheme of all forms of Internet gambling. It includes sections addressing sports betting, horseracing, and Indian gaming, all of which are sub-issues beyond the scope of this article. H.R. 2282 is ambitious and has seemingly paid the price for its far-reaching goals; the bill is estimated to have only an eleven percent chance of getting past committee and a dismal two percent chance of being enacted.

meet the suitability requirements established under section 106(d); this power can undo improper license issuances and preserve the desired consistent minimum standards).

173 Id. § 113.
174 Id. § 113(d) (emphasis added).
175 Id. § 113(f)(2) (amending the Wire Act such that H.R. 2282 would preempt it). H.R. 2282 also substantially alters the wording and definitions of the Wire Act, updating the language to reflect changes in technology since the Wire Act’s enactment in 1961. Id. § 113(f)(1).
176 This is especially apparent when H.R. 2282 is combined with its intended counterpart, H.R. 3491: Internet Gambling Regulation and Tax Enforcement Act of 2013. See infra Part V.B.
B. H.R. 3491: Internet Gambling Regulation and Tax Enforcement Act of 2013

The Internet Gambling Regulation and Tax Enforcement Act of 2013 (H.R. 3491), 179 introduced on November 14, 2013, is a counterpart to Representative King’s H.R. 2282. 180 Sponsored by Representative Jim McDermott, 181 H.R. 3491 provides for federal and state taxation of Internet gambling that H.R. 2282 would legalize and regulate.182 Perhaps the primary motivation for government legalization of Internet gambling is the promise of tax revenue, making the subject matter of the regulations within H.R. 3491 a necessity in any proposed federal regulatory scheme.183

States that have legalized and taxed Internet gambling use the same basic gross revenue method of taxation, but H.R. 3491 takes a different approach.184 Instead of basing taxation on gross revenue,
taxation under this bill is based on the amount of funds deposited by customers. First, the federal government collects a four percent tax from each Internet gambling licensee on all customer deposits. Next, H.R. 3491 authorizes a state Internet gambling tax of eight percent on all funds deposited by customers located in that state. These taxes are collectable monthly on a pro-rata basis. This tax procedure raises the concern that operators might impose fees on customer deposits or otherwise attempt to shift the tax burden to the customer. However, H.R. 3491 eliminates such loopholes, mandating that the tax “shall be the direct and exclusive obligation of the Internet gambling operator and may not be deducted from” the deposited amounts available to customers placing bets. Notably, the bill gives Internet gambling operators a credit for taxes paid on any funds returned by the operators to customer bank accounts, reducing the tax’s scope to funds that remain deposited with licensees.

It is unclear whether a method of taxation on the basis of customer deposits or gross earnings is preferable; many variables change the debate. Furthermore, because state regulation of Internet gambling is in its infancy, estimates of Internet gambling revenue are questionable and certainly not to be relied upon.

15%); supra pp. 556–556 (Delaware collecting all Internet gambling gross revenue, less winnings paid to players, in its State Internet Lottery Fund and retaining about 44% of Internet slots revenue and 29% of revenue from all other games).

183 H.R. 3491 §§ 4491(a)(1), 4493(b).

184 Id. § 4491(a)(1).

185 Id. § 4493(b). There is also an overseas gambling tax of 12% of all funds deposited by customers outside the United States. Id. § 4393(d).

186 Id. §§ 4491(d), 4493(a)(1)–(2).

187 Id. § 4491(a)(2); see also Nitti, supra note 183 (assuring the reader that Internet gambling licensees are prohibited from reducing the customer’s account by the taxes levied).

188 H.R. 3491 § 4491(c).

189 For more analysis on Internet gambling taxation models, see Sanford I. Millar, Taxation of Regulated Internet Gambling, in REGULATING INTERNET GAMING: CHALLENGES AND OPPORTUNITIES, supra note 6, at 87.

190 LEGISLATIVE ANALYST’S OFFICE, supra note 116, at 2, 4–5. (Nevada estimates annual revenue at $3 million; the Delaware State Department of Finance lowered its initial first-year revenue estimate of $7.75 million to $3.75 million; and
Regardless of these challenges, federal regulators should carefully examine gross revenue models implemented by states along with the customer deposit model proposed by H.R. 3491 while developing and implementing a taxation scheme for legalized Internet gambling.


The Internet Poker Freedom Act of 2013 (H.R. 2666), introduced on July 11, 2013 by Representative Joe Barton, has the primary goal of establishing a legalized federal regulatory scheme for Internet poker while leaving out other forms of Internet gambling such as blackjack, roulette, and other casino games. This approach is procedurally similar to H.R. 2282 in that it creates a federal body, the Office of Internet Poker Oversight, to promulgate and enforce regulations. Substantively, however, it is significantly narrower in that it only regulates Internet poker.

Under H.R. 2666, the Office of Internet Poker Oversight may designate a state agency or regulatory body as a “qualified regulatory authority,” enabling it to license operators of Internet poker, as long as the regulatory authority meets the prescribed minimum standards for qualification. One of these standards is that the qualified regulatory authorities employ experienced staff and enforcement agents with sufficient sophistication and necessary resources to confront Internet poker regulatory issues. Prior to the issuance of a license, H.R. 2666 specifically directs qualified regulatory authorities to make a determination of an applicant’s suitability, based on an investigation of the applicant and contents of New Jersey lowered its initial annual revenue estimate from $160–$180 million to $35–$50 million.

194 Id. § 103(b)(1) (establishing the Office of Internet Poker Oversight to carry out the functions assigned to the Secretary in H.R. 2666).
195 Compare id., with H.R. 2282 § 104 (creating the Office of Gambling Oversight to regulate Internet gambling, not limited to poker).
196 H.R. 2666 § 103(c).
197 Id. § 103(c)(1).
198 Id. § 103(c)(2)(A).
the application.\textsuperscript{199} This gives qualified regulatory authorities consistent procedures and standards to apply when deciding whether an applicant is suitable and has submitted a complete application. Finally, with regard to federal oversight of qualified regulatory authorities, the Office of Internet Poker Oversight may “take such action as [it] considers appropriate with respect to any qualified regulatory authority that appears . . . to be deficient or substantially less rigorous than other qualified regulatory authorities in the discharge of its responsibilities.”\textsuperscript{200} This oversight should be incorporated into an Internet regulatory scheme that delegates licensing and other regulatory authority to states so that each state may be held accountable for properly protecting consumers.

Similar to Nevada’s Internet gambling regulations, H.R. 2666 incorporates the prerequisite requirement that applicants must already operate a brick-and-mortar casino to be granted a license to operate Internet poker.\textsuperscript{201} Thus, the bill favors the initial licensing of domestic applicants that may be more trustworthy to comply with regulations, given that they have a proven track record of compliance with gambling law. There is, however, an avenue for licensee hopefuls that do not operate brick-and-mortar casinos, such as foreign Internet gambling operators. H.R. 2666 provides that, two years after the date of the first license issuance, entities not operating a brick-and-mortar casino may be licensed if their entry into the Internet gambling industry is risk-free to the public.\textsuperscript{202} This compromise provides a consumer safeguard by initially only licensing more trustworthy domestic operators, while leaving the door open for safe, foreign operators to enter the market after the two-year waiting period.

\textsuperscript{199} Id. \textsuperscript{\$} 104(c)(1)--(2) (requiring investigation and describing the standards upon which suitability is to be determined); \textit{id.} \textsuperscript{\$} 104(c)(2)(A)--(C) (an applicant’s suitability is based, among other things, on the applicant’s character, honesty, integrity, prior activities, and criminal record); \textit{id.} \textsuperscript{\$} 104(b)(1)(A)--(G) (applications require many disclosures, including the applicant’s complete financial information, criminal and financial history, a description of the applicant’s plan for complying with requirements and regulations, and an agreement to be subject to jurisdictions of the courts in which the applicant has applied).

\textsuperscript{200} Id. \textsuperscript{\$} 103(d).

\textsuperscript{201} Id. \textsuperscript{\$} 104(f)(1)(A)--(E); see supra p. 548 (explaining Nevada’s requirement).

\textsuperscript{202} H.R. 2666 \textsuperscript{\$} 104(f)(2).
One unique aspect of this bill is that it prohibits the use of credit cards for Internet poker. Nowhere in the legislative findings is there any explanation for such a provision, nor do any other statutes regulating legal Internet gambling prohibit the use of credit cards for Internet gambling payments. This would seem to contradict the interest of the government in collecting revenue because credit cards are one of the easiest methods of payment for customers. Prohibiting their use forces customers to utilize less convenient means of payment, which could reduce online poker play and the revenue it generates for the regulating governments. On the other hand, credit card transactions can facilitate illegal money laundering in Internet gambling, a substantial area of concern for regulators of the industry.

VI. FEDERAL REGULATORY PROPOSAL

The proposed bills and regulatory systems analyzed in the last section have unique qualities, each with their own strengths and weaknesses. A comprehensive federal regulatory proposal must incorporate the necessary regulatory attributes exemplified both in enacted state regulations and federal bill proposals, while also meeting the primary goals emphasized in nearly every jurisdiction’s legislative findings on the topic of Internet gambling.

The first of such goals is to eliminate illegal Internet gambling through regulation of the activity. Other primary goals that a

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203 Id. § 107(b) (“No licensee . . . may accept a bet or wager or payment for or settlement of a bet or wager that is transmitted or otherwise facilitated with a credit card.”).

204 See id. § 2(1)–(7) (enumerating the legislative findings without explicitly addressing the prohibition of the use of credit cards for payment).


207 See supra Part V.

208 E.g., Nev. Rev. Stat. § 463.745 (2013) (legislative finding that an interactive gaming comprehensive regulatory structure will aid in law enforcement
federal regulatory scheme should accomplish include consumer protection, job creation, and collection of tax and licensing revenue.\textsuperscript{209} Finally, it is important for any new federal legislation to clarify existing federal law so there is no question as to the legality of Internet gambling activity.\textsuperscript{210} These primary goals constitute the foundation for the construction of the following federal regulatory scheme.

First, the regulatory scheme must be designed as either a single provider model or a multiple license model. The single network model is similar to Delaware’s state lottery system of regulation.\textsuperscript{211} The Delaware State Lottery Office controls all Internet gambling operated by the “agents” it licenses and controls.\textsuperscript{212} This system gives the government extreme control over the industry, as patrons must gamble exclusively via government-operated websites.\textsuperscript{213} This is different from the multiple license model approach used in Nevada and New Jersey, where the states licenses multiple entities to operate
private Internet gambling websites. This is closer to a privatized, free-market approach because there is regulatory oversight of a market with competing Internet gambling networks. A federal regulatory scheme will have to be modeled after one of these approaches.

Next, the regulation must address the issue of licensing Internet gambling operators, service providers, technology providers, and any other entities that participate in the industry. Licensing regulations can differ widely depending on their breadth, depth, level of review, criteria, and standards. One common feature of Internet gambling licensing regulations that a federal regulatory scheme must consider is the requirement that applicants have operated a brick-and-mortar casino. Another important licensing issue related to criteria is whether operators that facilitated illegal Internet gambling in the United States will be eligible for a license. In making these important licensing decisions, the federal government must balance the cost of imposing burdensome licensing requirements with the benefits of the regulatory goals that they seek to meet.

An Internet gambling regulatory system should also provide for the fees and taxes that accompany licensing and operation of Internet gambling. There are two general approaches to the taxation of Internet gambling: taxation of gross gambling revenues or taxation of gross deposits. Nevada, Delaware, and New Jersey all use a gross

214 See supra Part IV.A–B.
215 Online Gambling Legalization is Happening NOW, supra note 211.
216 CABOT & PINDELL, supra note 6, at 11–12 (breadth is the extent to which regulations require entities to obtain licenses; depth is the extent to which people within an applying entity are investigated in the licensing process; level of review refers to the intensity of the investigation; criteria are elements that the government considers when making licensing decisions; and standards entail the level of rigidity with which the criteria are applied).
217 See supra p. 551 (New Jersey’s regulations incorporate this general requirement); supra p. 548 (Nevada’s regulations incorporate this general requirement); supra p. 566 (H.R. 2666 would also include this general requirement).
218 CABOT & PINDELL, supra note 6, at 48.
219 Id. at 11.
220 Sanford I. Millar, Taxation of Regulated Internet Gambling, in REGULATING INTERNET GAMING: CHALLENGES AND OPPORTUNITIES, supra note 6, at 87, 90–92.
revenue approach, whereas the proposed H.R. 3491 would tax gross deposits.\footnote{See supra pp. 550–548 (Nevada); see supra p. 551 (New Jersey); see supra pp. 30–31 (Delaware); see supra p. 561 (H.R. 3491).} Each system has its benefits and drawbacks; however, the deposit model seems more efficient for taxation of multiple jurisdictions.\footnote{Sanford I. Millar, Taxation of Regulated Internet Gambling, in \textit{Regulating Internet Gaming: Challenges and Opportunities}, supra note 6, at 91.} Another important consideration is the distribution of tax revenue between the federal government and the state governments.\footnote{See supra p. 561.} A federal regulatory scheme setting forth a uniform system of taxation would provide greater consistency and predictability to entities paying taxes and governments collecting them.\footnote{Sanford I. Millar, Taxation of Regulated Internet Gambling, in \textit{Regulating Internet Gaming: Challenges and Opportunities}, supra note 6, at 87, 90–92 (contrasting different models of taxation with regard to the differing levels of consistency and predictability in the taxation they provide). For more information and analysis of Internet gambling taxation models, see generally \textit{id}.}

The final important provision in a federal regulatory statute will clearly define the way in which new federal legislation interacts with the Wire Act and the UIGEA. As part of the federal regulatory scheme, the older statutes should be amended so that the new legislation preempts them.\footnote{See supra p. 559 (the proposed amendments provided in the Internet Gambling Regulation, Enforcement, and Consumer Protection Act of 2013 have this exact effect).} This fulfills the important goal of clarifying existing federal law, leaving no doubt as to the state of federal law regarding Internet gambling.

\textbf{VII. Conclusion}

The benefits of legalizing and regulating Internet gambling are enumerated throughout the legislative findings of state statutes.\footnote{E.g., supra p. 551 (New Jersey’s legislative findings on the benefits of legalizing and regulating Internet gambling).} One of the most commonly cited reasons is that, regardless of the law, consumers will find ways to gamble illegally over the
Thus, the federal government should step in and regulate the industry, protecting consumers while benefitting from an added source of tax revenue and job growth. This reasoning, however, is becoming outdated, given that legalized Internet gambling is rapidly growing among the states. Instead, federal regulation is now needed to clarify existing federal law and to set forth minimum standards to ensure that legal Internet gambling is appropriately regulated by the states.

The future of Internet gambling in the United States is rapidly developing, and at least ten states are expected to consider bills that would legalize Internet gambling. States are taking it upon themselves, in the absence of federal regulation, to legalize Internet gambling. The tax revenue states could obtain from regulating this activity is significant; in New Jersey alone, the Internet gambling market is projected to generate $262 million in gross gambling revenue in 2014. There is little doubt that states considering legalization are privy to these projections.

A federal regulatory scheme that establishes and enforces detailed minimum standards and procedures for the regulation and licensing of Internet gambling would go far to ensure the legitimacy of all licensed operators and secure the future of Internet gambling. As United States Representative Lee Terry said during a hearing of the

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227 Americans spent an estimated $2.6 billion on illegal, offshore Internet gambling in 2012. Prah, supra note 158.


229 Niraj Chokshi, At Least 10 States Expected to Consider Allowing Online Gambling This Year, WASH. POST (Feb. 5, 2014), http://www.washingtonpost.com/blogs/govbeat/wp/2014/02/05/at-least-10-states-expected-to-consider-allowing-online-gambling-this-year/. States considering legislation include California, Colorado, Hawaii, Iowa, Louisiana, Massachusetts, Mississippi, and Pennsylvania, along with consideration of expanded Internet gambling in Illinois and New Jersey. Id.; see also supra Part IV.

230 Chokshi, supra note 229.

231 Id. Federal inaction is expected to continue this year because it is an election year and “virtually all politically controversial subjects, including Internet gambling, will be seen through the risk-averse lens of re-election.” Id.

232 Id.
House Subcommittee on Commerce, Manufacturing, and Trade on December 10, 2013, “[w]hile unfettered online gaming here in the U[nited] S[tates] is surely not the ideal, absent a clear mandate from Congress, we risk exposing our constituents to an environment where a ‘race to the bottom’ could present itself.”233 The time has come for the federal government to mitigate that risk.