

Maryland Online Gaming Considerations

Introduction

Online gaming presents an incredible opportunity for Maryland. Lawmakers can raise significant revenue and lead the state into the digital economy while creating local jobs and supporting the sustainability of the land-based casino industry. Online gaming will contribute to overall economic growth and diversification, keeping Maryland competitive in the region.

Importantly, regulation protects consumers. It ensures that online gambling is conducted in a fair, honest, and responsible manner – and by companies that have been vetted and approved by the state. It provides mechanisms for protecting consumers against fraud, ensuring the integrity of games, and addressing problems like compulsive gambling through responsible gambling programs and self-exclusion tools.

Today, any Marylander with a smartphone and credit card can play online poker and a virtual slot machine. The illegal industry is pervasive and simple internet search deceptively leads unknowing Maryland consumers to unregulated online gaming platforms that have zero consumer protections and provide no economic benefit to the state. By providing a legal, safer alternative, states can protect consumers, reduce the money flow to underground operations and generate new state revenues.

Tax Structure

How online gaming is taxed should be carefully evaluated to ensure it is reasonable, equitable, and effective in promoting a healthy industry while maximizing state revenue without stifling market growth.

Recommendation 1:

Establish a flat tax rate of 25% for all forms of online gaming (slot games, table games and poker). Based on the study commissioned by the Maryland Lottery and Gaming Commission, this would generate roughly \$226 million in annual tax revenue to the state. Based on the performance of online gaming in other states, we believe this tax rate will provide Maryland with significant public funds while allowing for a competitive market that promotes industry growth and innovation.

Recommendation 2:

A well-structured tax system should allow both small and large online gaming operators to compete effectively. Establishing a marginal tax rate structure is one way to achieve this equity. Under this system, only the revenue that falls within a specific bracket is taxed at the corresponding rate, similar to the U.S. federal income tax system. This method is more complex but is considered fairer because it taxes income progressively. It encourages growth among smaller operators by taxing them at lower rates and ensures that larger operators contribute a fairer share to state revenues.

Bracket 1: Up to \$5 million in net monthly proceeds - 20%

Bracket 2: \$5,000,001 to \$10 million in net monthly proceeds - 25%

Bracket 3: \$10,000,001 to \$20 million in net monthly proceeds - 30%

Bracket 4: Over \$20 million in net monthly proceeds - 35%

Under this structure, an operator with \$25 million in net monthly proceeds would pay:

20% on the first \$5 million,

25% on the next \$5 million,

30% on the next \$10 million, and

35% on the remaining \$5 million.

Maximize Participation in Online Gaming

Maryland lawmakers should be lauded for their interest in promoting equitable participation for communities, businesses and entrepreneurs that have been historically underrepresented in the gaming industry. Below are several ideas for lawmakers to consider that will help maximize opportunities in Maryland's online gaming industry.

Ownership Requirement

The statute could state that in order to qualify for an online gaming operator license the entity must include one or more individuals (each having a personal net worth of less than \$1,847,000), who together own at least 5% of the applicant.

This type of requirement has already been approved under the rules and regulations that govern [mobile sports wagering licensing](#) in Maryland. The Personal Net Worth (PNW) standard meets the definition of “disadvantaged business enterprises” that is used elsewhere in Maryland MBE programs. This rule underwent review by the Maryland Office of the Attorney General, and was approved by Joint Committee on Administrative, Executive, and Legislative Review Committee. This race-and/or gender-neutral remedy can help to achieve the legislature’s goal of maximizing online gaming industry participation by minorities and women.

Establish a Community Development Fund

Allocate a portion of the tax revenue from online gambling to a fund dedicated to community development in areas identified by the legislature for maximum community benefit.

Create Incentives for Diverse Hiring and Training

Encourage online gaming companies to hire and train individuals from communities that have been historically underrepresented at the state’s largest institutions of higher education for any jobs they will be creating in Maryland. Create tax incentives for operators who establish and provide direct contributions to Maryland-based job training programs for high-demand roles in the industry, such as live dealers, data analytics, cybersecurity, game development, and customer service.

Direct Funding to Educational Institutions

Direct tax revenues to local colleges, universities, and vocational schools to create courses and certifications specifically tailored to the skills needed in the online gaming industry. These programs should be made accessible to students who are Pell grant eligible and were districted to attend a Title 1 school for the public education mandate in the state constitution. The funds could possibly be made available through scholarships or

reduced tuition fees – potentially paid for by mandatory contributions from licensed online gaming companies. Suggested creation of coding/AI/tech business incubator space located with 5mile radius of the three counties/jurisdictions with the highest level of: Title 1 schools, SNAP recipients and lowest median household incomes.

Support Entrepreneurs Currently (or Previously) Eligible for Federal/State Program Designed for Socially and Economically Disadvantaged Businesses and/or Businesses located in Opportunity Zones as defined by current Federal Law

Set up a grant or low-interest loan program to assist individuals who want to start businesses related to online gaming, such as game development studios, affiliate marketing, or cybersecurity companies. Program also allows grant eligibility for businesses located within Opportunity Zones. Also include language that existing MBE goals should be incorporated as consistent with federal and constitutional laws.

Transparent Reporting and Accountability

Require online gaming operators to regularly report on the demographics and metrics of their business and community engagement efforts seeking to expand participation opportunities for businesses and individuals from communities that have been geographically or socio-economically excluded, or underrepresented, from industries requiring state-issued licenses and establish oversight mechanisms to ensure compliance and effectiveness.

Zoning and Location-Based Incentives

For any physical infrastructure related to online gaming provide incentives for locating in or near communities that have historically been the recipients of educational or social programs administered by the state to address quality of life disparities as reflected by public school test school, Title 1 subsidies, SNAP recipients, broadband accessibility and adoption prior to ARPA subsidies, local unemployment rates and median household incomes provided it aligns with broader urban planning and community needs.

Appendix One

Costs Associated with Operating an Online Gaming Platform

Gross Gaming Revenue	100%
Fixed Costs	<i>Percentages based on avg. iGaming costs in other US regulated markets</i>
State Tax	47% (as proposed in SB 603)
Bonus Costs - Player acquisition and retention	20%
Marketing – Player acquisition costs	20%
Payment Processing	5%
KYC/Geolocation	3.5%
Game Content	7.5%
Player Account Management (PAM)	2.5%
Bad Debts	0.5%
Market Access Fee	5 to 10%
Licensing Fees	\$200,000.00 annually first 5 years, then 1% of avg. GGR (as proposed in SB 603)
Additional costs	<i>These outlays are uniform, but costs are dependent on size of operations</i>
Data Hosting	\$15 to \$20k per month
Audits	\$50k per annum
Staff:	
1. Marketing	Based on the size of the business
2. Customer Support	Based on the size of the business
3. Payment/Fraud/Compliance	Based on the size of the business