



Credit Union National Association

CUNA Issue Summary

INTERNET GAMBLING

ISSUE: On October 13, 2006, President Bush signed into law the *Unlawful Internet Gambling Enforcement Act* (UIGEA). This law prevents financial institutions from processing funds transfers, including those involving credit cards, to settle unlawful Internet gambling debts. However, Congress failed to realize the negative and unintended consequences that this legislation would have on banks and credit unions. The law places a costly and vague unfunded mandate on financial depository institutions.

On April 2, 2008, the House Subcommittee on Domestic and International Monetary Policy, Trade, and Technology held a hearing entitled “Proposed UIGEA Regulations: Burden without Benefit”. Ms. Harriet May, President and Chief Executive Officer of GECU of El Paso, Texas, [testified](#) on behalf of CUNA. She expressed concerns that aspects of proposed implementing rules would be difficult, if not impossible, to implement. She also testified that financial institutions would be swamped by the compliance burdens associated with UIGEA.

CUNA POSITION: CUNA supports enforcement of reasonable laws to prohibit unlawful Internet gambling. However, UIGEA inflicts unreasonable policing requirements which have proven difficult for financial institutions to meet. One of CUNA’s most fundamental concerns with implementing this law is that credit unions and other financial institutions are in business to provide financial services to their communities. Financial institutions should not be tasked with additional duties that are, by nature, the responsibility of law enforcement agencies. Credit unions and other financial institutions are already burdened with heavy policing responsibilities. Their compliance responsibilities under the *Bank Secrecy Act* and Office of Foreign Assets Control (OFAC) rules are extraordinary. CUNA is urging Congress to grant financial institutions “safe harbor” treatment from some of the more onerous provisions of the law.

STATUS / OUTLOOK: The rules implementing this new law were scheduled to take effect on December 1, 2009. House Financial Services Committee Chairman Barney Frank (D-MA) introduced H.R. 2266, the *Reasonable Prudence in Regulation Act* (H.R. 2266), legislation to delay implementation of UIGEA for one year. CUNA [supported](#) this bill. Frank also introduced the *Internet Gambling Regulation Consumer Protection and Enforcement Act* (H.R. 2267), a bill to allow Internet gambling companies to accept bets from persons in the United States if they are licensed by Treasury and maintain effective protections against underage and compulsive gambling and money laundering and fraud.

On October 1, 2009, House Financial Services Committee Chairman Barney Frank (D-MA) and eighteen other members of that panel sent a letter to the heads of the U.S. Treasury Department and the Federal Reserve Board, the agencies charged with implementing UIGEA. The lawmakers requested the UIGEA effective date be pushed back a year.

CUNA President and CEO Dan Mica applauded the committee's letter in a [letter](#) of his own to Frank and the other committee members. "While CUNA supports efforts to eliminate payments to unlawful Internet gambling businesses, we have consistently raised concerns about impractical aspects of UIGEA," Mica wrote in the October 5th letter.

In response to concerns raised by lawmakers and financial institutions, the Federal Reserve and U.S. Department of Treasury delayed UIGEA's compliance date to June 1, 2010. However, CUNA warned that the postponement did not mean that credit unions should postpone moving ahead with compliance efforts in the hope that the UIGEA requirements would be delayed further or eliminated. According to the Federal Register, the effective date of the final rule remained January 19, 2009.

On December 3, 2009, the House Financial Services Committee held a hearing on both H.R. 2266 and H.R. 2267. During the hearing, Chairman Frank stated that financial institutions were likely to make many unintended errors as they attempt to weed out and not pay merchants that submit claims that may or may not be tied to unlawful internet gambling. He went on to say that his committee would revisit the issue in 2010.

On May 19, 2010, the House Ways and Means Committee held a hearing on tax proposals in legislation to license and regulate Internet gambling activities. The Honorable Jim McDermott, a member of the committee, testified in favor of legislation he authored, H.R.2268, the Internet Gambling Regulation and Tax Enforcement Act. The modified bill states that once Internet gambling is legalized it would then be taxed at a rate of 2% on internet gambling deposits. He stated that this tax, combined with corporate, wager and income taxes would net \$42 billion over ten years in federal revenue if all states participate. Other provisions of McDermott's modified bill:

- The first provision is an opt-in tax for states and tribal governments of 6% on internet gambling deposits. If all states and tribal governments participate this tax could raise \$30 billion over ten years.
- The second provision is a small set of changes to ensure that Internet gambling is not part of the current gambling tax exemptions that currently exist for horses, dogs and jai-alai.
- A third provision is a set of changes designed to encourage illegal gambling service providers to operate legally.
- The fourth provision adds two revenue set-asides - one is for 25% of the federal revenue from Internet gambling to go towards foster kids programs and a second is for 0.5% of Internet gambling revenue to go towards historic preservation and the arts.

On July 21, 2010, Discovery Federal Credit Union President/CEO Ed Williams [testified](#) the "inappropriate and unreasonable compliance burden" that the Unlawful Internet Gambling Enforcement Act (UIGEA) imposed on credit unions during a House Financial Services Committee hearing on H.R. 2267, the Internet Gambling Regulation, Consumer Protection and Enforcement Act.

On March 17, 2011, the Internet Gambling Regulation, Consumer Protection, and Enforcement Act was introduced by Congressman John Campbell (R-CA) and Congressman Barney Frank (D-MA). The bill is identical to H.R. 2267 that was passed out of the House Financial Services Committee on July 28, 2010 with bi-partisan support.

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