TAXPAYERS PROTECTION ALLIANCE

ONLINE GAMING
PROHIBITION & ILLICIT MARKETS



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About the Taxpayers Protection Alliance

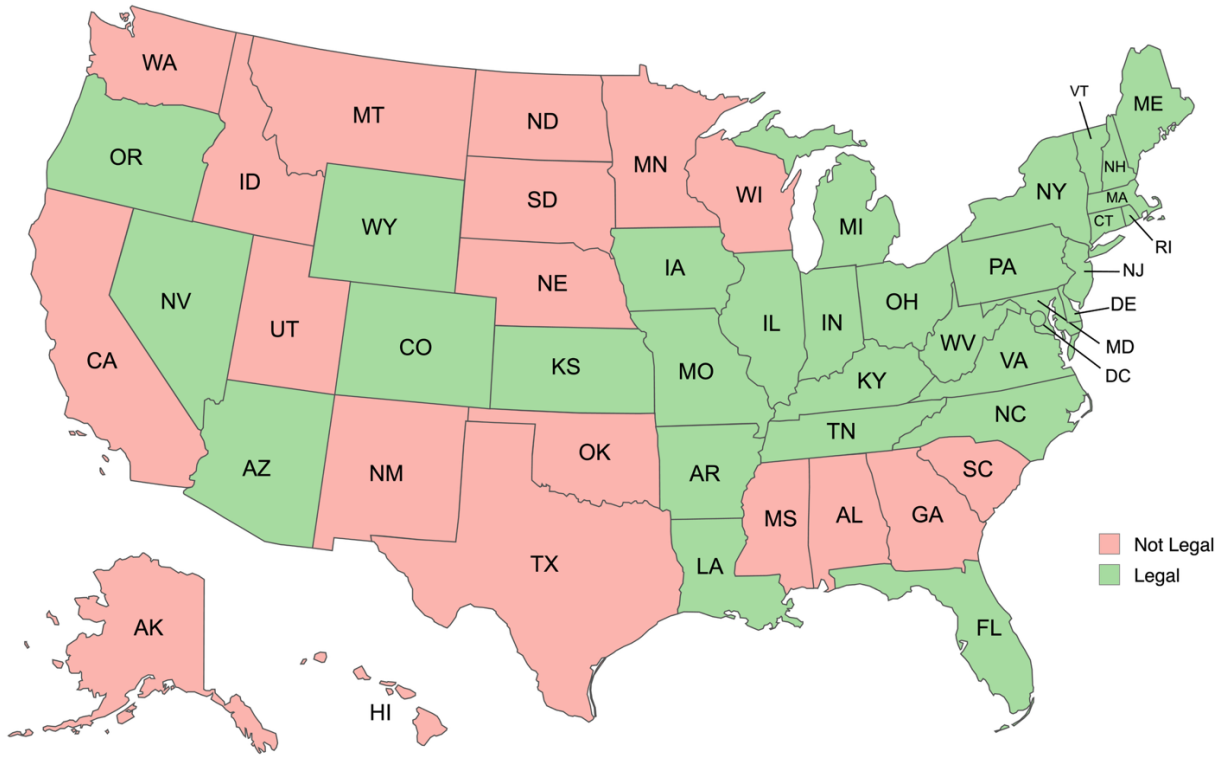
The Taxpayers Protection Alliance (TPA) is a non-partisan, non-profit organization dedicated to educating the public through research, investigative reporting, and analysis about the effects of excessive taxation and spending by all levels of government. TPA also educates the public about government transparency and openness in the United States and around the world. Through blogs, commentaries, special spending alerts, and media appearances, TPA publishes timely exposés of government waste, fraud, and abuse. Recognizing the importance of reaching people through traditional and new media, TPA utilizes blogs, Twitter, Facebook, and user-generated videos to reach out to taxpayers and government officials.

Introduction: The Unintended Consequences of Prohibition

Many regulators and lawmakers remain resistant to the growth of online gaming in the United States, but that opposition pushes consumers toward black markets where they receive no legal protections and federal, state, and local governments derive no revenue.

Online gaming has made great strides in the U.S. in recent decades as previously resistant lawmakers have begun to understand the desire of their constituents to participate. More than 30 states and the District of Columbia (D.C.) offer online sports betting,[1] while 17 states in addition to D.C. sell online lottery tickets.[2] Eight states have also legalized online casino games.[3] The below map shows the states that have legalized online sports betting.

Legality of Online Sports Betting in the U.S.



In-person-only betting is classified as not legal online. Source: CBS Sports, Nov. 9, 2026

[1] https://www.cbssports.com/betting/news/u-s-sports-betting-where-all-50-states-stand-on-legalizing-online-sports-betting-sites-proposed-legislation.
[2] https://www.lineups.com/online-lottery/.
[3] https://www.cbssports.com/betting/news/u-s-online-casinos-here-is-where-all-50-states-currently-stand-on-legalizing-internet-gambling-casino-play/.

The Consumer Risks of Illegal Gambling

In millions of cases, American consumers were already playing these games before legalization, giving their business to illegal and offshore operators. If they wanted to participate in these games, they had no other choice but to turn to black markets.

Fortunately, legalization provides tools to policymakers that are unavailable in the illegal markets. Licensed operators are generally required by the states in which they operate to verify the age and identity of their users, offer self-exclusion options, monitor suspicious behavior including possible cheating, and make rules and odds clear to customers. Operators also must answer to state gaming commissions, which can investigate consumer concerns and possibly revoke licenses. Offshore operators largely remain beyond the reach of American authorities and can (and have) defrauded American consumers.

Perhaps the most high-profile example of this is the Costa Rica-based BetOnSports, which operated in the early 2000s during the online gaming boom. That platform's exponential growth was aided by the lack of legalized online gaming in the U.S.

BetOnSports accepted wagers from American customers via the internet and telephone. The FBI and Department of Justice stated the company advertised its gambling operations as legal and licensed, although neither was true. The company did not secure customer deposits, instead using those funds to finance and expand its operations.[4]



BetOnSports shut down in July 2006 and could not repay more than $16 million in customer balances. Both the company's former CEO, David Carruthers, and founder, Gary Kaplan, later pleaded guilty to racketeering and gambling offenses.[5]

The Better Business Bureau (BBB) issued a gaming study in 2025 warning consumers about using offshore betting sites. The BBB stated it received a report from a Texas woman who encountered a malfunction in an online slots game that caused the amount of her bets to

[4] https://archives.fbi.gov/archives/stlouis/press-releases/2009/slc040109.
[5] Ibid.

increase without her input. She said she lost $25,000 and the company closed and banned her account without addressing her concerns.[6]

Another consumer said she didn't realize Bovada (one of the world's largest offshore sportsbooks) was located outside the U.S. when she deposited money into an account there. When she tried to cash out, her bank refused to allow her to deposit the check because it did not contain a routing or account number. She stated Bovada refused to help.

The North American Association of State and Provincial Lotteries, in a statement to BBB, said that "illegal gambling websites and other grey market gambling offerings can pose serious risks to consumers because they operate outside the protections of regulated markets. These unlicensed operators are not subject to the same standards for fairness, transparency, or responsible gaming, and they offer no guarantees when it comes to safeguarding personal data or paying out winnings."[7]

Legalization's Impact on Illicit Markets

As lawmakers address issues related to online gaming, they should understand that prohibition fails to eliminate demand. Americans will inevitably bet on the black market with the absence of a legal market. By legalizing betting, most of the activity will occur inside of the transparent, regulated system. In contrast, prohibition ends up strengthening the very operators least interested in protecting consumers.



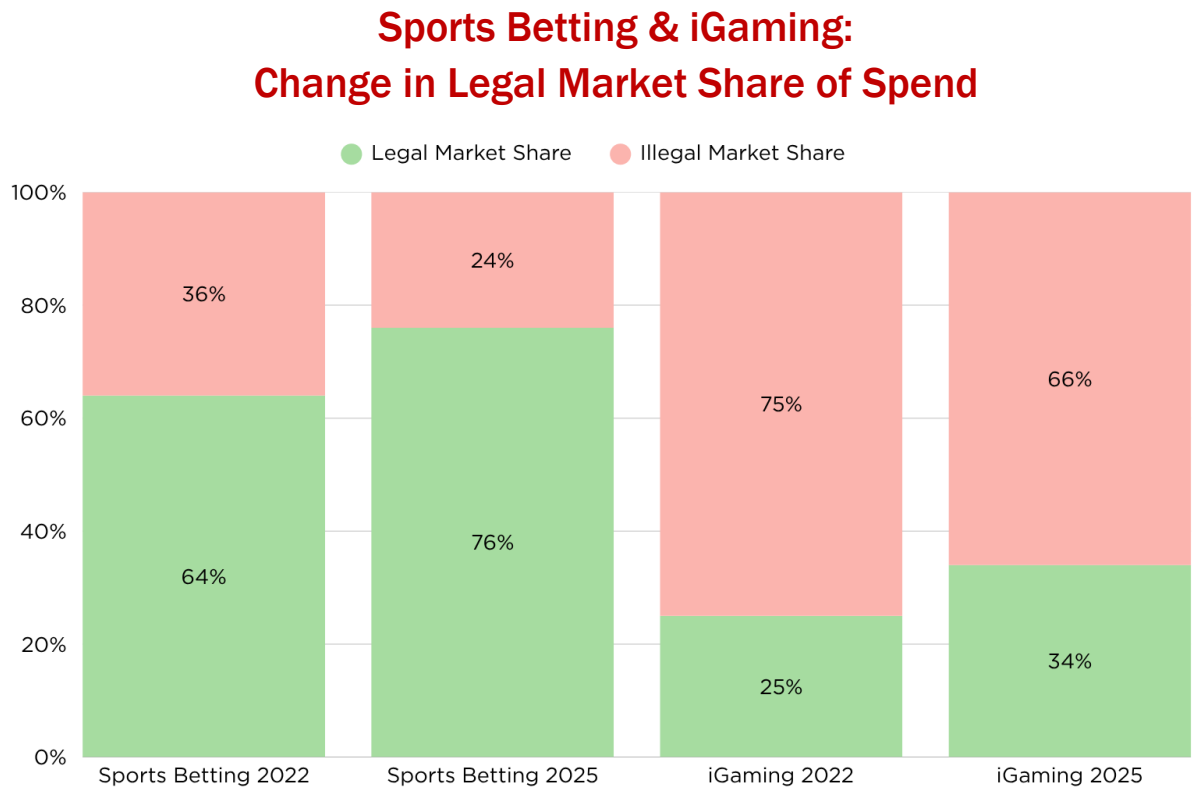
The American Gaming Association (AGA) released a report in 2025 estimating that Americans wager more than $673 billion annually with illegal and unregulated offshore operators. The AGA estimated the state gaming tax revenue lost on those wagers is approximately $15 billion, diverting money

[6] https://www.bbb.org/all/scamstudies/online-gambling-scam-study/full-scam-study.
[7] Ibid.

away from governments that could provide critical community resources such as infrastructure development, education, and public safety.[8]

As the below chart shows, sports betting on illegal platforms has primarily dropped following the 2018 U.S. Supreme Court decision in *Murphy v. NCAA*—which struck down the federal ban on sports gambling and allowed each state to set its own laws.[9] However, the AGA notes that about 10 percent of sports bettors still wager only through illegal channels. Since sports betting is not legal in all states and territories, that remains the only option for many Americans.

The good news is that the illicit share of the market is shrinking as states legalize gaming options. The AGA found that illegal sportsbooks' market share fell from 36 percent in 2022 to 24 percent in 2025, indicating that the wide legalization of sports betting has switched consumers in those states largely away from offshore operators and towards licensed, regulated operators. The below chart illustrates that encouraging trend.



Source: American Gaming Association

[8] https://www.americangaming.org/resources/sizing-the-illegal-and-unregulated-gaming-markets/.
[9] https://supreme.justia.com/cases/federal/us/584/16-476/.

How Overregulation Fuels Black Markets

However, as they legalize betting states must consider that excessive taxation or regulation can still push consumers toward black markets. If taxes are too high, then licensed operators may struggle to offer competitive odds.

The Illinois Gaming Board reported a 15.4 percent decrease in legal sports bets placed in the state from November 2024 to November 2025. That drop corresponded with an increase in sports betting taxes, which included a per-wager tax that was implemented in 2025 and prompted operators to add fees or raise minimum bet amounts.[10]



"Illinois' recent tax hikes are undercutting the protections of the legal market, sending players to cheaper, riskier, and predatory illegal options instead," said industry trade group Sports Betting Alliance.

Restrictions on betting options that remain available through offshore operators but unavailable in regulated markets can also push consumers to the black markets. Further, excessive licensing barriers can limit competition within the state. The Congressional Research Service (CRS) expressed concerns on overregulation in a 2024 policy brief on the issue.[11]

Legalization of online gaming is critical for protecting consumers and preventing illicit activity. However, if governments make the legal market too expensive, inconvenient, or uncompetitive, black markets will continue to thrive. Governments must lead with a light-touch approach that encourages safe and transparent gaming.

[10] https://www.mystateline.com/news/local-news/illinois-players-choosing-illegal-sports-betting-sites-due-to-high-taxes-report/.
[11] https://www.everycrsreport.com/files/2024-09-12_IF12761_2ac3646eac110ed58c60442bb6d977d94514fdce.html.