

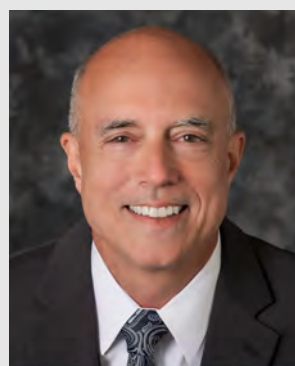
## **Do Sports Wager Tax Rates Affect Betting Volume?**

by Matthew Knittel and Robyn Toth

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## Do Sports Wager Tax Rates Affect Betting Volume?

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In this article, Knittel and Toth examine legalized sports wagering, which has rapidly expanded across most states and is now subject to widely varying tax rates, prompting policymakers to raise taxes amid budget pressures.

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Legalized sports wagering has expanded rapidly across states. Thirty-four states offer legal sports wagering, and most (30) allow wagers to be made using a mobile device.<sup>1</sup> State tax rates range from 6.75 percent of gross gambling revenue (bets retained by operators) in Nevada and Iowa to 50 percent (Delaware, Illinois) and 51 percent (New York, Rhode Island, Oregon, and New

<sup>1</sup>Mississippi, Montana, Nebraska, and South Dakota require in-person sports wagering. New Mexico, North Dakota, Washington, and Wisconsin limit sports wagering to tribal casinos.

Hampshire).<sup>2</sup> Given the wide variation in state tax rates, does the Laffer curve concept apply to this revenue source, and if so, is there a revenue-maximizing tax rate?<sup>3</sup>

As state budgets come under duress, a higher tax rate on sports wagering is often viewed as low-hanging fruit to enhance revenue. In 2025 four states increased sports wagering taxes: Illinois (a 25/50-cent per-wager tax effective July 2025), Maryland (+5 percentage points (ppts), July 2025), Louisiana (+6.5 ppts, August 2025), and New Jersey (+6.75 ppts, July 2025). Michigan (50-cent per-wager tax), Ohio (+20 ppts), and Arizona (+35 ppts) proposed a higher tax in their annual budgets, while a pending bill in West Virginia would increase the tax rate from 10 percent to 25 percent.

### State Tax Bases, Rates, and Per Capita Betting

To explore the relation between state tax rates and revenues, the table displays relevant data for calendar year 2025. Data columns include annual handle or bets (millions of dollars), gross gambling revenue (bets retained before deduction of costs and any promotional credits), hold (ratio of gross gambling revenue to handle), statutory tax rate, effective tax rate (ratio of tax revenue to gross gambling revenue), and per capita handle. Per capita handle uses the state population age 21 to 65. States are listed in descending order based on per

<sup>2</sup>Effective July 2025, Illinois levies a 25/50-cent per-wager tax in addition to a graduated tax rate that ranges from 20 to 40 percent depending on sportsbook annual betting revenue. The Tax Foundation computes that the 50-cent per-wager tax is equivalent to a 10 percentage point increase in the tax rate. The graduated tax's average effective rate is roughly 30 percent. The "State Sports Wager Tax Base, Rates, and Per Capita Handle (Bets)" table shows the highest possible tax at 50 percent, which includes the 10 percent effective rate for the per-wager tax.

<sup>3</sup>Laffer curve refers to the concept that at some point, higher tax rates will reduce tax revenue. This brief article deals only with the general relation between tax rates and revenue. The well-established financial and personal impacts from remote gambling caused by addiction are not addressed.

capita handle.<sup>4</sup> (States that require in-person betting or recently legalized betting (Missouri) are not included in the comparison and appear at the bottom of the table.) Relevant notes are as follows:

- Nevada is the top state based on per capita handle because of tourism. Per capita handle is twice that of the next state.
- Two high-tax-rate states (New York and Illinois) appear at the top of the ranked list, while other high-tax-rate states (Rhode Island, Delaware, and Oregon) appear at the bottom of the list. However, those high-tax-rate states at the bottom limit competition to a single operator. Maine (two) and Arkansas (three) also limit the number of operators.
- Low-tax-rate states also appear at the top (Arizona, Colorado, and Kansas) and bottom (West Virginia, and Wyoming) of the list.
- For most states, the statutory and effective tax rates are close.<sup>5</sup> Those rates may vary slightly because of timing and other technical issues. States with a large relative variance — such as Pennsylvania, Maryland, and Kansas — allow operators to deduct promotional credits from the tax base. In Pennsylvania, the deduction reduces the statutory tax rate by nearly one-third, or 11.5 percentage points. Other states with a large variance (Illinois, New Jersey, and Louisiana) raised tax rates midway through the year (as shown by the latest tax rate displayed).
- Some states have graduated rates (Illinois and Arkansas, the highest rate shown), levy an additional per-wager tax (Illinois), or tax the handle (Tennessee at 1.85 percent).<sup>6</sup>
- Overall, most average holds for 2025 ranged from 9 to 12 percent, with 22 of the 29 states shown in that range. The national average

was 10 percent. Low and high hold ratios appear at the top and the bottom of the ranked list.

These data suggest that there is no clear relation between state tax rates and per capita handle; high- and low-tax-rate states appear at the top and bottom of the ranked list. In general, states with relatively larger urban (that is, younger) populations and professional sports teams have higher per capita handle. Small or rural states that lack multiple urban centers and professional sports teams have lower per capita handle. There also appears to be a negative relation between the number of operators and per capita handle, but that relation is based on outcomes from a few smaller-population states.

### Recent Increases in Sports Wagering Taxes

To provide further insight into this relationship, two quarters of data are now available for the four states that increased tax rates in 2025 (as noted in the opening paragraph). Higher state tax rates clearly diminish operator profit, and in response, those operators could reduce state-level advertising campaigns and promotions. A few large operators (for example, DraftKings, FanDuel, and BetMGM) compete and operate across most states that offer legal wagering. Those operators use their proprietary platforms, research, and algorithms nationwide, so that nontax costs related to a specific state are driven by advertising campaigns and promotional credits (that is, customer acquisition).<sup>7</sup> If a state raises its sports wagering tax rate, it reduces the return on those state-specific expenses, and those outlays should be most sensitive to higher state tax rates.<sup>8</sup> In turn, lower spending on advertising and promotions should reduce betting volume and the gross gambling revenue tax base.

<sup>4</sup>An alternate computation could use per capita gross gambling revenue. But the use of handle in the numerator controls for temporary variations in hold ratios across states.

<sup>5</sup>Most states use gross gambling revenue as the tax base, which does not allow deductions for promotional credits. Operators do not make short-term profits on promotional credits, and those credits are like or “resemble” advertising because they are an expense and used to attract new players. Because promotional credit data are not available for all states, it is not possible to compute an alternative tax base that excludes them.

<sup>6</sup>The Tax Foundation converts the Tennessee rate to a 19.7 percent tax on gross gambling revenue assuming a 9.7 percent hold ratio. See Adam Hoffer and Jacob Macumber-Rosin, “Online Sports Betting Taxes by State, 2025,” Tax Foundation (Sept. 16, 2025).

<sup>7</sup>The latest Form 10-K filing for DraftKings reports an operations loss for 2023 to 2025. Gambling taxes and adjusted sales and marketing expenses (for example, customer acquisition costs) were the two largest expenses listed in the annual report.

<sup>8</sup>For the new 25/50-cent per-wager tax in Illinois, some sportsbooks passed costs on to bettors directly through a per-bet surcharge. Because of the wide range of state tax rates, operator return on investment will also vary, and low-tax-rate states could effectively subsidize operations in high-tax-rate states.

## State Sports Wager Tax Base, Rates, and Per Capita Handle (Bets)

Rank	State	Total Handle (\$)	Gross Gambling Revenue (\$)	Hold	Statutory Tax Rate	Effective Tax Rate	Per Capita Handle (\$)
1	Nevada	8,073	601	7.4%	6.8%	6.8%	4,198
2	New York	26,329	2,554	9.7%	51%	51.8%	2,270
3	New Jersey <sup>a</sup>	12,235	1,177	9.6%	19.8%	17.7%	2,216
4	Arizona	9,155	802	8.8%	10%	6.2%	2,143
5	Illinois <sup>a</sup>	15,640	1,451	9.3%	50%	34.2%	2,117
6	Massachusetts	8,529	865	10.1%	20%	19.4%	2,024
7	Maryland <sup>a</sup>	6,647	793	11.9%	20%	15.2%	1,844
8	Colorado	6,519	590	9.1%	10%	7.5%	1,826
9	Kansas	2,851	296	10.4%	10%	6.5%	1,743
10	Louisiana <sup>a</sup>	4,240	556	13.1%	21.5%	16.6%	1,642
11	Iowa	2,916	274	9.4%	6.8%	6.7%	1,625
12	Virginia	7,684	846	11%	15%	14%	1,523
13	Ohio	10,243	1,040	10.2%	20%	20.1%	1,521
14	Indiana	5,722	570	10%	9.5%	9.5%	1,460
15	Tennessee	5,823	582	10%	19.7%	18.5%	1,396
16	Pennsylvania	8,858	884	10%	36%	24.5%	1,195
17	Kentucky	3,006	337	11.2%	14.3%	13.8%	1,154
18	North Carolina	7,231	735	10.2%	18%	18%	1,147
19	Connecticut	2,379	273	11.5%	13.8%	11.3%	1,122
20	New Hampshire	881	104	11.8%	51%	43.4%	1,068
21	Michigan	5,544	686	12.4%	8.4%	5.4%	958
22	Maine	600	66	11%	10%	10.1%	752
23	Wyoming	234	27	11.6%	10%	6.8%	718
24	Rhode Island	444	41	9.2%	51%	51%	685
25	Vermont	235	25	10.6%	31.7%	29.1%	640
26	West Virginia	493	60	12.2%	10%	14.1%	497
27	Delaware	253	23	9.1%	50%	61%	436
28	Arkansas	653	55	8.5%	20%	15.1%	377
29	Oregon	<u>927</u>	<u>116</u>	<u>12.5%</u>	51%	50%	<u>372</u>
	<b>Total/Average</b>	<b>164,348</b>	<b>16,431</b>	<b>10%</b>	--	--	<b>1,628</b>
	Mississippi	379	50	13.1%	12%	12%	231
	Montana	68	10	15.1%	no rate	20.3%	107

State Sports Wager Tax Base, Rates, and Per Capita Handle (Bets) (Continued)

Rank	State	Total Handle (\$)	Gross Gambling Revenue (\$)	Hold	Statutory Tax Rate	Effective Tax Rate	Per Capita Handle (\$)
	Nebraska	83	8	9.6%	20%	20.4%	75
	South Dakota	11	1	9.4%	9%	9%	22
	Missouri	--	--	--	10%	--	--

\*Raised tax rate in 2025.

Notes: Amounts in millions of dollars except per capita handle. Per capita handle uses age 21 to 65. Illinois levies a 50-cent wager tax that is estimated to increase the highest statutory tax rate from 40 percent to 50 percent. New Mexico, North Dakota, Washington, and Wisconsin allow legal sports wagering at tribal casinos only.

Source: Revenue data from *Legal Sports Report*. Calculations by authors.

Data from the third and fourth quarters of 2025 show these results:

- Maryland’s handle (+5.0 ppts, a 33 percent increase in tax rate) increased by 17 percent and 12 percent in 2025 Q3 and Q4 compared with the prior year.
- Louisiana’s handle (+6.5 ppts, 43 percent) increased by 17 percent and 8 percent.
- New Jersey’s handle (+6.75 ppts, 52 percent) increased by 7 percent and 0 percent.
- Illinois’s handle (25/50 cents per wager, approximates a 25 percent increase in rate) increased by 12 percent and 5 percent.
- Three control states had no tax rate increase: Virginia (18 percent, 7 percent), Pennsylvania (4 percent, 3 percent), and Ohio (15 percent, 12 percent).

This simple comparison, based on limited data, suggests that handle growth in tax-increase states was generally similar in magnitude to that in states without a tax rate increase. Clearly, numerous factors will affect betting volume in any quarter. However, operators do not publish state-level advertising expenditures, and most states do not report promotional credits because they are not allowed to be deducted from the tax base. Without access to such data, a more rigorous analysis is not possible.

High tax rates could allow illegal operators and legal, untaxed competitors to offer players more attractive lines and better odds. But there are numerous downsides (for example, risk, inconvenience, fewer options) to the illegal market that will be unattractive to the casual or new bettor targeted under legal sports wagering. Illegal operators also cannot engage in widespread media campaigns that use

high-profile athletes, actors, and influencers or provide convenient, interactive apps for easy download. Prediction market (that is, futures contracts) competitors such as Kalshi, Polymarket, and RobinHood could reduce the gross gambling revenue tax base over time. Prediction market platforms have lower operational expenses and margins, do not have direct exposure to game outcomes, and do not remit state gambling taxes.

Overall, the state sports wagering market continues to mature. For Pennsylvania, legal sports wagering was enacted in October 2017 (Act 42). Over the last three full fiscal years, total handle increased rapidly from \$7.2 billion to \$8.7 billion, or nearly 10 percent annually. For the fourth quarter of 2025, total handle increased by only 3 percent from the prior year, and data for January and February 2026 show an annual decline of 16 percent. Some of the decline is attributable to the Philadelphia Eagles playing (and winning) in Super Bowl LIX, but some may be due to untaxed competition. Current data do not reveal a clear relation between sports wagering tax rates and per capita handle, but that could change if market penetration by untaxed competitors continues. Recent data show rapid growth in sports betting volume on prediction market platforms. Regular bettors pay close attention to odds and betting lines, and are swayed less by advertising campaigns and promotional credits that operators may reduce in response to high tax rates. The tax advantage enjoyed by prediction market platforms will likely become more salient as serious and casual sports bettors become familiar and comfortable with those alternatives. ■