
A POLICY REPORT · FOUNDATION FOR DRUG POLICY SOLUTIONS

The House Always Wins

The harms of commercialized sports betting, the federal vacuum that enabled it, and a patchwork of state law now turning toward restraint.

\$167B

wagered legally on sports in 2025 — up from \$7B in 2018.¹

39

states plus D.C. now offer legal sports wagering.²

~7M

Americans now live with a gambling problem.³

A multibillion-dollar industry, built in seven years, with no federal floor beneath it.

In May 2018, the Supreme Court struck down the federal law that had confined sports betting to a handful of states. In the seven years since, legal sports wagering has grown nearly twenty-four-fold and now operates in a frictionless, smartphone-native form the country has never seen before.¹ What was sold as a contained, adult entertainment has become a continuously available financial product — engineered for engagement, marketed without limit, and regulated only by a fractured collection of state agencies.

This report examines that transformation through three lenses. First, the mounting evidence that commercialized sports betting is inflicting measurable financial and human harm — bankruptcies, depleted savings, and a wave of gambling addiction concentrated among young men and financially fragile households. Second, the federal landscape: the law that created today's vacuum, the thin federal rules that exist, and the bills now before Congress that would impose a national standard. Third, the states — a patchwork of wildly divergent regimes, and a legislative dialogue that, after years of expansion, is beginning to turn toward restraint.

The Foundation for Drug Policy Solutions approaches gambling as it approaches addictive substances: put a stop to an industry that is commercializing addiction. The gambling industry should not be permitted to extract its profits from the people it harms most, with no national rules to constrain it.

The Harms of Commercialized Sports Betting

01

The evidence is no longer anecdotal. Peer-reviewed research now links legalized sports betting to bankruptcy, eroded savings, worse credit, and a rise in addiction borne disproportionately by those least able to absorb the loss.

An industry that grew faster than any guardrail

Americans wagered roughly **\$7 billion** on sports in 2018. By 2025 that figure had reached a staggering **\$167 billion** — a nearly twenty-four-fold increase in seven years.¹ The growth was not driven by the in-person betting of Las Vegas casinos but by mobile applications that put a sportsbook in every pocket, available every hour, on every game, and increasingly on every play within a game.

Today roughly one in five American adults holds an active online sports-betting account, and among men aged 18 to 49 the share approaches one half.⁴ That penetration, achieved in under a decade, is the backdrop against which the harms below must be read.

25–30%

A landmark study of household financial data found that the legalization of online sports betting was associated with an increase in bankruptcy filings of **25–30%** in the years after states adopted it, alongside rising debt sent to collections and falling credit scores.⁵

Financial damage, measured in the data

The financial consequences are now documented across multiple independent research teams. A UCLA-led study of millions of consumer accounts found that after a state legalized online sports betting, affected households saw measurable increases in bankruptcy filings, in debt referred to collections, and in delinquency on auto loans — with credit scores deteriorating in the states that legalized.⁵

A separate National Bureau of Economic Research working paper, pointedly titled *Gambling Away Stability*, found that betting crowds out saving and investment: for every dollar wagered, constrained households reduced net investments, and the effect fell hardest on financially fragile families.⁶ Research focused on young men found the rise in betting concentrated harm among lower-income men in particular, roughly doubling their relative likelihood of financial distress.⁷

Savings, drained

Sports betting reduces household net investment and savings, diverting money that would otherwise build financial stability.⁶

Debt, to collections

Legalization raised the share of household debt referred to collection agencies and worsened delinquency on auto loans.⁵

Credit, eroded

Average credit scores fell in states that legalized online wagering, signaling broad financial deterioration.⁵

Harm, concentrated

The damage falls hardest on financially constrained households and lower-income young men.^{6,7}

A business model built on its heaviest losers

The commercial logic of the industry compounds the harm. Sportsbook revenue is not spread evenly across casual bettors; it is concentrated among a small population of heavy users. Reporting on operator data has found that a tiny fraction of customers — on the order of one percent — can account for the majority of a sportsbook's profits.⁸ An industry that earns most of its money from its most compulsive customers has little commercial incentive to slow them down.

That incentive is expressed in product design. In-play "microbetting" lets users wager continuously on the next pitch or play; proposition bets invite wagers on individual athletes; push notifications, "risk-free" and "no-sweat" bonuses, and credit-card funding are engineered to maximize time and money spent. These are not features of a casual pastime. They are the mechanics of a high-frequency financial product aimed at the human reward system.

“Sports betting has been transformed from an occasional trip to the casino into a 24-hour-a-day product on every phone — engineered to keep people betting long after the entertainment has stopped.”

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Addiction, mental health, and the human cost

Behind the financial statistics is a public-health crisis. An estimated **seven million Americans** now live with a gambling problem, and calls to problem-gambling helplines have surged in states that legalized.³ Gambling disorder carries one of the highest suicide-attempt rates of any addiction; among those affected, surveys and clinical literature have long documented elevated rates of self-harm.⁴

The harm is generational. The new bettors are young, male, and reachable on the same devices they use for everything else — a demographic the industry's advertising targets relentlessly, often blurring the line between watching a game and betting on it. The result is a cohort entering adulthood with gambling woven into the experience of sport itself.

SECTION TWO

The Federal Landscape & Current Law

Washington created today's market by stepping aside — and has yet to put a single national guardrail in its place. A growing slate of bills would change that.

How the vacuum was created

For a quarter-century, the **Professional and Amateur Sports Protection Act of 1992 (PASPA)** effectively barred states from authorizing sports betting, confining it largely to Nevada. On May 14, 2018, the Supreme Court struck down PASPA in *Murphy v. National Collegiate Athletic Association*, holding that the federal prohibition unconstitutionally commandeered the states.⁹ The decision did not legalize sports betting nationally; it returned the question to the states — and triggered the cascade of legalization that defines the market today.

Critically, *Murphy* left no federal regulatory framework in its place. There is no national licensing regime, no federal standard for advertising, affordability checks, or self-exclusion, and no uniform consumer protection. The industry that has grown to \$167 billion in annual wagers operates beneath a federal floor that does not exist.

The thin federal law that does apply

What federal involvement exists is almost entirely fiscal. A long-standing federal **excise tax of 0.25% on the total amount wagered** (the “handle”), plus a small annual per-employee occupational tax, applies to legal sportsbooks — a levy designed decades ago and widely viewed as too small to shape behavior.¹⁰

The most consequential recent federal change came not through gambling policy but through the tax code. Effective January 1, 2026, Section 70114 of the **One Big Beautiful Bill Act** caps the deduction of gambling losses at **90% of winnings**, down from 100%.¹¹ The result is so-called “phantom income”: a bettor who wins \$100,000 and loses \$100,000 in the same year — breaking even — now owes federal tax on \$10,000 they never kept. The Joint Committee on Taxation projects the change will raise more than **\$1.1 billion** over the next decade.¹²

0.25%

The entire federal excise tax on legal sports wagers. Proposals before Congress would raise it to **5%** — a level estimated to generate roughly **\$100 billion** over ten years and bring betting closer to parity with other “sin” taxes.¹³

The bill that would set a national standard: the SAFE Bet Act

The most significant effort to impose federal guardrails is the **Supporting Affordability and Fairness with Every Bet (SAFE Bet) Act**, introduced in the 119th Congress by Representative Paul Tonko (D-NY) and Senator Richard Blumenthal (D-CT).¹⁴ Rather than ban betting, it would require states to have their sports-betting programs approved by the U.S. Attorney General against minimum federal standards organized around three pillars:

A Advertising

A ban on advertising during live sporting events and between 8 a.m. and 10 p.m., and an end to “risk-free,” “bonus,” and “no-sweat” promotional language designed to disguise risk.¹⁵

B Affordability

Affordability checks before large deposits, a limit of five deposits per 24 hours, a ban on accepting deposits by credit card, and a national self-exclusion list so a person can opt out everywhere at once.¹⁵

C Artificial Intelligence

A prohibition on using AI to track individual players' habits, to create personalized promotions targeting the heaviest users, and to offer the most addictive microbet and in-play products.¹⁵

The Act would also commission a Surgeon General's report on the public-health effects of sports betting. As of mid-2026 it has been referred to committee and has not advanced to a floor vote — a status that underscores how far federal policy lags behind the market it would govern.¹⁴

The rest of the federal docket

Most other federal activity has pulled in the opposite direction — toward protecting bettors and operators from the new tax rather than tightening the industry. The **FAIR Bet Act** (Rep. Dina Titus, D-NV) and the bipartisan **FULL HOUSE Act** (Sen. Catherine Cortez Masto, D-NV, and House counterparts) would repeal the 90% loss-deduction cap and restore full deductibility; both have stalled in committee.¹⁶ Separately, the Bipartisan Policy Center has outlined a proposal to raise the federal excise tax from 0.25% to 5%, which independent estimates suggest could raise close to \$100 billion over a decade.¹³

Pressure is also building through the courts. In 2026, the Public Health Advocacy Institute filed suit against major operators and sports partners, alleging that the design and marketing of their products foster addiction — an early sign that, absent federal rules, litigation may become a primary check on the industry.¹⁷

The federal loophole: prediction markets and the CFTC

The fastest-growing front in sports gambling has emerged almost entirely outside the gambling-regulation system. Online “prediction markets” — platforms such as **Kalshi, Polymarket**, and offerings routed through brokerages like Robinhood — let users trade yes/no “event contracts” on the outcome of games. Functionally these are sports bets. Legally, they are treated as financial derivatives, regulated by the **Commodity Futures Trading Commission (CFTC)** under the Commodity Exchange Act rather than by any gaming authority.²²

The growth has been explosive. After launching sports event contracts in early 2025, Kalshi processed billions of dollars in sports-related volume within months, with activity spiking around marquee events. Because the contracts are sold as federally regulated derivatives, they are offered in all fifty states — **including states that have never legalized sports betting** — with none of the state-level consumer protections, tax obligations, age verification, or self-exclusion programs that apply to licensed sportsbooks.²²

THE PREEMPTION PROBLEM

When state regulators in **Nevada, New Jersey, and others** issued cease-and-desist orders treating these platforms as illegal sports betting, the operators sued — and federal courts sided with them, ruling that the CFTC's exclusive jurisdiction over registered derivatives exchanges **preempts state gaming law**. The result: states attempting to ban prediction-market sports wagering have been blocked from enforcing their own gambling statutes.²²

The consequence is a structural loophole. A federal agency built to oversee commodity futures — not consumer gambling — has become the de facto regulator of a rapidly expanding sports-betting channel, and under recent leadership the CFTC has declined to shut it down. State guardrails do not reach it, and the federal framework that would govern it does not yet exist.

Solutions under discussion:

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- 01 CFTC prohibition.** The Commodity Exchange Act empowers the CFTC to review and bar event contracts it finds contrary to the public interest — including those involving gaming. Advocates are urging the Commission to use that authority to prohibit sports-outcome contracts outright.²³

 - 02 Congressional clarification.** Legislation could amend the Commodity Exchange Act to exclude sports and gaming contracts from CFTC jurisdiction, or fold prediction markets into a national framework like the SAFE Bet Act so the same guardrails apply regardless of how a bet is labeled.²³

 - 03 A states-and-tribes coalition.** A coalition of 27 states and the District of Columbia, alongside gaming tribes and the American Gaming Association, has filed briefs defending state authority — pressing the courts and the CFTC to preserve the right to regulate gambling within their borders.²³

State Laws & the Shifting Legislative Dialogue

Forty different regimes, no two alike — and a legislative conversation that, after years of expansion, has begun to turn toward limits, higher taxes, and tighter guardrails.

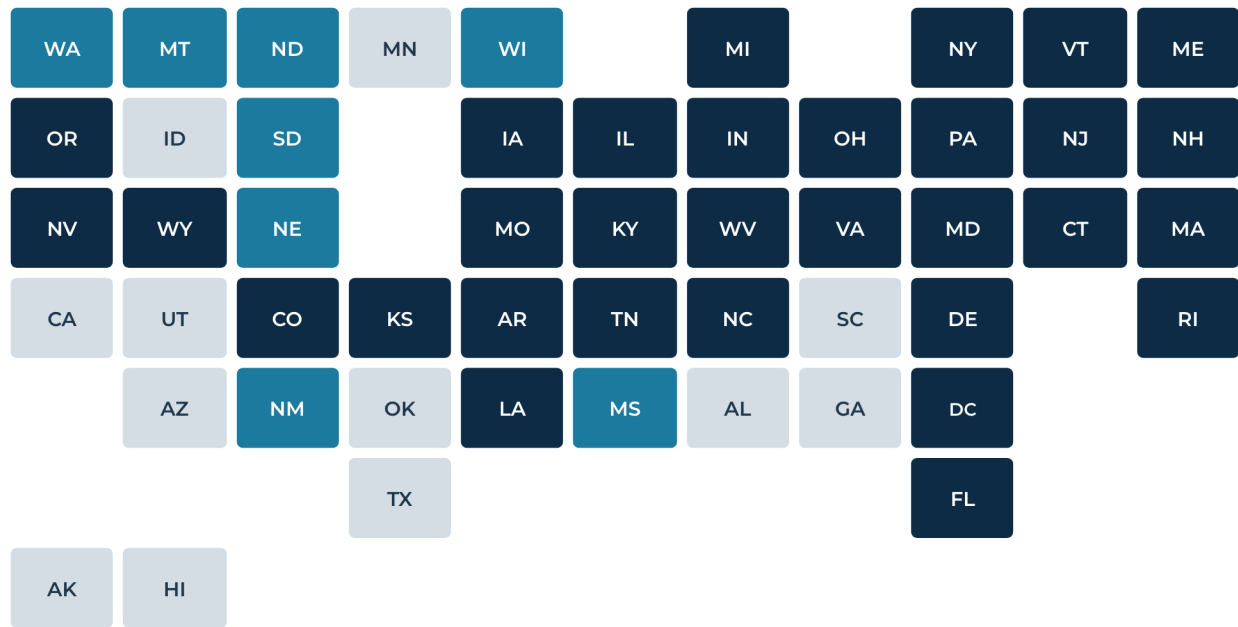
A patchwork by design

Because *Murphy* returned the question to the states, the map is a study in inconsistency. As of the end of 2024, **38 states and Washington, D.C.** offered legal sports betting, with roughly 30 permitting online or mobile wagering; of the states that legalized, 32 tax it.^{2,18} Missouri's launch in December 2025 brought the total to **39 states** plus D.C. Tax rates range from **6.75%** in Iowa and Nevada to **51%** on online betting in New York and Rhode Island — a more than seven-fold spread.¹⁸

The structures differ as sharply as the rates. Most states tax operator revenue, but Tennessee and Illinois tax the total amount wagered. Several states — including Mississippi, Montana, New Mexico, North Dakota, South Dakota, Washington, and Wisconsin — permit betting only at physical locations such as casinos or tribal lands, with no statewide mobile market. Others, like Connecticut, route all online betting through a small set of tribal and lottery licensees.^{18,19}

FIGURE 1 • A NATION OF PATCHWORK LAW

Where sports betting is legal — and where it isn't



Online & retail betting legal
 In-person (retail) betting only
 No legal sports betting

Grid cartogram; each tile is one state positioned by approximate geography. Classifications are simplified and reflect early-to-mid 2026; Missouri became the 39th state with its December 2025 launch, while several others remain mid-transition (e.g., Georgia debating legalization).^{2,18,19}

51%

top online tax rate (NY, RI) — versus 6.75% at the low end¹⁸

7

states allow retail-only betting, with no statewide mobile market¹⁸

27

states introduced new gambling bills in the 2026 sessions alone²¹

The dialogue is turning toward restraint

For most of the post-*Murphy* era, state legislation moved in one direction: expansion. That has changed. Amid betting-related scandals and mounting evidence of harm, the 2026 legislative sessions are dominated less by new legalization than by efforts to tighten the rules on the industry already in place.²⁰ The shift spans several fronts:

- 01 Banning the most predatory bets.** States are moving to prohibit proposition bets on individual college athletes and in-play “microbetting” — among the most addictive product formats. New Jersey has advanced bills to ban both, and Indiana's Student Athlete Protection Act would bar prop bets on college performances.^{20,21}

- 02 Reining in advertising.** New Jersey lawmakers have introduced measures directing regulators to study sportsbook advertising and to curb marketing that targets vulnerable populations, alongside bills strengthening rules against deceptive promotion.²⁰

- 03 Cracking down on “sweepstakes” gambling.** A wave dubbed the “Sweepstakes Squeeze” has seen California, New York, and New Jersey ban sweepstakes-style casinos outright, with Maryland, Mississippi and others advancing similar bills and Illinois regulators issuing 65 cease-and-desist orders.^{21,22}

- 04 Raising taxes on the industry.** Industry observers expected a wave of state tax-increase proposals in the 2026 sessions, as legislatures revisit the low rates set during the rush to legalize.²⁰

05

Confronting unregulated “prediction markets.” States are now battling platforms such as Kalshi that offer sports-outcome contracts outside gambling regulation. Nevada has taken legal action; California gaming tribes have challenged the platforms; and a coalition of 27 states plus D.C. has filed briefs to support state authority.²¹

— STATE SPOTLIGHT

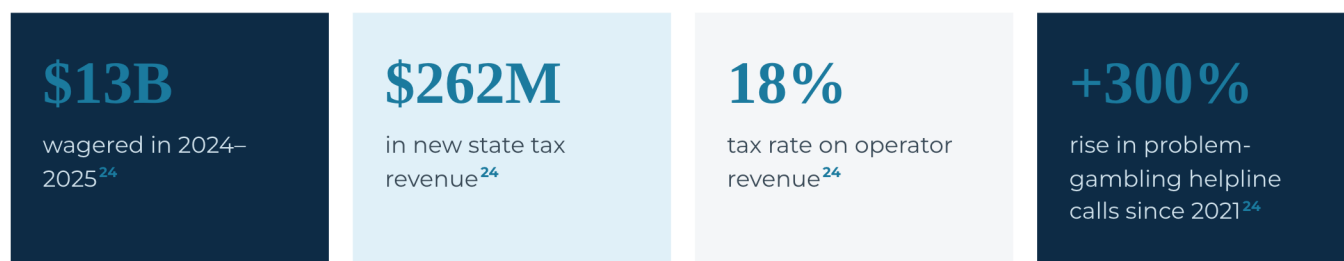
North Carolina: a \$13 billion market built in twenty-four months

In just two years, the Tar Heel State went from no legal sportsbooks to one of the fastest-growing betting markets in the country — and now embodies every tension in the national debate: surging revenue, a public-health backlash, and a legislature reaching for tighter rules.

From zero to ubiquity in two years

North Carolina launched legal mobile sports betting on **March 11, 2024**, opening the market to eight major operators — bet365, BetMGM, Caesars, DraftKings, ESPN Bet, Fanatics, FanDuel, and Underdog — all taxed at **18% of gross wagering revenue**.²⁴ Adoption was immediate: geolocation services recorded nearly 5.4 million location checks in the first two days, with roughly 370,000 active accounts by the second day of operation.²⁴

Across 2024 and 2025, North Carolinians wagered nearly **\$13 billion**, generating more than **\$262 million** in new state tax revenue — and, by March 2026, monthly tax collections had roughly doubled year-over-year.²⁴ The state earmarks a portion of that revenue for college athletics, youth sports, and just \$2 million a year for gambling-addiction treatment and education through the Department of Health and Human Services.²⁴



The harms arrived with the revenue

The public-health cost tracked the handle. Calls to North Carolina's problem-gambling helpline have risen **more than 300% since 2021**, overwhelming a counseling and treatment infrastructure that researchers and counselors describe as ill-equipped for the surge.²⁴ Although the enabling law contains more than 40 responsible-gambling provisions — “time-out” tools, voluntary spending limits, and a ban on advertising aimed at minors — advocates warn that enforcement and oversight of operators remain thin.²⁴

College athletes have felt the consequences directly. Because North Carolina permits proposition bets on individual college players, NCAA athletes in the state have reported being targeted and harassed on social media by bettors angry over their performance — the precise harm that has driven at least 17 other states to ban such wagers.²⁵

THE LEGISLATIVE FIGHT, IN MICROCOSM

North Carolina is now living out the national turn toward restraint on two fronts at once:

Taxes. In 2025 the state Senate moved to double the rate to **36%**; the House refused, and no final budget passed, leaving it at 18%. In 2026 lawmakers are again negotiating an increase to the **20–30%** range, alongside a possible Illinois-style per-wager fee.²⁵

College prop bets. A bipartisan bill (HB 828, Rep. Marcia Morey) would expressly ban proposition bets on college and amateur athletes and restrict on-site wagering at collegiate events — part of a national push the NCAA's president has personally lobbied for.²⁵

North Carolina is, in miniature, the whole report: a market that grew faster than its guardrails, a windfall of public revenue weighed against a rising tide of addiction, and a legislature only now debating the limits it might have set at the start. What the state decides next — on tax rates, on college prop bets, on oversight — will signal how far the national correction has to run.

Where the conversation is heading

The trajectory is unmistakable. The early post-*Murphy* question — *should we legalize?* — is giving way to a harder one: *how do we contain what we have already unleashed?* Even in states still debating new markets, expansion is increasingly conditioned on stronger consumer protections and oversight bodies before any further rollout.²⁰

For the Foundation for Drug Policy Solutions, this turn is both an opening and a warning. An opening, because the public and a growing number of legislators now recognize that an unconstrained betting industry imposes real costs. A warning, because forty different state regimes cannot, on their own, deliver the consistent protections a national market demands. The harms documented in this report — financial ruin, depleted savings, and a generation of young men drawn into addiction — will not be solved state by state. They require a federal floor, set deliberately, before the next \$167 billion is wagered.

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