

# MINNESOTA • REVENUE

## GAMBLING TAX Video Lottery Terminals Lawful Gambling Rate Change

March 20, 2008

Department of Revenue  
Analysis of S.F. 2950 (Tomassoni) / H.F. 3303 (Otremba)

	Yes	No
DOR Administrative Costs/Savings	X	

	<b>Fund Impact</b>			
	<b><u>F.Y. 2008</u></b>	<b><u>F.Y. 2009</u></b>	<b><u>F.Y. 2010</u></b>	<b><u>F.Y. 2011</u></b>
		(000's)		
Video Lottery Terminals (Net Proceeds)	\$0	\$47,400	\$113,800	\$113,800
Lottery Ticket Sales	\$0	<u>(\$2,000)</u>	<u>(\$4,800)</u>	<u>(\$4,800)</u>
<b>Environment and Natural Resources</b>				
<b>Trust Fund Total</b>	\$0	\$45,400	\$109,000	\$109,000
<b>General Property Tax Relief Account</b>				
<b>– In-lieu Tax</b>	\$0	\$35,900	\$86,200	\$86,200
<b>Health Care Access Fund – In-lieu Tax</b>	\$0	\$35,900	\$86,200	\$86,200
<b>General Education Account – In-lieu Tax</b>	\$0	\$35,900	\$86,200	\$86,200
In-Lieu Tax	\$0	\$1,100	\$2,600	\$2,600
Video Lottery Terminals (Net Proceeds)	\$0	\$71,100	\$170,700	\$170,700
Lottery Ticket Sales	\$0	(\$3,000)	(\$7,200)	(\$7,200)
Lawful Gambling	\$0	<u>(\$30,800)</u>	<u>(\$35,100)</u>	<u>(\$35,100)</u>
<b>General Fund Total</b>	\$0	\$38,400	\$131,000	\$131,000
<b>Total – All State Funds</b>	\$0	\$191,500	\$498,600	\$498,600

Effective July 1, 2008, for the changes to the lawful gambling taxes.

Effective the day following final enactment for the video lottery terminal authorization.

### EXPLANATION OF THE BILL

**Current Law:** There is no provision for the director of the State Lottery to place video lottery terminals in licensed beverage establishments.

With regard to pull-tabs and tipboards, there is a 1.7% distributor tax on the ideal gross of each pull-tab or tipboard sold to a nonprofit organization. An annual credit is available to the nonprofit organization for unsold pull-tabs or tipboards. In addition to the distributor tax, there is a combined receipts tax paid by nonprofit organizations based on the gross receipts from pull-tabs and tipboards. For an organization's first \$500,000 of gross receipts in a fiscal year starting on July 1, the tax rate is 0%. For the next \$200,000, the rate is 1.7%. For the next \$200,000, the rate is 3.4%. For gross receipts in excess of \$900,000 in any fiscal year, the rate is 5.1%.

For bingo, raffles, and paddlewheels, the tax is equal to 8.5% of gross receipts less prizes.

## **EXPLANATION OF THE BILL (Continued)**

**Proposed Law:** The director of the State Lottery would be authorized to establish a video lottery program. The director would place video lottery terminals in licensed beverage establishments that also serve as venues for lawful gambling. The number of terminals would be restricted to five per location, and the style of play limited to video poker, video keno, and video pull-tabs.

The bill imposes a 28% in-lieu tax on the net (after prize) revenue from video lottery terminals. The revenues from this tax are dedicated to a number of programs, including a General Property Tax Relief Account (33%), the Health Care Access Fund (33%), a General Education Account (33%), and the General Fund (1%). The bill does not appropriate money from these funds and accounts.

The retailer hosting the terminals would receive 31% of net revenue as commission, 29% of which would be distributed to organizations conducting lawful gambling in that establishment. Up to 12% of net revenue could be used to cover the lottery's expenses for the program. The remaining amount would be distributed along with other lottery proceeds: 40% to the Environment and Natural Resources Trust Fund and 60% to the General Fund.

The proposal also would change the taxation of lawful gambling, replacing the current combined receipts tax and pull-tab and tipboard tax with the tax structure now in effect for bingo, raffles, and paddlewheels.

## **REVENUE ANALYSIS DETAIL**

- Much of the information in this revenue analysis comes from the Research and Planning Director of the Minnesota State Lottery.
- Video lottery terminal revenue estimates are based on the experience of the state of Oregon which is said to have a similar program.
- Because of the desire of businesses and charitable organizations to participate in this program, it is estimated that the number of venues where charitable gambling would take place, and video lottery terminals would be placed, will increase from 3,000 to 3,500.
- It is estimated that there will be an average of 4.8 video lottery terminals per location.
- It is estimated that each video lottery terminal will have annual net revenue (after prizes) equal to \$55,536. Assuming the terminals operate 312 days per year (six days per week), this is equivalent to an average daily win (gross receipts less prizes) of \$178.
- Total net revenue equals  $3,500 \times 4.8 \times \$55,536 = \$933,004,800$ .
- In-lieu tax =  $28\% \times \$933,004,800 = \$261,241,344$ .
- 33% of the in-lieu tax = \$86,209,644 goes to a General Property Tax Relief Account, the Health Care Access Fund, and a General Education Account.
- 1% of the in-lieu tax = \$2,612,413 goes to the General Fund.
- It is estimated that lottery expenses will be limited to 10.5% of the total net revenue.

**REVENUE ANALYSIS DETAIL (Continued)**

- 30.5% of the total net revenue equal to \$284,566,464 is split between the Environment and Natural Resources Trust Fund (40%) and the General Fund (60%).
- The video lottery program could be up and running within six months of the enactment of the proposal. For purposes of this estimate it was assumed that video lottery terminals would be operational by January 1, 2009.
- Minnesota State Lottery officials also estimate that there would be a reduction in the sale of lottery tickets from the existing lottery ticket sale program. The impact on state funds would be about \$12,000,000 annually.
- Department of Revenue information indicates that all taxes (distributor tax plus combined receipts tax less refunds) on pull-tabs and tipboards are about 4.1% of pull-tab and tipboard gross receipts.
- Department of Revenue information also indicates that net receipts for pull-tabs and tipboards are about 17.7% of gross receipts.
- Officials from the Gambling Control Board and the State Lottery estimate that there could be a 50% reduction in lawful gambling if a video lottery program were established.
- The February 2008 forecast for lawful gambling and the above percentages were used to estimate the impact of the proposal on lawful gambling.
- The fiscal year 2009 estimate was adjusted to reflect the impact of the effective date on collections.

**Number of Taxpayers:** The Minnesota State Lottery and about 800 charitable organizations would be affected.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)