

MINNESOTA • REVENUE

LAWFUL GAMBLING TAXES Tax Rates Reduced New Forms of Gambling Allowed

May 17, 2011

Preliminary Analysis

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 1485 (Kriesel) 2nd Engrossment, As Proposed to be Amended (A11-0502)

	Fund Impact			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
	(000's)			
Tax Rate & Gambling Activity Changes ¹	(\$800)	\$2,300	\$2,300	\$2,300
Appropriation to Com. of Human Services	(\$140)	(\$190)	(\$190)	(\$190)
Appropriation to Gambling Control Board	<u>(\$140)</u>	<u>(\$190)</u>	<u>(\$190)</u>	<u>(\$190)</u>
General Fund Total	(\$1,080)	\$1,920	\$1,920	\$1,920
Appropriation to Gambling Control Board from Special Revenue Fund, Lawful Gambling Regulation Account	(\$440)	(\$880)	(\$880)	(\$880)
Total – All Funds	(\$1,520)	(\$1,040)	(\$1,040)	(\$1,040)

¹ According to the Gambling Control Board, the new forms of gambling authorized in the bill are expected to increase charitable gambling activity, and the estimates reflect this increased activity. However, if activity stayed at current levels, **the reduced tax rates would result in a loss of about \$20 million per year.**

Effective August 1, 2011.

EXPLANATION OF THE BILL

Current Law: The current bingo, raffle, and paddlewheel tax rate is 8.5% of gross receipts less prizes paid. The current pull-tab and tipboard tax rate is 1.7% of the ideal gross of each pull-tab or tipboard deal sold by a distributor. The taxes are due on the 20th of the following month. The combined receipts tax has four brackets based on fiscal year gross receipts of the organization:

<u>Fiscal Year Receipts by Organization</u>	<u>Tax Rate</u>
First \$500,000	0%
\$500,001 - \$700,000	1.7%
\$700,001 - \$900,000	3.4%
Over \$900,000	5.1%

Proposed Law: The bill would reduce the bingo, raffle and paddlewheel tax rate to 5.0% of gross receipts less prizes paid. The pull-tab and tipboard tax rate would be reduced to 1.0% of the ideal gross of each pull-tab or tipboard deal sold by a distributor. The bill would change how the combined receipts tax is administered. It appears that the intent is to impose the tax on a site-by-site basis, instead of on the organization's total for all sites. The combined receipts tax would now be based on the following brackets and rates:

EXPLANATION OF THE BILL (Cont.)

<u>Fiscal Year Receipts by Site</u>	<u>Tax Rate</u>
First \$600,000	0%
\$600,001 - \$800,000	1.0%
\$800,001 - \$1,000,000	2.0%
Over \$1,000,000	3.0%

Note: The language in Section 3 should be clarified regarding the imposition of the graduated combined receipts tax on each site.

The bill would allow for two new types of electronic charitable gambling in Minnesota: electronic linked bingo games and electronic pull-tabs. The bill would expand the availability of electronic linked bingo compared to bingo under current law.

The bill also makes several changes to charitable gambling regulations.

The bill appropriates \$440,000 in fiscal year 2012 and \$880,000 in fiscal year 2013 from the Lawful Gambling Regulation Account in the Special Revenue Fund to the Gambling Control Board for operating expenses related to the oversight of lawful gambling.

The amendment would create two new appropriations. One-half of one percent of the revenue deposited in the General Fund under Section 297E.02 sub. 3 would be transferred to the Commissioner of Human Services for the compulsive gambling treatment program. Secondly, an equal amount would be appropriated to the Gambling Control Board for a grant to the state affiliate recognized by the National Council on Problem Gambling.

REVENUE ANALYSIS DETAIL

- The February 2011 forecast is the base for these estimates.
- This estimate assumes that the combined receipts tax would be collected on a site-by-site basis.
- The Gambling Control Board estimates that the new electronic games would be available at 3,500 sites. This estimate assumes that there will be 2,600 sites in FY 2012, 3,200 sites in FY 2013, and 3,500 sites starting in FY 2014.
- The Gambling Control Board estimates there would be an average of 8 machines per site and each machine would average \$250 in gross receipts per day for 364 days per year. The \$250 is based on industry data from Florida. The Gambling Control Board estimates that 50% of the increase in gross receipts would be from bingo and 50% would be pull tabs.
- Department of Revenue data on gross receipts by site for fiscal year 2010 was scaled to match the projected gross receipts under this bill and then the tax was calculated based on the new brackets and rates.

- This work produced an effective tax rate of 0.789% on gross receipts.

REVENUE ANALYSIS DETAIL (Cont.)

- This estimate assumes that 50% of paper pull-tabs and tip boards would be eliminated in FY 2012, 75% in FY 2013, and, by FY 2014, 95% of paper pull-tabs and tip boards would be eliminated. This estimate assumes no reduction in the current level of bingo, raffles, and paddleboard activity.
- Gambling refunds are assumed to maintain their historical ratio of 21% of the pull-tab and tipboard tax paid.
- Fiscal year 2012 receipts are reduced to reflect ten months of collections.
- It is assumed that the appropriations from the General Fund would occur in the same fiscal years as revenues are received.

Number of Taxpayers: Approximately 720 organizations pay the bingo, raffle, and paddleboard tax, 12 distributors remit the pull-tab and tipboard tax, and 580 organizations pay the combined receipts tax.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy