**LAWFUL GAMBLING TAXES**
**Tax Structure Changed**
**New Forms of Gambling Allowed**

April 2, 2012

| | Yes | No |
|---|---|---|
| **DOR Administrative Costs/Savings** | X | |

Department of Revenue
Analysis of H.F. 1485 (Kriesel) Delete Everything Amendment (H1485DE3)

| | Fund Impact | | | |
|---|---|---|---|---|
| | F.Y. 2012 | F.Y. 2013 | F.Y. 2014 | F.Y. 2015 |
| | (000's) | | | |
| Tax Rate & Gambling Activity Changes[1] | $0 | $36,200 | $52,200 | $52,200 |
| Appropriation to Com. of Human Services | $0 | ($370) | ($450) | ($450) |
| Appropriation to Gambling Control Board | $0 | ($370) | ($450) | ($450) |
| **General Fund Total** | $0 | $35,460 | $51,300 | $51,300 |
| Appropriation to Gambling Control Board from Special Revenue Fund, Lawful Gambling Regulation Account | $0 | ($880) | $0 | $0 |
| **Total – All Funds** | $0 | $34,580 | $51,300 | $51,300 |

[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.

Effective the day after enactment for authorization of new forms of gambling. This estimate assumes that the date of enactment would be prior to May 1, 2012.
All changes in tax structure and rates are effective July 1, 2012.

## EXPLANATION OF THE BILL

**Current Law:** Charitable gambling in Minnesota is subject to the following taxes:

| | |
|---|---|
| Net Receipts Tax on Bingo, Raffles, Paddlewheels | 8.5% |
| Distributor Tax on Pull-tabs and Tipboards | 1.7% |
| Combined Receipts Tax on Pull-tabs and Tipboards (organization basis) | |
| Not over $500,000 | 0% |
| Over $500,000, but not over $700,000 | 1.7% |
| Over $700,000, but not over $900,000 | 3.4% |
| Over $900,000 | 5.1% |

**Proposed Law:** 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 would allow sports-themed tipboards for professional sports. Each tipboard may not have a maximum prize payout greater than 85% and a chance or ticket may not be sold for more than $10.

**EXPLANATION OF THE BILL (Cont.)**

The Gambling Control Board notes that there is a question about the legality of sports-themed tipboards (wagering based on the outcome of a professional sporting event) under federal law. The Board references the Professional & Amateur Sports Protection Act and Title 28, Part VI, Chapter 178 of the U.S. Code.

The bill would eliminate the distributor tax. The combined receipts tax would be eliminated and replaced with a tax on net receipts by organization. Electronic linked bingo, all pull-tabs and all tipboards would be subject to this new tax on net receipts. The new net receipts tax will have four brackets, with an initial rate of 6.89%. Each bracket adds an additional 6.89% to the tax rate and the maximum rate is 27.56% in the fourth bracket.

The bill would change the tax structure and rates to the following:

| | |
|---|---|
| Net Receipts Tax on Existing Bingo, Raffles, Paddlewheels | 8.5% |
| Distributor Tax on Pull-tabs and Tipboards | eliminated |
| Combined Receipts Tax | eliminated |
| New Net Receipts Tax on All Pull-tabs, All Tipboards, and Electronic Linked Bingo (organization basis) | |
| Not over $87,500 | 6.89% |
| Over $87,500, but not over $122,500 | 13.78% |
| Over $122,500, but not over $157,500 | 20.67% |
| Over $157,500 | 27.56% |

The bill also makes several changes to charitable gambling regulations.

The bill appropriates $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 bill creates two new appropriations. One-half of one percent of the revenue deposited in the General Fund under Section 297E.02 sub. 3 would be appropriated 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 for the purposes specified.

**REVENUE ANALYSIS DETAIL**

The following assumptions were provided by the Gambling Control Board:

- Electronic linked bingo will be available at 1,500 sites in Minnesota. Sites with two hundred seats or less would on average have three machines and sites with more than two hundred seats would have nine machines. On average, each machine will have $90 of gross receipts and $13.50 of net receipts per day.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Electronic pull-tabs will be available at 2,500 sites in Minnesota. Sites with two hundred seats or less would on average have four machines and sites with more than two hundred seats would have twelve machines. On average, each machine will have $225 of gross receipts and $33.75 of net receipts per day.
- Approximately 85% of the new electronic gaming would be electronic pull-tabs and 15% would be electronic linked bingo.
- The estimates of daily machine receipts assume that the new forms of electronic gambling would allow for the replay of winning credits.
- The introduction of electronic pull-tabs and electronic linked bingo will reduce the amount of paper pull-tabs sold by 20%.
- Sports-themed tipboards will be available at 3,500 sites in Minnesota, an increase of 700 sites from current operations. Each site will conduct an average of 5 games per week, each grossing $500. On average, each location will have gross receipts of $130,000 per year.
- Sports-themed tipboards will have a negligible impact on existing charitable gambling receipts and the proposed electronic forms of charitable gambling.
- The Gambling Control Board estimates that it will take four to six months to write regulations and to have the electronic machines installed at the sites.

The Department of Revenue used the following data and assumptions to complete this estimate:

- Baseline revenues are from the February 2012 forecast.
- Baseline gross receipts and organizational receipts data is from the Department’s fiscal year 2011 filing records.
- Department of Revenue data on gross receipts by organization for fiscal year 2011 was scaled to match the projected gross receipts from the new electronic games under this proposal.
- Gross receipts from sports-themed tipboards are allocated to each organization based on the number of sites the organization currently operates. The new sites are proportionally allocated to existing charities.
- Gross receipts from sports-themed tipboards are added to the scaled gross receipts and then the new net receipts tax is calculated.
- This estimate assumes that the new electronic games and sports-themed tipboards will have net receipts that are 15% of gross receipts.
- Fiscal year 2013 receipts are reduced to reflect nine months of collections.
- Due to the estimated four to six months needed to implement the new forms of gambling, the date of enactment will have a significant impact on collections in fiscal year 2013. For each month of delay after May 1, 2012, the estimate for fiscal year 2013 would be reduced by about $4 million.

**Number of Taxpayers:** About 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

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