

February 6, 2019

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>		<b>x</b>

Department of Revenue  
Analysis of S.F. 414 (Eichorn)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2020</u></b>	<b><u>F.Y. 2021</u></b>	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>
	(000's)			
General Fund	(\$37,700)	(\$40,400)	(\$43,200)	(\$46,300)

Effective July 1, 2019.

**EXPLANATION OF THE BILL**

**Current Law:** The combined net receipts tax is imposed on the net receipts after prizes from pull-tabs, tipboards, and electronic linked bingo games of a lawful gambling organization. Tax rates are graduated from 9% to 36%. The tax does not apply to paper bingo, raffles, and paddlewheels, which are subject to a separate tax of 8.5% of gross receipts less prizes. Fiscal year gambling tax revenues in excess of \$36.9 million are transferred for stadium-related expenses or to the stadium reserve fund in the General Fund.

**Proposed Law:** The proposal would allow organizations to subtract lawful purpose contributions (other than taxes) in the calculation of the combined net receipts tax.

**REVENUE ANALYSIS DETAIL**

- The estimates are based on fiscal year 2018 gambling tax returns filed with the Department of Revenue and the fiscal year 2018 Annual Report published by the Gambling Control Board.
- For fiscal year 2018, charitable organizations had approximately \$313 million in net receipts (gross receipts less prizes). Net receipts are spent on: 1) gambling operations including salaries, gambling equipment, and rent, 2) taxes, including the combined net receipts tax, and 3) other lawful purpose contributions. Lawful purpose contributions were \$70.4 million, excluding taxes. Combined net receipts tax collections were \$72.5 million.
- The proposal would reduce combined net receipts tax collections from \$72.5 million to \$41.9 million, a reduction of \$30.6 million.
- It is assumed that organizations will increase deductible lawful purpose contributions by an amount equal to the reduction in tax. Current lawful purpose contributions of \$70.4 million would increase by \$30.6 million to \$101 million.
- The combined net receipts tax has four tax rates. The bill would shift 35% of lawful gambling organizations to a lower tax bracket.
- The percent reduction in combined net receipts tax revenue estimated for fiscal year 2018 of 42.2% is applied to combined net receipts tax forecast revenues in the November 2018 state forecast for future fiscal years.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Over the four fiscal years, the proposal will reduce gambling revenues, and amounts transferred for stadium purposes, by \$167.6 million.
- There are appropriations to the Commissioner of Human Services of one-half of one percent of tax revenues for a compulsive gambling treatment program and one-half of one percent of tax revenues for a grant to increase public awareness of problem gambling and support for effective treatment services. The total appropriations for problem gambling of 1% would be reduced by \$1.68 million over the four fiscal years.

**Number of Taxpayers:** There are about 1,100 charitable organizations that pay combined net receipts tax, including fraternal organizations, veterans organizations, religious institutions, and various other charities including youth hockey leagues.

Source: Minnesota Department of Revenue  
Tax Research Division  
[www.revenue.state.mn.us/research\\_stats/Pages/  
Revenue-Analyses.aspx](http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx)