

March 3, 2021

Preliminary Analysis

Department of Revenue
Analysis of S.F. 1322 (Nelson)

	Yes	No
DOR Administrative Costs/Savings		X

Fund Impact

	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
General Fund	(\$13,500)	(\$14,700)	(\$15,800)	(\$17,000)

Effective for games played after June 30, 2021.

EXPLANATION OF THE BILL

Current Law: The combined net receipts tax is imposed on a lawful gambling organization's net receipts after prizes from pull-tabs, tipboards, and electronic linked bingo. 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.

Net receipts for the fiscal year:

First \$87,500	9.0%
\$87,500 to \$122,500	18.0%
\$122,500 to \$157,500	27.0%
Over\$ 157,500	36.0%

Fiscal year gambling tax revenue in excess of \$36.9 million is either used for stadium-related expenses or added to the stadium reserve fund within the General Fund. In addition, one percent of total gambling revenues is appropriated to the Department of Human Services to address problem gambling.

Proposed Law: Combined net receipts tax would be reduced to the rates below. There are no changes to the definition of net receipts nor adjustment to the types of games. The bill includes additional changes regarding Gambling Control Board oversight.

Net receipts for the fiscal year:

First \$87,500	8.0%
\$87,500 to \$122,500	16.0%
\$122,500 to \$157,500	24.0%
Over\$ 157,500	32.0%

The bill changes the calculation of the amount to be used for stadium related transfers within the General Fund. Change amounts in the bill are blank. The amounts to be transferred to the stadium reserve account and the impact of the change on the general fund are unknown.

Over the four fiscal years, the bill would reduce gambling tax revenues by \$61.0 million. The appropriation for problem gambling would be \$610,000 less. The amount in the stadium reserve fund would be reduced by \$61.0 million, excluding the unknown impact for changes to the transfer to the stadium reserve fund.

REVENUE ANALYSIS DETAIL

- The estimates are based on data from fiscal year 2020 gambling tax returns filed with the Department of Revenue.
- Over the four fiscal years, the proposal will reduce gambling tax revenues, and amounts transferred for stadium purposes, by \$61.0 million, excluding the unknown impact of the baseline transfer change.
- 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 \$610,000.
- The proposal also changes the rating process of lawful gambling organizations by the Gambling Control Board. The ratings are based on percentage of gross receipts spent on lawful purpose expenditures, and the percentages for each star rating would increase by 5-20%. The rating process would have no impact on tax revenue and would be effective July 1, 2021.

Number of Taxpayers: About 1,100 charitable organizations pay combined net receipts tax (including fraternal organizations, veterans' organizations, religious institutions, and various other charities including youth hockey leagues).

Minnesota Department of Revenue
Tax Research Division
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