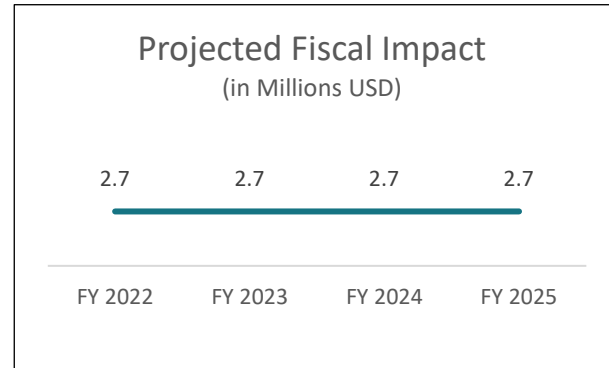


Lawful Gambling Tax Expenditures

Tax Expenditure Initial Review – TEB 11.01 to 11.06

Tax Expenditure Facts

Years Enacted	1984-2000
Statutes	Minn. Stat. § 349.166 and 297E.02
Tax Type	Lawful Gambling Taxes
Provision Types	Exemptions; Credit
Fiscal Impact Estimate	\$2,700,000 (All Expenditures) – Fiscal Year 2024
Claims Estimates	See Table 1 Below
Expiration Date	None



Note: The graph shows the combined fiscal impact of the tax expenditures discussed in this review.

Tax Expenditure Description

Minnesota Statutes 2023, section 349.166 allows organizations to conduct some lawful gambling activities under certain conditions without a license.¹ Organizations that are exempt or excluded from licensing requirements are also exempt from lawful gambling taxes.

Table 1: Lawful Gambling Tax Exemptions

TEB	Tax Expenditure Description	Year Enacted	Annual Claims	Fiscal Impact FY24
11.02	The lawful gambling tax is not imposed on bingo conducted by an organization in connection with a county fair, the state fair, or a civic celebration. To qualify, the bingo cannot be conducted for more than twelve consecutive days and no more than four applications can be applied for and approved in a calendar year.	1984	NA	< \$50,000
11.03	An exemption from the lawful gambling tax is allowed for bingo conducted by an organization which conducts bingo on four or fewer days in a calendar year. This exemption does not apply if the organization holds a lawful gambling license.	1984	NA	< \$50,000
11.04	If the value of all raffle prizes awarded by an organization in a calendar year does not exceed \$1,500, then the raffles of that organization are exempt from the lawful gambling tax. The exemption also applies if the organization qualifies under Section 501(c)(3) of the Internal Revenue Code and	1984	1,400	\$200,000

	the value of all raffle prizes awarded at one event in a calendar year does not exceed \$5,000.			
11.01	An exemption from the lawful gambling tax is allowed for bingo conducted within a nursing home or a senior citizen housing project or by a senior citizen organization if certain conditions are met. The prizes for a single bingo game cannot exceed \$10, and total prizes awarded at a single bingo occasion cannot exceed \$200.	1985	NA	< \$50,000
11.05	All types of lawful gambling except linked bingo games are exempt from the lawful gambling taxes if certain conditions are met. To qualify, an organization must conduct lawful gambling on no more than five days in a calendar year and cannot award more than \$50,000 in prizes for lawful gambling in a calendar year.	1986	2,300	\$2,500,000
11.06	An organization may claim a credit against the lawful gambling tax equal to the tax resulting from a raffle if the net proceeds have been used exclusively to relieve the effects of poverty, homelessness, or physical or mental disability for an individual or family.	2000	17	< \$50,000

Additional Background Information

In fiscal year 2023, lawful gambling tax revenue totaled \$193 million. Taxable gross receipts totaled \$4.572 billion while exempt gross receipts totaled \$55.6 million. Thus, approximately 1.2 percent of lawful gambling sales were exempt from lawful gambling taxes in fiscal year 2023.ⁱⁱ

Lawful gambling net receipts (gross receipts less prizes paid) are subject to one of two tax structures depending on the game type. A flat tax of 8.5 percent is imposed on net receipts from paper bingo, paddlewheel, and raffles. A variable rate tax (referred to in statute as the combined net receipts tax), is imposed on paper and electronic pulltabs, tipboards and electronic bingo that increases as an organization's annual net receipts exceed certain thresholds.ⁱⁱⁱ Tax proceeds are deposited in the state General Fund. Lawful gambling taxes are administered by the Department of Revenue.

The lawful gambling tax was enacted in 1984 and covered, raffles, paddlewheels, pulltabs, and tipboards. A separate tax on pulltabs was enacted in 1986, and that tax was extended to tipboards in 1988. In 1989, an additional tax was imposed on the combined receipts of an organization from pulltabs and tipboards. The tax rates for both taxes were reduced in 1998, 1999, and 2000. In 2012, the combined net receipts tax was restructured and extended to newly authorized electronic games. In 2023, the combined net receipts tax was reduced.^{iv}

Except for smaller raffles and bingo at senior citizen organizations and nursing homes, an organization that conducts exempt lawful gambling activities must obtain a permit from the Gambling Control Board prior to the event. Permits are classified as either exempt or excluded activities. Exempt and excluded permits cannot be issued to a licensed organization.

Beneficiaries of lawful gambling tax expenditures include organizations that conduct activities under the conditions specified in Minnesota Statutes 2023, section 349.166, and are summarized in Table 1.

Proposed Tax Expenditure Objective for Consideration

The exemptions identified in the Tax Expenditure Budget and shown in Table 2 are intended to simplify compliance with, and enforcement of, lawful gambling and to reduce administrative burden. The credit against the lawful gambling tax for certain raffles is intended to direct a higher amount of net raffle proceeds used exclusively to relieve the effects of poverty, homelessness, or disability than would occur but for the credit.

Table 2: Lawful Gambling Tax Expenditure Objectives

Exemption	Tax Expenditure Objectives for Consideration
Bingo at Certain Organizations	Simplify compliance with and enforcement of lawful gambling and reduce administrative burden.
Bingo at Fairs and Civic Celebrations	Simplify compliance with and enforcement of lawful gambling and reduce administrative burden.
Infrequent Bingo Occasions	Simplify compliance with and enforcement of lawful gambling and reduce administrative burden.
Smaller Raffles	Simplify compliance with and enforcement of lawful gambling and reduce administrative burden.
Lawful Gambling Under Certain Conditions	Simplify compliance with and enforcement of lawful gambling and reduce administrative burden.
Credit	Tax Expenditure Objective for Consideration
Credit for Certain Raffles	Direct a higher amount of net raffle proceeds used exclusively to relieve the effects of poverty, homelessness, or disability than would occur but for the credit.

Sources

An explicit tax expenditure objective was not identified in the legislative record for the exemptions listed in Table 2. The objective identified in this report is based on a review of statute language and conversations with the Gambling Control Board. In FY23, there were 1,144 licensed gambling organizations, while 3,347 exempt permits and 587 excluded bingo permits were issued to 2,562 nonprofit organizations.^v Significant additional resources would be needed to fully license and enforce exempt activities, and it is likely that costs would outweigh additional revenues. In addition, certain organizations may choose to forgo exempt gambling activities if subjected to licensing requirements and the lawful gambling tax.

The credit against the lawful gambling tax for certain raffles was introduced in House File (HF) 97 during the 1999 legislative session. The bill was heard in the House Governmental Operations and Veterans Affairs Policy committee on February 15, 1999, and included a discussion of intended purpose. The bill was amended and re-referred to the Taxes committee but did not receive a further hearing. On March 23, 2000, the language of HF 97 was offered as an amendment to HF 4127, the House omnibus tax bill, during a Ways and Means hearing. HF 97 and the bill author are mentioned in connection with the amendment.^{vi}

Potential Metrics and Performance Measures

Further conversations with the Gambling Control Board and the Department of Revenue may help determine to what extent lawful gambling exemptions simplify compliance with and enforcement of lawful gambling and reduce administrative burden, and if any updates should be considered.

Contact Information and Disclaimer

This tax expenditure review was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission pursuant to Minnesota Statutes 2023, section 3.8855, subdivision 4.

Notice: Proposed tax expenditure objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov.

For more information, please visit the [Tax Expenditure Review Commission website](#).

ⁱ State of Minnesota Gambling Control Board, *Annual Report: Fiscal Year 2023* (November 10, 2023), 2, 13, <https://mn.gov/gcb/publications/reports/>.

ⁱⁱ *Ibid*, 7, 12.

ⁱⁱⁱ For a summary of Minnesota lawful gambling taxes and example calculations, see Alexandra Haigler, *Gambling Taxes*, (Minnesota House Research Department, February 2020), <https://www.house.mn.gov/hrd/pubs/gambtax.pdf>. Note that Minnesota Statutes, section 297E.02, subdivision 6(b) exempts sports-themed tipboards from both the flat tax and combined net receipts tax.

^{iv} For a more detailed history of lawful gambling in Minnesota, see John Williams, *Gambling in Minnesota: A Short History* (Minnesota House Research Department, March 2005), <https://www.lrl.mn.gov/docs/2005/other/050336.pdf>.

^v Gambling Control Board, *Annual Report*, 1.

^{vi} Minn. House, Hearing on H.F. 97 before the House Comm. on Governmental Operations and Veterans Affairs Policy, 81st Minn. Leg., Reg. Sess. (February 15, 1999), available at: <https://www.lrl.mn.gov/media/file?mtgid=810423>; Minn. House, Hearing on H.F. 4127 before the House Comm. on Ways and Means, 81st Minn. Leg., Reg. Sess. (March 23, 2000), available at <https://www.lrl.mn.gov/media/file?mtgid=812518>.