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**HF 2380** – Phaseout of Promotional Play Receipts Tax (LSB5623HV)  
Staff Contact: Angel Banks-Adams (515.281.6301) [angel.banks-adams@legis.iowa.gov](mailto:angel.banks-adams@legis.iowa.gov)  
Dave Reynolds (515.281.6934) [dave.reynolds@legis.iowa.gov](mailto:dave.reynolds@legis.iowa.gov)  
Fiscal Note Version – New

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## **Description**

[House File 2380](#) amends the definition of adjusted gross receipts (AGR) to include all promotional play receipts on gambling games from the beginning of FY 2021 until the end of FY 2024. During this time period, the Bill imposes a new graduated tax rate on promotional play receipts by multiplying an adjusted percentage by the State wagering tax applicable to the licensed gaming entity, with a complete phaseout of the tax on promotional play receipts by July 1, 2024 (FY 2025).

Additionally, the Bill amends application requirements for a license to operate a gambling game operation on an excursion gambling boat by providing that promotional play receipts on sports wagering are to be included in the calculation for the total annual purses for all horse racing. Under current law, total annual purses for all horse racing include 4.0% of sports wagering net receipts and no less than 11.0% of the first \$200.0 million of net receipts, and 6.0% of net receipts above \$200.0 million.

## **Background**

Current gambling revenues are taxed by the State based on AGR from gambling games. Under current law, AGRs include promotional play receipts until the date in any fiscal year that the wagering tax on promotional play receipts exceeds \$25.82 million.

Iowa Code section [99F.1](#) defines promotional play receipts as the total sums wagered on gambling games with tokens, chips, electronic credits, or other forms of cashless wagering provided by the licensee without an exchange of money. Current gambling revenues are taxed by the State based on AGR from gambling games. The first \$1.0 million in gross receipts is taxed at a rate of 5.0% and the next \$2.0 million in gross receipts is taxed at a rate of 10.0%.

The tax rate imposed on AGRs that exceed the first \$3.0 million is calculated on an individual fiscal year basis as follows:

- Licensees of a gambling entity with a racetrack enclosure claiming AGR of \$100.0 million or more are taxed at a rate of 24.0%.
- All other licensees (those without a racetrack enclosure or claiming less than \$100.0 million in AGR) are taxed at a rate of 22.0%.

There are currently 19 State-licensed gambling entities operating in Iowa. Of these 19 entities, 2 are taxed at 24.0% and 17 are taxed at 22.0%.

Iowa Code section [8.57\(5\)](#) distributes the majority of the State wagering tax to several State funds in a prioritized order (**Table 1**). The first \$139.8 million is allocated to the first five funds. State wagering taxes that are in excess of \$139.8 million are deposited into the Rebuild Iowa Infrastructure Fund (RIIF).

**Table 1**  
**Distribution of State Wagering Taxes in Accordance with Sec. 8.57(5)**  
(Dollars in Millions)

	<b>Actual FY 2018</b>	<b>Actual FY 2019</b>	<b>Estimated FY 2020</b>	<b>Estimated FY 2021</b>	<b>Estimated FY 2022</b>
<b>State Funds</b>					
Revenue Bonds Debt Service Fund	\$ 55.0	\$ 55.0	\$ 55.0	\$ 55.0	\$ 55.0
Federal Subsidy Holdback Fund	3.8	3.8	3.8	3.8	3.8
Vision Iowa Fund	15.0	15.0	15.0	0.0	0.0
Water Quality Infrastructure Fund	0.0	0.0	0.0	15.0	15.0
General Fund	0.0	2.3	2.3	2.3	2.3
Skilled Worker Job Creation Fund	66.0	63.8	63.8	63.8	63.8
Rebuild Iowa Infrastructure Fund	153.3	151.6	150.1	150.1	151.5
<b>Total 8.57 Allocations</b>	<b>\$ 293.1</b>	<b>\$ 291.5</b>	<b>\$ 290.0</b>	<b>\$ 290.0</b>	<b>\$ 291.4</b>

Note: Numbers may not equal totals due to rounding.

In addition to the allocation of State wagering taxes discussed above, Iowa Code section [99F.11\(3\)](#) allocates a portion of State wagering taxes as follows (**Table 2**):

- 0.5% of AGR tax to the county where a casino is located.
- 0.5% of AGR tax to the city where a casino is located.
- 0.8% of AGR tax to the County Endowment Fund. The proceeds of this Fund are distributed equally to counties that do not have a licensed casino for funding charitable organizations.
- 0.2% of AGR tax for several specified purposes: Of the amount collected, the first \$520,000 is allocated to the Department of Cultural Affairs (DCA) for cultural grants and operations. Of the amount remaining, 50.0% is allocated to the Iowa Economic Development Authority (IEDA) for tourism marketing, and the other 50.0% is allocated to the RIIF. A portion of these proceeds is first deposited into the General Fund.

**Table 2**  
**Allocation of State Wagering Taxes in Accordance with Sec. 99F.11(3)**  
(Dollars in Millions)

	<b>Actual FY 2019</b>	<b>Estimated FY 2020</b>	<b>Estimated FY 2021</b>	<b>Estimated FY 2022</b>
<b>Allocations</b>				
Cities and Counties	\$ 14.6	\$ 14.5	\$ 14.5	\$ 14.6
County Endowment Fund	11.7	11.6	11.6	11.6
Cultural Grants and Tourism	1.7	1.7	1.7	1.7
Rebuild Iowa Infrastructure Fund	1.2	1.2	1.2	1.2
<b>Total 99F.11 Allocations</b>	<b>\$ 29.2</b>	<b>\$ 29.0</b>	<b>\$ 29.0</b>	<b>\$ 29.1</b>

Note: Numbers may not equal totals due to rounding.

Iowa Code section [99F.5](#) requires an operating agreement between a licensee of a gambling establishment and a Qualified Sponsoring Organization (QSO), which is organized as a nonprofit corporation. The statute requires that the agreement provide for a minimum distribution of funds for educational, civic, public, charitable, patriotic, or religious uses that averages at least 3.0% of the AGR per year. The terms of the agreements between the operators and the QSOs throughout the State will vary.

**Assumptions**

- Annual AGR for FY 2020 and FY 2021 will total \$1.450 billion and are based on the State wagering tax estimates established by the Revenue Estimating Conference (REC) in December 2019. Total AGR, including promotional play receipts, totaled \$1.457 billion in

FY 2019. Adjusted gross receipts are projected to increase by 0.5% per year from FY 2022 to FY 2025.

- From FY 2017 to FY 2019, total promotional play receipts (both taxed and exempt from taxation after the \$25.82 million tax receipts threshold was met) comprised 8.4% of all AGR for Iowa casinos. It is assumed that promotional play receipts will continue to comprise 8.4% of AGR for FY 2020 through FY 2025.
- Annual AGR on all promotional play receipts are estimated to total \$122.5 million in FY 2020 and FY 2021. Based on the most recent three-year average, total promotional play receipts in a given fiscal year are approximately \$123.1 million. However, in FY 2019, the \$25.82 million tax receipts threshold was exceeded in the last gaming week of the fiscal year; therefore, additional taxes from promotional play receipts beyond the threshold that were received during that week were credited to the first gaming week of FY 2020.
- Under current law, the State will continue to collect State wagering taxes on promotional play receipts at the statutory maximum of \$25.82 million annually.
- The base tax rate on promotional play receipts will be 22.0% for the projected years and will be reduced by the adjusted percentage specified in [HF 2380](#) as follows:
  - FY 2021: 17.6% (80.0% of the base tax rate)
  - FY 2022: 13.2% (60.0% of the base tax rate)
  - FY 2023: 8.8% (40.0% of the base tax rate)
  - FY 2024: 4.4% (20.0% of the base tax rate)
  - FY 2025: Repeal of promotional play taxation

### **Fiscal Impact**

The phaseout of the tax on promotional play receipts as proposed in [HF 2380](#) would result in an estimated \$25.8 million decrease to State, city, and county revenue by FY 2025. The decrease to revenue by fiscal year and a comparison to current law is reflected in **Table 3**.

**Table 3**  
**Estimated Tax Revenue Reduction from Phaseout of Tax on Promotional Play**  
(Dollars in Millions)

<b>Current Law</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
RIIF	\$ 150,000,000	\$ 151,600,000	\$ 153,000,000	\$ 154,500,000	\$ 156,000,000
Cities and Counties	14,500,000	14,600,000	14,700,000	14,700,000	14,800,000
County Endowment Fund	11,600,000	11,700,000	11,700,000	11,800,000	11,800,000
0.2% AGR - IEDA & DCA	1,700,000	1,700,000	1,700,000	1,700,000	1,700,000
0.2% AGR - RIIF	1,190,000	1,200,000	1,200,000	1,200,000	1,200,000
	<u>\$ 179,000,000</u>	<u>\$ 181,000,000</u>	<u>\$ 182,000,000</u>	<u>\$ 184,000,000</u>	<u>\$ 186,000,000</u>
<b>HF 2380</b>					
RIIF	\$ 145,000,000	\$ 141,200,000	\$ 137,500,000	\$ 133,700,000	\$ 131,100,000
Cities and Counties	14,500,000	14,500,000	14,500,000	14,500,000	14,500,000
County Endowment Fund	11,600,000	11,600,000	11,600,000	11,600,000	11,600,000
0.2% AGR - IEDA & DCA	1,700,000	1,600,000	1,600,000	1,600,000	1,500,000
0.2% AGR - RIIF	1,150,000	1,100,000	1,100,000	1,100,000	1,000,000
	<u>\$ 174,000,000</u>	<u>\$ 170,000,000</u>	<u>\$ 166,000,000</u>	<u>\$ 162,500,000</u>	<u>\$ 160,000,000</u>
<b>Change</b>					
RIIF	\$ -5,100,000	\$ -10,300,000	\$ -15,600,000	\$ -20,800,000	\$ -24,900,000
Cities and Counties	-36,000	-84,000	-133,000	-182,000	-258,000
County Endowment Fund	-28,500	-67,000	-106,000	-146,000	-206,600
0.2% AGR - IEDA & DCA	-41,000	-84,000	-128,000	-171,000	-206,600
0.2% AGR - RIIF	-41,000	-84,000	-128,000	-171,000	-206,600
<b>Total Impact</b>	<u>\$ -5,260,000</u>	<u>\$ -10,600,000</u>	<u>\$ -16,000,000</u>	<u>\$ -21,500,000</u>	<u>\$ -25,820,000</u>

Note: Numbers may not equal totals due to rounding.

**Sources**

Iowa Racing and Gaming Commission  
LSA calculations

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.