



[SF 169](#) – Promotional Play (LSB1453SV)

Staff Contact: Angel Banks-Adams (515.281.6301) angel.banks-adams@legis.iowa.gov

Fiscal Note Version – New

Description

[Senate File 169](#) amends the definition of adjusted gross receipts (AGR) to include all promotional play receipts on gambling games from the beginning of FY 2022 to 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.

The Bill also removes promotional receipts from the definition of sports wagering net receipts. For horse agreements subject to Iowa Racing and Gaming Commission approval concerning purses for horse racing beginning on or after January 1, 2006, the Bill provides that promotional play receipts on sports wagering are included in the total annual purses for all horse racing.

Background

Current gambling revenues are taxed by the State based on AGR from gambling games. Under current law, AGR includes promotional play receipts until the date in any fiscal year that the wagering tax on promotional play receipts exceeds \$25.8 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. From FY 2017 to FY 2019, total promotional play receipts (both taxed and exempt from taxation after the \$25.8 million tax receipts threshold was met) comprised 8.4% of all AGR for Iowa casinos. In FY 2020, total promotional play was at its lowest (\$94.5 million and 8.1% of all AGR for Iowa casinos) due to the two-month casino closures as a result of the COVID-19 pandemic. 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 AGR 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 Iowa Code section 8.57(5)
(Dollars in Millions)

<u>State Funds</u>	<u>Actual FY 2019</u>	<u>Actual FY 2020</u>	<u>Estimated FY 2021</u>	<u>Estimated FY 2022</u>
Revenue Bonds Debt Service Fund	\$ 55.0	\$ 55.0	\$ 55.0	\$ 55.0
Federal Subsidy Holdback Fund	3.8	3.8	3.8	3.8
Vision Iowa Fund	15.0	15.0	0.0	0.0
Water Quality Infrastructure Fund	0.0	0.0	15.0	15.0
General Fund	0.0	2.3	2.3	2.3
Skilled Worker Job Creation Fund	66.0	63.8	63.8	63.8
Rebuild Iowa Infrastructure Fund	151.6	91.3	143.7	143.7
Total	\$ 291.4	\$ 231.0	\$ 283.4	\$ 283.4

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. The wagering taxes allocated to the DCA and IEDA are first deposited into the General Fund before being appropriated back to those departments.

Table 2
Allocation of State Wagering Taxes
in Accordance with Iowa Code section 99F.11(3)
(Dollars in Millions)

Allocations	Actual FY 2019	Actual FY 2020	Estimated FY 2021	Estimated FY 2022
Cities and Counties	\$ 14.6	\$ 11.6	\$ 14.2	\$ 14.2
County Endowment Fund	11.7	9.3	11.4	11.4
Cultural Grants and Tourism	1.7	1.4	1.7	1.7
Rebuild Iowa Infrastructure Fund	1.2	0.9	1.2	1.2
Total	\$ 29.2	\$ 23.2	\$ 28.5	\$ 28.5

Note: Numbers may not equal totals due to rounding.

Iowa Code section [99F.5](#) requires an operating agreement between a licensee of a gambling entity 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.

The State taxes all sports wagering net receipts, including promotional play, at 6.75%. The tax receipts are deposited into the Sports Wagering Receipts Fund and are estimated to total \$3.2 million in FY 2021. The proceeds of the Sports Wagering Receipts Fund are available for appropriation by the General Assembly. For FY 2021, the General Assembly appropriated \$1.5 million from the Fund to the Department of Public Health for gambling and substance-related disorder treatment.

Assumptions for Promotional Play on Gambling Games

- Annual AGR for FY 2021 and FY 2022 will total \$1.420 billion and are based on the State wagering tax estimates established by the Revenue Estimating Conference (REC) in December 2020. Total AGR, including promotional play receipts, totaled \$1.163 billion in FY 2020. Adjusted gross receipts are projected to increase by 0.5% per year from FY 2022 to FY 2025.
- It is assumed that taxed promotional play receipts will average approximately 8.2% of AGR for FY 2021 through FY 2025.
- Under current law, the State will continue to collect State wagering taxes on promotional play receipts at the statutory maximum of \$25.8 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 SF 169 as follows:
 - FY 2022: 16.5% (75.0% of the base tax rate)
 - FY 2023: 11.0% (50.0% of the base tax rate)
 - FY 2024: 5.5% (25.0% 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 SF 169 would result in an estimated reduction in State wagering taxes beginning in FY 2022 of \$6.5 million and increasing to \$25.8 million by FY 2025. **Table 3** shows the estimated revenue reduction by fiscal year to State programs and cities and counties with domiciled casinos.

Table 3
Estimated Impact of SF 169 on State Wagering Taxes

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
<u>Current Law</u>				
State Programs				
RIIF	\$ 143,690,000	\$ 145,145,000	\$ 146,609,000	\$ 148,079,000
County Endowment Fund	11,357,000	11,413,000	11,470,000	11,528,000
0.2% AGR - IEDA & DCA	1,680,000	1,687,000	1,694,000	1,701,000
0.2% AGR - RIIF	1,160,000	1,167,000	1,174,000	1,181,000
Cities and Counties	<u>14,196,000</u>	<u>14,267,000</u>	<u>14,338,000</u>	<u>14,410,000</u>
Total	<u>\$ 172,083,000</u>	<u>\$ 173,679,000</u>	<u>\$ 175,285,000</u>	<u>\$ 176,899,000</u>
<u>SF 169</u>				
State Programs				
RIIF	\$ 137,821,000	\$ 133,409,000	\$ 129,004,000	\$ 124,606,000
County Endowment Fund	11,122,000	10,944,000	10,766,000	10,589,000
0.2% AGR - IEDA & DCA	1,650,000	1,628,000	1,606,000	1,584,000
0.2% AGR - RIIF	1,130,000	1,108,000	1,086,000	1,064,000
Cities and Counties	<u>13,902,000</u>	<u>13,680,000</u>	<u>13,458,000</u>	<u>13,236,000</u>
Total	<u>\$ 165,625,000</u>	<u>\$ 160,769,000</u>	<u>\$ 155,920,000</u>	<u>\$ 151,079,000</u>
<u>Impact of SF 169</u>				
State Programs				
RIIF	\$ -5,869,000	\$ -11,736,000	\$ -17,605,000	\$ -23,473,000
County Endowment Fund	-235,000	-469,000	-704,000	-939,000
0.2% AGR - IEDA & DCA	-30,000	-59,000	-88,000	-117,000
0.2% AGR - RIIF	-30,000	-59,000	-88,000	-117,000
Cities and Counties	<u>-294,000</u>	<u>-587,000</u>	<u>-880,000</u>	<u>-1,174,000</u>
Total Impact of SF 169	<u>\$ -6,458,000</u>	<u>\$ -12,910,000</u>	<u>\$ -19,365,000</u>	<u>\$ -25,820,000</u>

Assumptions for Promotional Play on Sports Wagering

- The sports wagering tax rate of 6.75% applies to sports wagering promotional play.
- The sports wagering promotional play receipts as of January 24, 2021, total \$8.0 million. When annualized for FY 2021, sports wagering promotional play receipts are estimated to be \$13.7 million. The tax amount collected on sports wagering promotional play receipts for FY 2021 is estimated to be approximately \$925,000.
- Sports wagering promotional play receipts on sports wagering are estimated to grow at an annual rate of 3.0% from FY 2022 to FY 2025.

Fiscal Impact

Senate File 169 is estimated to reduce tax revenue to the Sports Wagering Receipts Fund by the following amounts:

Table 4
Estimated Impact of SF 169 on Sports
Wagering Promotional Play Receipts

	Estimated Sports Wagering Promotional Play Receipts	Revenue Reduction
FY 2021	\$ 13,700,000	\$ -924,750
FY 2022	14,111,000	-952,493
FY 2023	14,534,000	-981,045
FY 2024	14,970,000	-1,010,475
FY 2025	15,419,000	-1,040,783

Sources

Iowa Racing and Gaming Commission
LSA calculations

/s/ Holly M. Lyons

February 4, 2021

Doc ID 1210738

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.

www.legis.iowa.gov