



# Iowa General Assembly

## 2003 Legal Updates

Legislative Services Agency – Legal Services Division

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**Purpose.** *Legal update briefings are prepared by the nonpartisan Legal Services Division of the Legislative Services Agency. A legal update briefing is intended to inform legislators, legislative staff, and other persons interested in legislative matters of recent court decisions, Attorney General Opinions, regulatory actions, federal actions, and other occurrences of a legal nature that may be pertinent to the General Assembly's consideration of a topic. Although a briefing may identify issues for consideration by the General Assembly, a briefing should not be interpreted as advocating any particular course of action.*

### GAMBLING TAX CASE

Filed by the United States Supreme Court  
June 9, 2003

Fitzgerald v. Racing Association of Central Iowa, No. 02-695

<http://supct.law.cornell.edu/supct/html/02-695.ZS.html>

**Background - Facts.** In 1994 legislation was enacted concerning gambling that, among other things, removed the betting limits on excursion gambling boats, authorized racetracks to operate slot machines, and imposed a graduated tax upon racetrack slot machines in which the top rate was to increase by 2 percentage points each year until reaching 36 percent. Previous legislation had imposed the maximum tax on adjusted revenues from slot machines on excursion riverboats at 20 percent and this rate was unchanged by the 1994 legislation. The racetracks challenged that portion of the 1994 law imposing the higher tax rate on gambling games at racetracks and the Iowa Supreme Court held that this difference in tax rates on gambling boats and racetracks violated the federal Constitution's Equal Protection Clause.

**Issue.** The U.S. Supreme Court docket listed the issue in the case as, "May the State of Iowa, without violating the Equal Protection Clause, tax the revenue from slot machines at racetracks at different rates than the revenue from all casino games, including slot machines, on riverboats?"

**Analysis.** The U.S. Supreme Court first concluded that it had jurisdiction to review the case, based upon the federal Constitution's Equal Protection Clause, because the Iowa Supreme Court had noted in its decision that Iowa courts are to apply the same analysis in considering either state or federal equal protection claims.

The U.S. Supreme Court held that Iowa's differential tax rate did not violate the federal Equal Protection Clause as Iowa had a rational basis for establishing the differential tax. The Court rejected the conclusion of the Iowa Supreme Court that the legislation failed to meet this rational basis test because the differential tax, according to the Iowa Supreme Court, frustrated the main objective of the law, which was rescuing the racetracks from economic distress. The U.S. Supreme Court emphasized the fact that the rational basis test applies here to the 1994 legislation, seen as a whole, and that the legislation did advance the racetracks' economic interests by allowing slot machines. The U.S. Supreme Court concluded, however, that while the 1994 Iowa law might predominately serve one general objective, such as helping the racetracks, it can validly contain subsidiary provisions that seek other desirable, and potentially conflicting, objectives. In other words, the U.S. Supreme Court concluded that meeting the rational basis test for purposes of complying with the federal Equal Protection Clause did not require that every provision in the 1994 legislation must share the single objective of aiding the racetracks. Using this analysis, the U.S. Supreme Court indicated that it was not difficult to find rational support for the differential tax. The U.S. Supreme Court noted that riverboats were also under financial peril at the time the 1994 legislation was enacted and the legislature could have found that the objective of the differential rate was to aid the riverboats or, alternatively, to protect the reliance of excursion boat operators on the previously enacted 20 percent maximum tax rate on their gambling game revenue. The U.S. Supreme Court concluded that these possible objectives were rational ones and that the facts did not preclude the inference that the reason for the different tax rates was to further one of these objectives.

**Conclusion.** The U.S. Supreme Court consequently reversed the judgment of the Iowa Supreme Court and remanded the case for further proceedings not inconsistent with the U.S. Supreme Court's opinion.

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