

## Allied Charities of Minnesota

### 2015 Chapter 297E Tax Relief Proposals (SF1227/HF1176) Recap

**Section 1:** Definition of compensation. Currently no expenses are deducted before calculating state tax liability. Compensation is described as wages and payroll taxes. Overall expenses are 52% of the dollars that we get to the bank to use for expenses, taxes and missions. Compensations accounts for 50% of our overall expenses. This section would represent a 25% reduction in MN tax liability for the average charity. We estimate the savings to charities at \$11 million annually.

**Section 2:** Compensation is deducted (along with prizes) before calculating tax liability. Electronic linked bingo is removed from the combined receipt tax (9, 18, 27, and 36%) and would be subject to the traditional paper bingo tax of 8.5%. We believe placing electronic bingo under the combined receipts tax is a barrier for charities to try electronic linked bingo. In FY2014 electronic linked bingo only contributed \$1400 to state coffers while paper bingo at 8.5% contributed \$155,000. If charities have an incentive to get into a new bingo business where they can make mission dollars while paying a modest state tax, many will. Same cost to state as Section 1 along with the \$1400 from electronic linked bingo.

**Section 3:** Raises the current trigger levels of the combined receipt taxes from \$0 to not over \$87,500 @ 9% to \$0 to \$100,000 @9%/from over \$87,500 to \$122,500 @ 18% to over \$100,000 to \$200,000 @ 18%/from over \$122,500 to \$157,500 @ 27% to \$200,000 to \$300,000 @ 27%/from over \$157,500 @ 36% to over \$300,000 @ 36%. While it is difficult to calculate what this reduction would represent, it would be substantial for charities. A fiscal note would be welcomed to quantify the effect of such a raise in trigger levels in relief for charities. Includes that the first \$50,000 in income (sales minus prizes) in a fiscal year would be free of state tax (matches what exempt organizations receive today). We estimate this provision to be a \$5.4 million savings to charities annually.

**Section 4:** Electronic pull tabs to be reported at close of game, the same as paper pull tabs. Tax on monthly electronic pull tab income will still be paid monthly, just not reporting the game until closed. This is another barrier to entry into electronics for many charities. All of the information regarding play of electronic pull tabs is available to the state in real time. The reporting of electronic pull tabs should be as electronic linked bingo is today (you sold this much, gave this much in prizes, you should have banked this much, send us this much in taxes). No cost to the state. This can be done administratively, but we need a commitment from the Minnesota Department of Revenue and a timeline to accomplish this change.

**Section 5:** Removal of the annual outside audit. Currently charities are subject to a Gambling Control Board compliance review every 18 to 24 months. We also have an annual cash and inventory audit. The GCB, MN DOR and the IRS have the ability to call an audit at any time they deem one necessary. Monthly reporting to both the GCB and MN DOR is thorough. This would save charities between \$2000 and \$5000 each annually, money that would go directly to the bottom line for missions. Charities that bank \$750,000 (sales minus prizes) in a fiscal year would still be subject to the attorney general's nonprofit annual audit requirement. No cost to the state, but would save charities an estimated \$2 million annually.