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COMMUNITY VITALITY INVESTMENT ACT SEEKS TAX FAIRNESS FOR CHARITIES

ST. PAUL, MINN. (Feb. 7, 2017) -- Legislation that would bring fairness to the tax treatment of contributions from charitable gaming will receive its first hearing Wednesday in the House of Representatives Commerce Committee.

The Community Vitality Investment Act (HF 226 and SF 419) has broad bipartisan support. The legislation would eliminate state taxes on the charitable contributions from qualified organizations operating charitable gaming. Under current law, charitable gaming organizations are the only entities in the state that provide goods and services and are not able to deduct donations from their taxable income.

The legislation does not change the overall tax rate for charitable gaming. Charities now pay more than $1 million a week in taxes to the state on their charitable gaming operations – nearly $56 million in Fiscal Year 2016. The local veterans/fraternal/church/civic/youth/fire or police relief group or any other organization that conducts charitable gaming now pays a tax rate that averages 22 percent and is up to seven times higher than a for-profit business.

The change in law proposed under the legislation would only affect taxes imposed on charitable contributions. If successful, it would give charities about $16 million more to invest in their communities, based on FY 16 revenue and contributions. Under current law, charities pay the same tax rate on their donations as they do on other net revenue. Rather than receiving a tax benefit for their contributions, as typically is the case for individuals or for-profit businesses, the more charities contribute from their charitable gaming operations, the more they pay in state taxes.

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“The change will bring fairness to charitable gaming taxation, provide for more investments in assets that are important to the vitality of communities throughout the state and still generate enough in taxes for Minnesota to deliver on the most important commitments it has made for the use of charitable gaming tax revenue,” said Allen Lund, executive director of Allied Charities of Minnesota, a trade association representing non-profit organizations that hold gaming licenses. “

“What’s happening now not only is unfair, it is harming communities. Here’s an example. If a charitable organization wanted to buy a very much-needed ambulance for its community, the purchase price would be about $80,000. However, the organization would have to raise $108,000 – $80,000 for the ambulance itself and more than $28,000 to pay state taxes on the donation,” said Lund.

“Think what isn’t getting done in our communities with that extra $28,000. In addition to an ambulance, maybe additional lifesaving equipment could be purchased. Or a park could be renovated. Maybe more kids would have the chance to participate in sports or other extracurricular activities at schools. The point is, if charities weren’t required to pay taxes on their donations, more money raised in the community would stay in the community. That’s why we are calling this proposal The Community Vitality Investment Act,” said Lund.

Charitable gaming is a significant economic catalyst in Minnesota. Almost all of the $1.5 billion generated last year stays in local communities or is paid to the state in taxes. Included in the amount is the $70 million charities earn from gaming that then is contributed directly to community purposes that support their missions. Expenses of running and promoting charitable gaming is a more-than-$100 million economic generator, most of it staying in the communities. The largest share, $1.2 billion, is returned in prizes to those who play the charitable games. The remainder – $55.8 million last year – is paid to the state in taxes.

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