

# Lawful Gambling Tax Expenditure Evaluation

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PREPARED FOR THE TAX EXPENDITURE REVIEW COMMISSION

DECEMBER 10, 2025

# Agenda

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- Tax Expenditure Objective
- Background
- Nine Components of Review

# Tax Expenditures Included in Bundle

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Fiscal Year	TEB Index	Tax Type
Bingo at Certain Organizations	11.1.01	Exclusion
Bingo at Fairs and Civic Celebrations	11.1.02	Exclusion
Infrequent Bingo Occasions	11.1.03	Exclusion
Smaller Raffles	11.1.04	Exclusion
Lawful Gambling Under Certain Conditions	11.1.05	Exemption
Credit for Certain Raffles	11.5.01	Credit

# Tax Expenditure Objective

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“The objective of Bingo at Certain Organizations, Bingo at Fairs and Civic Celebrations, Infrequent Bingo Occasions, Smaller Raffles, and Lawful Gambling Under Certain Conditions is to **simplify compliance with and enforcement of lawful gambling** and **reduce administrative burden.**”

“The objective of the Credit for Certain Raffles is to **direct a higher amount of net raffle proceeds used exclusively to relieve the effects of poverty, homelessness, or disability.**”

These objectives were approved and adopted by the Tax Expenditure Review Commission on May 31, 2024.

# Background: Bingo at Certain Organizations

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- Enacted in 1985 and modified in 2015
- Exclusion for bingo conducted within a nursing home or a senior citizen housing project or by a senior citizen organization if certain conditions are met
- The prizes for a single bingo game cannot exceed \$10, and total prizes awarded at a single bingo occasion cannot exceed \$200
- Claims estimates not available for this tax expenditure
- Estimated fiscal impact is less than \$50,000 for fiscal year 2026

# Background: Bingo at Fairs and Civic Celebrations

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- Enacted in 1984 and recodified in 1994
- Exclusion for bingo conducted by an organization in connection with a county fair, the state fair, or a civic celebration under Minnesota Statutes 2024, section 297E.02, subdivision 2, and section 349.166, subdivision 1(a)(1)
- Bingo cannot be conducted for more than twelve consecutive days and no more than four applications can be applied for and approved in a calendar year
- Claims estimates not available for tax year 2023
- Estimated fiscal impact is less than \$50,000 for fiscal year 2026

# Background: Infrequent Bingo Occasions

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- Enacted in 1984 and modified in 2006
- Exclusion for bingo conducted by an organization which conducts bingo on four or fewer days in a calendar year
- This exclusion does not apply if the organization holds a lawful gambling license
- Claims estimates not available for tax year 2023
- Estimated fiscal impact is \$100,000 for fiscal year 2026

# Background: Smaller Raffles

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- Enacted in 1984 and modified in 2003
- Exclusion for raffles conducted if the value of all raffle prizes awarded by an organization in a calendar year does not exceed \$1,500
- The exclusion also applies if the organization qualifies under section 501(c)(3) of the Internal Revenue Code and the value of all raffle prizes awarded at one event in a calendar year does not exceed \$5,000
- An estimated 1,520 organizations are covered by this exemption
- Estimated fiscal impact is \$300,000 for fiscal year 2026



# Background: Lawful Gambling Under Certain Conditions

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- Enacted in 1986
- Exemption for all types of lawful gambling except linked bingo games if certain conditions are met under Minnesota Statutes 2024, section 297E.02, subdivision 2, and section 349.166, subdivision 2
- An organization must conduct lawful gambling on no more than five days in a calendar year and cannot award more than \$50,000 in prizes for lawful gambling in a calendar year
- Approximately 2,300 organizations qualify for this exemption
- Estimated fiscal impact is less than \$2,900,000 for 2026

# Background: Credit for Certain Raffles

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- Enacted in 2000
- An organization may claim a nonrefundable credit against the lawful gambling tax equal to the tax resulting from a raffle if the net proceeds have been used exclusively to relieve the effects of poverty, homelessness, or physical or mental disability for an individual or family
- 25 organizations claimed this credit in fiscal year 2023
- Estimated fiscal impact is less than \$50,000 for fiscal year 2026

# Methodology

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- Background Research
  - Topic briefs published by non-partisan legislative research staff
  - Gambling Control Board Annual Report
- Questionnaire and Interview with Gambling Control Board
  - Analysis of administrative burden but for the existence of the tax expenditures
  - Analysis of current enforcement process
- Review of Summary Tax Filing Data
  - Summary exclusions and exemption claims data 2014 – 2024
  - Summary credit claims data 2014-2024
  - Schedule ER, Lawful Gambling Tax Credit for Exempt Raffles claims 2024

# Component of Review #1: Estimate of Annual Revenue Lost

Fiscal Year	2024	2025	2026	2027
Bingo at Certain Organizations	< \$50,000	< \$50,000	< \$50,000	< \$50,000
Bingo at Fairs and Civic Celebrations	< \$50,000	< \$50,000	< \$50,000	< \$50,000
Infrequent Bingo Occasions	\$100,000	\$100,000	\$100,000	\$100,000
Smaller Raffles	\$300,000	\$300,000	\$300,000	\$300,000
Lawful Gambling Under Certain Conditions	\$2,900,000	\$2,900,000	\$2,900,000	\$2,900,000
Credit for Certain Raffles	< \$50,000	< \$50,000	< \$50,000	< \$50,000

*Estimates from the Department of Revenue 2024 Tax Expenditure Budget*

# Component of Review #2:

## Objective of the Tax Expenditure

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“The objective of Bingo at Certain Organizations, Bingo at Fairs and Civic Celebrations, Infrequent Bingo Occasions, Smaller Raffles, and Lawful Gambling Under Certain Conditions is to **simplify compliance with and enforcement of lawful gambling** and **reduce administrative burden.**”

“The objective of the Credit for Certain Raffles is to **direct a higher amount of net raffle proceeds used exclusively to relieve the effects of poverty, homelessness, or disability.**”

This objective was approved and adopted by the Tax Expenditure Review Commission on May 31, 2024.

# Component of Review #3:

## Impacts and Efficiency in Accomplishing Objective

- The current lawful gambling expenditures were found to likely meet their established respective objectives
- The four exclusions and one exemption meet their shared objective of simplifying compliance with and enforcement of lawful gambling and reducing administrative burden
  - Enforcement would depend on voluntary reporting
- The Credit for Certain Raffles likely meets the objective of directing a higher amount of net raffle proceeds used exclusively to relieve the effects of poverty, homelessness, or disability that would occur but for the credit through utilization

# Component of Review #4:

## Compare to Direct Expenditure with the Same Objective

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- No other states have direct expenditures targeting any of the exempt or excluded populations for lawful gambling purposes
- Minnesota does not have any direct payment programs targeting lawful gambling
- There are numerous direct expenditure programs that are aimed at relieving the effects of poverty, homelessness or disability - most programs are not hosted through lawful gambling activities

# Component of Review #5:

## Potential Modifications to Increase Efficiency or Effectiveness

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No potential modifications to increase the expenditures efficiency or effectiveness were identified.



# Component of Review #6:

## Revenue Neutral Tax Rate Reduction

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- The evaluated exclusions and credit both have a negligible revenue neutral rate
- If the lawful gambling under certain conditions tax exemption were to be repealed, the lawful gambling tax could be reduced from 8.5 percent to 8.4 percent

## Component of Review #7:

# Incidence of the Tax Expenditure and Effect on State Tax System

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- None of the tax expenditures included in this evaluation are considered to be significant tax expenditures as defined by DOR Tax Research and therefore excluded from the requirement for an incidence study as part of a tax expenditure evaluation

# Component of Review #8:

## Cumulative Fiscal Impacts of Other State and Federal Policies

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### Exclusions and Exemption

- No unique programs were identified that simplify compliance with and enforcement of lawful gambling and reduce administrative burden

# Component of Review #8 (continued):

## Cumulative Fiscal Impacts of Other State and Federal Policies

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### Credit for Certain Raffles

- At the federal level an exempt organization “may deduct from its unrelated business taxable income the contributions and expenditures made from gaming proceeds as ordinary and necessary business expenses under section 162, if the organization was required to donate those proceeds to charity in order to retain its gaming license.”
- Several exemptions and one credit are available for different wagering activities. A credit is allowed if a person overpays the tax imposed under section 4401.
- In Minnesota, exempt qualifying organizations may deduct gambling fund transfers on their Unrelated Business Income Tax return following specific guidelines.

# Component of Review #9:

## Recommendation to the Legislature

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The Commission may choose to consider these findings in preparing a recommendation to the legislature to continue, repeal, or modify the tax expenditure, as is required of the Commission under Minnesota Statutes 2024, section 3.8855, subdivision 5.

# Thank you

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# Appendix

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# Appendix: What are other states doing?

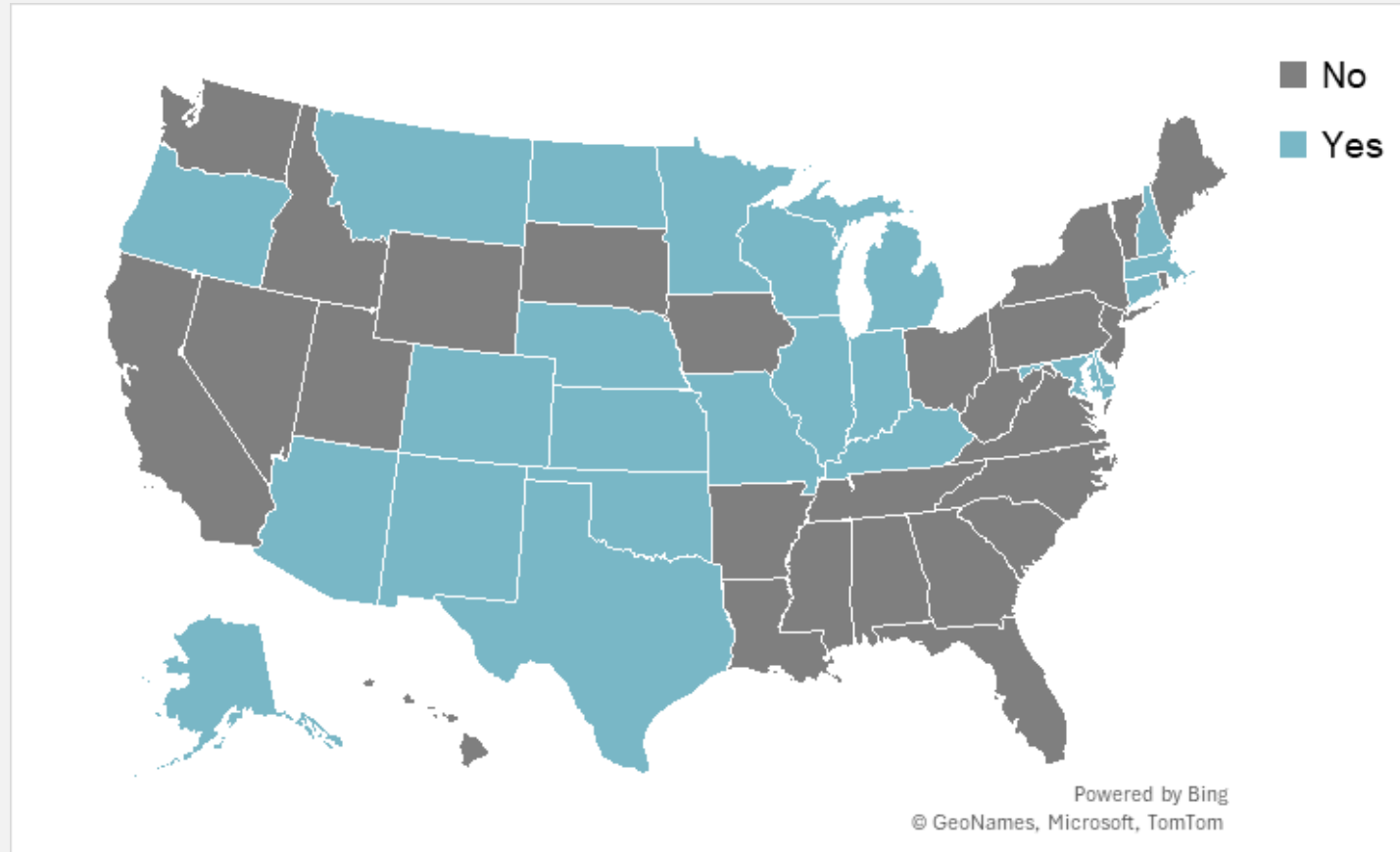
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- 21 states impose an excise tax
- 8 states impose an excise tax and offer no form of tax expenditure
- 8 states offer credit(s) for certain types of activities, 3 offer exemptions, and 6 offer both



# Appendix: What are other states doing? (continued)

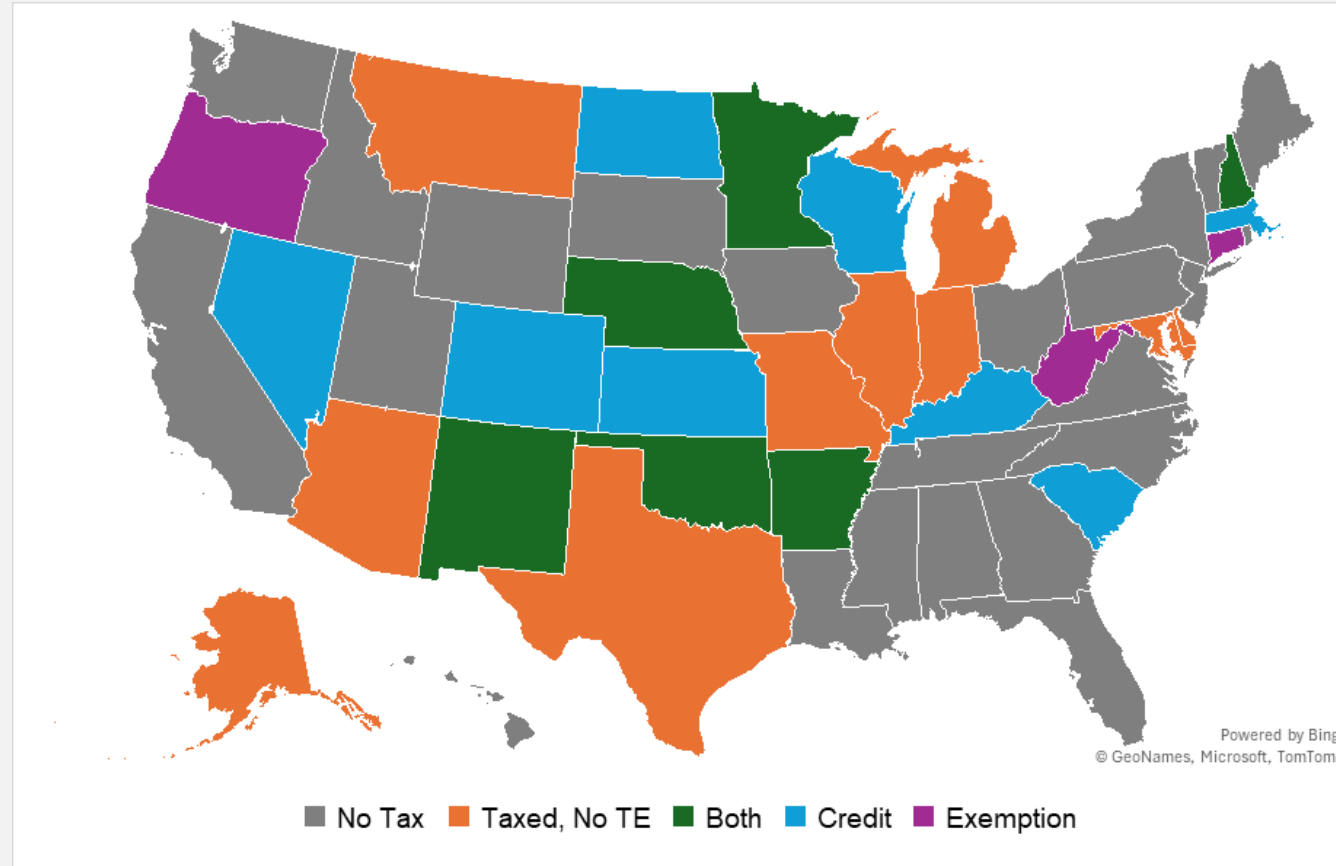
**Figure 10. Imposition of Gambling Excise Taxes**



Data Source: Bloomberg Tax Research.

# Appendix: What are other states doing? (continued)

**Figure 11. Types of Tax Expenditures (TE)**



Data Source: Bloomberg Tax Research.

# Appendix: Best Practices to Evaluate Tax Expenditures

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At minimum, evaluations should include:

- A description of the incentive, including its history and goals
- An assessment of the program's design and administration
- Estimates of the expenditure's economic and fiscal impacts
- Policy recommendations

*Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts*

# Appendix: Best Practices...Other Criteria to Consider

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- Displacement – to what extent does the expenditure benefit certain taxpayers at the expense of others?
- Leakage – does the expenditure benefit non-state residents?
- Timing – how does timing impact the level of fiscal risk and economic return to the state?
- Opportunity costs – are there trade-offs related to expenditure costs?
- “But for” – does the credit change taxpayer behavior?

*Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts*

# Appendix: General Tax Principles

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I. Allocative Efficiency (Neutrality)

II. Fairness and Equity

- Horizontal Equity – Equal treatment of equals

III. Simplicity

- Transparency
- Ease of compliance and administration

May conflict with each other or with policy goals (vertical equity, maintaining state competitiveness, promoting economic development)

# Appendix: Minnesota Statutes 2024, section 3.8855, subdivision 5

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Tax expenditure review must include:

1. **Annual revenue lost** as a result of the expenditure
2. **Objective** of the tax expenditure
3. **Impacts and efficiency** in accomplishing its objective
4. **Compare the effectiveness** of a tax expenditure and a direct expenditure with the same objective
5. **Potential modifications** to the tax expenditure to increase efficiency or effectiveness
6. **Amount the tax rate could be reduced** if the revenue lost due to the tax expenditure were applied to a rate reduction

# Appendix: Minnesota Statutes 2024, section 3.8855, subdivision 5 (continued)

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7. **Incidence** of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system (if tax expenditure is significant)
  - A significant tax expenditure, as defined in [Minnesota Statutes 2024, section 270C.11, subdivision 6](#), is a tax expenditure but excludes any tax expenditure that:
    - a) is incorporated into state law by reference to a federal definition of income;
    - b) results in a revenue reduction of less than \$10,000,000 per biennium; or
    - c) is a business tax credit
8. **Fiscal impacts of other state and federal taxes** providing benefits to taxpayer for similar activities
9. **Recommend** whether the tax expenditure be continued, repealed, or modified

# Appendix: Lawful Gambling Definitions

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- **Lawful Gambling:** the operation, conduct or sale of bingo, raffles, paddlewheels, tipboards, and pull-tabs.
- **Charitable Gambling:** refers to any gambling activity conducted by Minnesota nonprofit organizations to raise funds for charitable purposes.
- **Parimutuel Betting:** the system of betting on horse races where those who bet on horses that finish in the position or positions for which bets are taken share in the total amounts bet, less deductions required or permitted by law. Pari-mutuel betting shall not include betting on a race that has occurred in the past or is considered historical horse racing or where bettors are not wagering on the same live or simulcast horse race or bettors do not share in the total amount of bets taken.
- **Linked Bingo:** bingo game played at two or more locations where licensed organizations are authorized to conduct bingo, where there is a common prize pool and a common selection of numbers or symbols conducted at one location, and where the results of the selection are transmitted to all participating locations by satellite, telephone, or other means by a linked bingo game provider.



# Appendix: Lawful Gambling Definitions Cont.

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- **Excluded Lawful Gambling Raffle Activity:** Excluded raffles do not require a permit or a license from the Gambling Control Board.
- **Excluded Lawful Gambling Bingo Activity:** Requires the organization to obtain a permit from the Gambling Control Board, but they do not need a license.
- **Exempt Lawful Gambling Permit:** Rather than conducting charitable gambling on an on-going basis—which requires a license—many nonprofits conduct limited gambling activities, often in conjunction with other fundraising events (festivals, annual dinners, county fairs, etc.). An exempt permit (sometimes simply referred to as a "permit") is generally the correct choice for these situations.
- **Charity Sweepstakes:** A sweepstakes fundraiser, or charity sweepstakes, is a game of chance where a 501(c)(3) nonprofit sweepstakes sponsor offers a prize but does not require consideration for entry, such as with a mandatory donation. While nonprofits are allowed to use donation-based entries, all sweepstakes fundraisers must offer a free method of entry because it's the law.

# Appendix: Gambling Control Board Administrative Burden Questionnaire

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- Please describe the level of complexity involved in determining eligibility for the sales tax exclusions and exemption.
- If the expenditures were to be repealed, how would that impact your ability to enforce the sales tax?
- What is required of the operator of exempt lawful gambling activities?
- If the expenditures were to be repealed, how would that impact those operating exempt or excluded lawful gambling activities?
- If the expenditures were to be repealed, what changes would be required at the Gambling Control Board? Would additional staff need to be hired? If so, how many FTEs? Please address any anticipated changes you would reasonably expect.
- Do you have data on how many applications for exempt lawful gambling activity are submitted and approved from year to year?

# Appendix: Gambling Control Board Administrative Burden Interview

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- What role does the Gambling Control Board have in enforcing lawful gambling activities in the state?
- What role does the Gambling Control Board have in enforcing specifically the lawful gambling tax?
- What does the process look like when an organization is suspected of unlawful gambling activities?
- What would be the challenges with enforcing lawful gambling taxes at events that are small and/or infrequent?
- (Y/N) If the exclusion on Bingo at Certain Organizations was to be repealed, would the Gambling Control Board be able to reasonably enforce that tax?
- (Y/N) If the exclusion on Bingo at Fairs and Civic Celebrations was to be repealed, would the Gambling Control Board be able to reasonably enforce that tax?
- (Y/N) If the exclusion on Infrequent Bingo Occasions was to be repealed, would the Gambling Control Board be able to reasonably enforce that tax?
- (Y/N) If the exclusion on Smaller Raffles was to be repealed, would the Gambling Control Board be able to reasonably enforce that tax?
- (Y/N) If the exemption on Lawful Gambling Under Certain Conditions on was to be repealed, would the Gambling Control Board be able to reasonably enforce that tax?

# Appendix: Exempted Lawful Gambling Conditions

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- Lawful gambling, with the exception of linked bingo games, may be conducted by an organization without a license and without complying with Minnesota Statutes 2024, section 349.168, subdivisions 1 and 2; section 349.17, subdivision 4; section 349.18, subdivision 1; and section 349.19 if:
  - the organization conducts lawful gambling on five or fewer days in a calendar year
  - the organization does not award more than \$50,000 in prizes for lawful gambling in a calendar year
  - the organization submits a board-prescribed application and pays a fee of \$100 to the board for each gambling occasion and receives an exempt permit number from the board. If the application is postmarked or received less than 30 days before the gambling occasion, the fee is \$150 for that application. The application must include the date and location of the occasion, the types of lawful gambling to be conducted, and the prizes to be awarded
  - the organization notifies the local government unit 30 days before the lawful gambling occasion, or 60 days for an occasion held in a city of the first class
  - the organization purchases all gambling equipment and supplies from a licensed distributor
  - the organization reports to the board, on a single-page form prescribed by the board, within 30 days of each gambling occasion, the gross receipts, prizes, expenses, expenditures of net profits from the occasion, and the identification of the licensed distributor from whom all gambling equipment was purchased.

# Appendix: Exempted Lawful Gambling Conditions (continued)

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- No more than one organization exempted or excluded from licensing requirements may conduct an individual raffle.
  - Exempted or excluded organizations may not combine the use of raffle tickets.
  - Raffle tickets must not be attached to or combined with other exempted or excluded organizations' raffle tickets and must be sold separately from other exempted or excluded organizations' raffle tickets.
- If the organization fails to file a timely report as required by paragraph (a), clause (6), the board shall not issue any authorization, license, or permit to the organization to conduct lawful gambling on an exempt, excluded, or licensed basis until the report has been filed and the organization may be subject to penalty as determined by the board. The board may refuse to issue any authorization, license, or permit if a report or application is determined to be incomplete or knowingly contains false or inaccurate information.
- Merchandise prizes must be valued at their fair market value.

# Appendix: Exempted Lawful Gambling Conditions (continued)

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- Organizations that qualify to conduct exempt raffles under paragraph (a) are exempt from Minnesota Statutes 2024, section [349.173\(b\)](#)(2), if the raffle tickets are sold only in combination with an organization's membership or a ticket for an organization's membership dinner and are not included with any other raffle conducted under the exempt permit.
- Unused pull-tab and tipboard deals must be returned to the distributor within seven working days after the end of the lawful gambling occasion. The distributor must accept and pay a refund for all returns of unopened and undamaged deals returned under this paragraph.
- The organization must maintain all required records of exempt gambling activity for 3-1/2 years.