

Minnesota Tax Expenditure Evaluation: Lawful Gambling

Prepared for the Tax Expenditure Review Commission

by the Legislative Budget Office

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Prepared by the Legislative Budget Office on behalf of the Tax Expenditure Review Commission.

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Executive Summary

The Tax Expenditure Review Commission is responsible for reviewing the effectiveness and efficiency of Minnesota's tax expenditure policies. The Tax Expenditure Review Commission has elected to review and evaluate the following tax expenditures:

- Minnesota's Bingo at Certain Organizations Exclusion
- Bingo at Fairs and Civic Celebrations Exclusion
- Infrequent Bingo Occasions Exclusion
- Smaller Raffles Exclusion
- Lawful Gambling Under Certain Conditions Exemption
- Credit for Certain Raffles

This report provides an assessment of the tax expenditures with consideration to the first eight components of tax expenditure review required under Minnesota Statutes 2024, section 3.8855, subdivision 5. The Commission may consider the findings of this report to recommend whether the tax expenditure be continued, repealed, or modified.

The Legislative Budget Office (LBO) evaluated the exclusions and exemptions based on their stated objectives of simplifying compliance and easing administrative burden. Each exclusion and exemption are likely achieving their stated objectives based on interviews with the Gambling Control Board (GCB). The Credit for Certain Raffles likely meets its objective by simply existing. Claimants of the credit must contribute the net proceeds exclusively to relieve the effects of poverty, homelessness, or physical or mental disability for an individual or family, thus achieving the objective of directing a higher amount of net raffle proceeds to such causes.

The LBO would like to extend its gratitude to the Minnesota Department of Revenue Tax Research Division and the Minnesota Gambling Control Board for their consultation, cooperation, and analysis in this evaluation.

Introduction

Minnesota Statutes 2024, section 349.166, allows organizations to conduct some lawful gambling activities under certain conditions without a license. Organizations that are excluded from licensing requirements are also exempt from lawful gambling taxes. The lawful gambling tax expenditures are outlined below, along with their estimates of annual claims, if available, and estimates of fiscal impact for fiscal year 2026. An analysis of four exclusions, one exemption, and one credit are included in this evaluation report.

This evaluation report references information found in the Minnesota Department of Revenue Tax Research Division 2024 Tax Expenditure Budget (TEB). The 2024 TEB does not reflect the language distinction between a lawful gambling exclusion and exemption and refers to TEB numbers 11.1.01-11.1.04 as lawful gambling exemptions. This evaluation report includes updated language distinguishing tax exemptions 11.1.01-11.1.04 as lawful gambling exclusions per Minnesota Statutes 2024, section 349.166, subdivision 1. Unless referencing specific tax expenditures, this evaluation refers to 11.1.01-11.1.04 as exclusions, 11.1.05 as an exemption, and 11.2.01 as a credit. Excluded gambling activity may be conducted without a permit, while exempt activity requires an organization to obtain a permit from the GCB. Evaluation methodology is located in Appendix A.

11.1.01 Bingo at Certain Organizations

An exclusion from the lawful gambling tax is allowed under Minnesota Statutes 2024, section 297E.02, subdivision 2, and section 349.166, subdivision 1(b), 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.

This provision was enacted in 1985 and was last modified in 2015. No utilization estimates are available for this tax expenditure. The latest fiscal estimate of forgone revenue for fiscal year 2026 is less than \$50,000.

11.1.02 Bingo at Fairs and Civic Celebrations

The lawful gambling tax is not imposed on 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). To qualify, the bingo cannot be conducted for more than 12 consecutive days and no more than four applications can be applied for and approved in a calendar year.

This exclusion was enacted in 1984 and recodified in 1994. No utilization estimates are available for this tax expenditure. The latest fiscal estimate of forgone revenue for fiscal year 2026 is less than \$50,000.

11.1.03 Infrequent Bingo Occasions

An exclusion from the lawful gambling tax is allowed under Minnesota Statutes 2024, section 297E.02, subdivision 2, and section 349.166, subdivision 1(a)(2), 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.

This exclusion was enacted in 1984 and last modified in 2006. No utilization estimates are available for this tax expenditure. The latest fiscal estimate of forgone revenue for fiscal year 2026 is \$100,000.

11.1.04 Smaller Raffles

If the value of all raffle prizes awarded by an organization in a calendar year does not exceed \$1,500, the raffles of that organization are excluded from the lawful gambling tax under Minnesota Statutes 2024, section 297E.02, subdivision 2, and section 349.166, subdivision 1(c). 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.

This provision was enacted in 1984. In 2003, the prize limit was increased from \$750 to \$1,500. The exemption limit of \$5,000 for 501(c)(3) organizations was enacted in 2013. The latest fiscal estimate of forgone revenue for fiscal year 2026 is \$300,000. An estimated 1,520 organizations are covered by this exemption.

11.1.05 Lawful Gambling Under Certain Conditions

All types of lawful gambling except linked bingo games are exempt from the lawful gambling taxes if certain conditions are met under Minnesota Statutes 2024, section 297E.02, subdivision 2, and section 349.166, subdivision 2. To qualify, 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.

This exemption was enacted in 1986. The latest fiscal estimate of forgone revenue for fiscal year 2026 is \$2,900,000. Approximately 2,300 organizations qualify for this exemption.

11.2.01 Credit for Certain Raffles

An organization may claim a 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 under Minnesota Statutes 2024, section 297E.02, subdivision 2a, and section 349.12, subdivision 25(a)(2).

This credit was enacted in 2000. The latest fiscal estimate of forgone revenue for fiscal year 2026 is less than \$50,000. In fiscal year 2023, 25 organizations claimed this exemption.

Background on Minnesota's Home Lawful Gambling

Basics

Minnesota's legal gambling environment includes charitable gambling, horse racing, the state lottery, and tribal casinos. The federal Indian Gaming Regulatory Act allows Indian tribes to conduct gambling allowed on Indian land.¹ Minnesota has 19 tribal casinos operating in the state.² The Minnesota Lottery started in 1990 and contributes to the General Fund, Game and Fish Fund, Natural Resources Fund, and Environment and Natural Resources Trust Fund.³ Legal charitable gambling activities conducted by a licensed nonprofit organization include pull-tabs, bingo, paddlewheels, tipboards, and raffles.⁴ The exclusions and exemption discussed in this evaluation are considered qualifying lawful gambling activities not subject to the lawful gambling tax. The credit discussed is considered a qualifying lawful gambling activity eligible to claim a credit against the lawful gambling tax as long as it meets the statutory requirements.

Three state agencies govern and regulate charitable gambling activities in Minnesota. The GCB is in charge of regulating charitable gambling conduct including approving equipment, issuing licenses, providing training and education, conducting compliance reviews and site inspections, and imposing penalties for any violations. Excluded gambling activity may be conducted without a permit issued by the GCB while exempt gambling activity requires an organization to obtain a permit and meet various exemption requirements. Additionally, the GCB receives licensee's financial reports, verifies gross receipts, prize payouts, expenses, and expenditures of net profits for lawful use. The Alcohol and Gambling Enforcement Division in the Department of Public Safety enforces charitable gambling laws and rules and acts as the primary investigation agency for any suspected violations. The Lawful Gambling Unit of the Special Taxes Division of the Department of Revenue is responsible for collecting and auditing all charitable gambling taxes and returns.⁵

The lawful gambling tax on non-linked bingo, raffles, and paddlewheels is 8.5 percent of net receipts (gross receipts excluding prizes paid out). This does not apply to linked bingo. Organizations conducting lawful gambling activities are subject to a combined net receipts tax on their net receipts after prizes from pull-tabs (paper and electronic), tipboards, and electronic linked bingo. The tax is imposed on the fiscal year combined

¹ Christopher Kleman , "Indian Gambling in Minnesota," House Research Short Subjects, September 2016, <https://www.house.mn.gov/hrd/pubs/ss/ssindgamb.pdf>.

² "FAQS," Minnesota Indian Gaming Association (MIGA), December 5, 2023, <https://mnindiangamingassoc.com/faqs/>.

³ Christopher Kleman , "Charitable Gambling in Minnesota," House Research Information Briefs, November 2015, <https://acrobat.adobe.com/id/urn:aaid:sc:VA6C2:59edd087-e4fa-499e-8691-f48984afc4aa>

⁴ Christopher Kleman , "Charitable Gambling in Minnesota," House Research Information Briefs, November 2015, <https://acrobat.adobe.com/id/urn:aaid:sc:VA6C2:59edd087-e4fa-499e-8691-f48984afc4aa>

⁵ Christopher Kleman , "Charitable Gambling in Minnesota," House Research Information Briefs, November 2015, <https://acrobat.adobe.com/id/urn:aaid:sc:VA6C2:59edd087-e4fa-499e-8691-f48984afc4aa>

receipts of the organization according to the graduated rate schedule displayed in Figure 1. Worksheet E is utilized by organizations to calculate monthly net receipt tax liability.⁶ Taxes paid the prior month are subtracted from the current month's tax liability. Organizations may fall into different categories throughout the year. Minnesota's gambling tax revenue as a share of state own-source general revenue was 0.5 percent in 2017, ranking 44th among all states.⁷

Figure 1. Net Receipt Lawful Gambling Graduated Rate Schedule

Fiscal Year Combined Net Receipts (in USD)	Tax Rate on Net Receipts
First \$87,500	8.0%
\$87,501-\$122,500	17.0%
\$122,501-\$157,500	25.0%
More than \$157,500	33.5%

The Minnesota GCB produces an annual report that includes an overview of allowable expenses, taxes and fees, as well as gross and net receipt trends for each fiscal year.⁸ In 2024, the gross amount wagered by gambling participants, excluding prize payouts, was approximately \$5 billion. Gross receipt amounts wagered in Minnesota have increased by \$3 billion since fiscal year 2020. March 2025 gross receipts for lawful gambling in Minnesota were around \$430 million with net receipts at \$63 million. This is approximately a 3 percent decrease in net receipts from March 2024.

Figure 2 shows the receipts by game type in Minnesota for fiscal years 2023 and 2024 (FY 23 and FY 24). Pull-tabs account for 95 percent of all lawful gambling receipts and are included along with bingo, tipboards, paddlewheels, and raffles. Interest and other income refers to a section in the G1 Lawful Gambling Monthly Tax Return that asks for reported profit on interest and other income including advertising or sponsorship income.⁹

⁶ "Worksheet E, Lawful Gambling Combined Net Receipts Tax," Minnesota Department of Revenue , accessed June 5, 2025, <https://www.revenue.state.mn.us/sites/default/files/2023-11/worksheet-e-23.pdf>.

⁷ Lucy Dadayan, "Are States Betting on Sin? The Murky Future Of ...," Tax Policy Center Urban Institute & Brookings Institution , October 2019, https://www.urban.org/sites/default/files/publication/101132/are_states_betting_on_sin-the_murky_future_of_state_taxation.pdf.

⁸ Minnesota Gambling Control Board, Annual Report Fiscal Year 2024.

https://mn.gov/gcb/assets/GCB%202024%20Annual%20Report%20apr%2002%20meta_tcm1192-676777.pdf

⁹ Minnesota Department of Revenue, G1 Lawful Gambling Monthly Tax Return <https://www.revenue.state.mn.us/sites/default/files/2023-07/g1.pdf>

Figure 2. Receipts by Game Type (in Thousands USD)

	Gross Receipts			Net Receipts		
	FY 24	FY 23	Change	FY 24	FY 23	Change
Paper Pull-tabs	\$2,048,422	\$2,041,725	0.3%	\$288,600	\$291,087	-0.9%
Electronic Pull-tabs	\$2,671,659	\$2,334,760	14.4%	\$365,924	\$321,414	13.8%
Paper Bingo	\$88,063	\$79,028	11.4%	\$21,986	\$19,688	11.7%
Electronic Bingo	\$71,651	\$63,765	12.4%	\$15,085	\$13,494	11.8%
Sports Tipboards	\$3,558	\$3,381	5.2%	\$766	\$729	5.1%
Non-sports Tipboards	\$15,027	\$14,651	2.6%	\$3,870	\$3,709	4.3%
Paddlewheel with Table	\$2,597	\$3,129	-17%	\$318	\$396	-19.7%
Paddlewheel without Table	\$16,623	\$15,446	7.6%	\$5725	\$5,365	6.7%
Raffles	\$17,612	\$16,031	9.9%	\$9,369	\$8,700	7.7%
Interest Income	\$469	\$296	58.4%	\$469	\$296	58.4%
Total	\$4,935,681	\$4,572,211	7.9%	\$712,112	\$664,879	7.1%

Data Source: Minnesota Gambling Control Board, Annual Report Fiscal Year 2024

Mechanics

Lawful gambling is allowed to be conducted by fraternal, religious, veterans, and other nonprofit organizations.¹⁰ Eligible organizations must obtain a Minnesota license from the GCB that meets specific qualifications which include having at least 15 active members at the time of application, existing for three years prior to application, identifying a qualified gambling manager, and not existing for the sole purpose of conducting gambling.¹¹ The following gambling activities are excluded from state licensing and do not need a license to operate:

- County fair, state fair, or civic celebration bingo run by an organization for no more than 12 consecutive days. The sponsoring organizations cannot apply more than four times per calendar year, and this does not apply to linked bingo.
- Bingo hosted on four or fewer days in a calendar year run by an organization. This exclusion does not apply to linked bingo games.
- Bingo hosted in a nursing home, senior citizen housing project, or senior citizen organization if the prizes are less than \$10, total prizes per event are less than \$200, only members or guests of the hosting organization play, no

¹⁰ Minnesota Statutes 2024 section 349.166, <https://www.revisor.mn.gov/statutes/cite/349.166>

¹¹ Minnesota Statutes 2024, Chapter 349 Lawful Gambling and Gambling Devices
<https://www.revisor.mn.gov/statutes/cite/349>

one who runs the bingo event is compensated, and a manager is chosen to supervise bingo.

- Raffles run by an organization where raffle prizes are not more than \$1,500 in a calendar year, or \$5,000 in a calendar year if the facilitating organization is a 501(c)(3).

Excluded bingo still requires a permit from the GCB since they use gambling equipment in their activity and must receive an excluded permit from the GCB to do that. An excluded activity that is just a raffle does not require a permit from the GCB, but is limited to awarding \$1500 in prizes over a calendar year. Neither activity requires any reporting of the activity results to the GCB. Registration with the GCB is required for the first two exclusions as is prior approval from the applicable local governing body. No prior approval is required for qualifying senior bingo or raffles.¹² An organization that conducts exempt lawful gambling activities must obtain a permit from the GCB prior to the event.¹³

Bingo, raffles, paddlewheels, tipboards, and pull-tab activities, excluding linked bingo, are exempted from state licensing requirements under a variety of conditions outlined in Appendix B. These conditions are captured within this evaluation in the analysis of 11.1.05 Lawful Gambling Under Certain Conditions.

¹² Minnesota Statutes 2024, Chapter 349 Lawful Gambling and Gambling Devices, <https://www.revisor.mn.gov/statutes/cite/349>

¹³ Minnesota Statutes 2024, Chapter 349 Lawful Gambling and Gambling Devices, <https://www.revisor.mn.gov/statutes/cite/349>

Evaluation

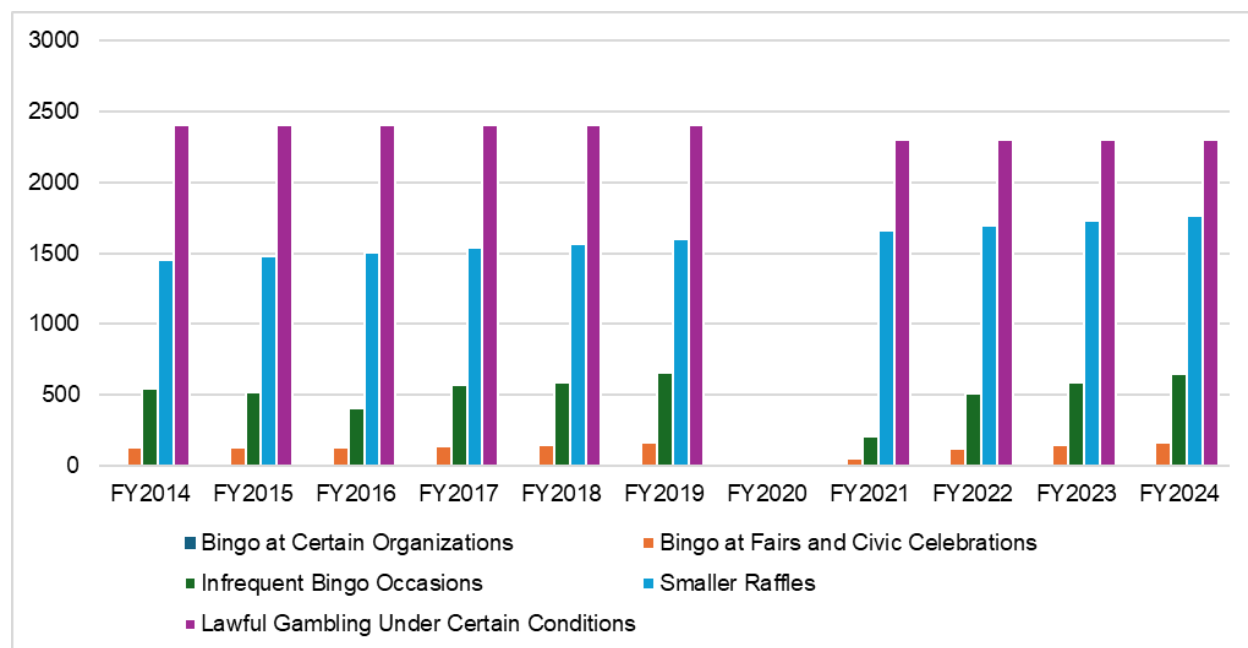
This section will provide an overview of the number of claimants and forgone revenue since fiscal year 2014, a discussion of administrative burden as it relates to the tax exemptions objectives, and various policy considerations. Based on the information presented in this section, the LBO concludes that all tax expenditures included in this evaluation meet their stated objectives.

Descriptive Statistics

Exclusions (11.1.01-11.1.04) and Exemption (11.1.05)

Figure 3 shows the number of claimants for each tax expenditure. The number of claimants for each tax expenditure has remained stable over the last decade, except for years during the Covid-19 pandemic. There is no claimant data reported for 2020. Additionally, there is no data reported for Bingo at Certain Organizations (TEB. 11.1.01) in any of the fiscal years included. The lowest total number of claimants for the included five tax expenditures is 4,233 in fiscal year 2021, and the highest was 4,886 in fiscal year 2024.

Figure 3. Number of Claimants, FY2014 - FY2024

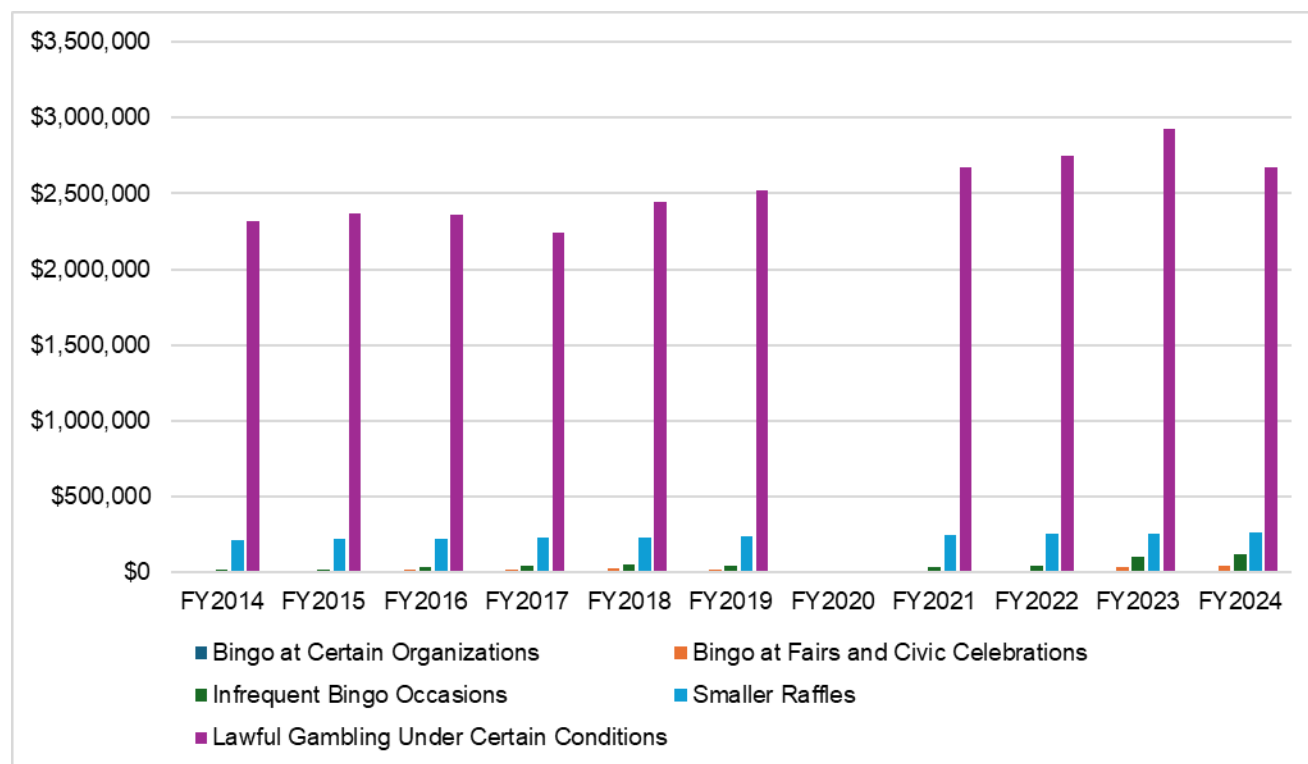


Data Source: DOR Tax Research

Figure 4 includes estimates of forgone revenue for each tax expenditure. As with the number of claimants per tax expenditure, the approximate totals have remained stable over the last decade. There are no approximate totals reported in 2020 or for Bingo at Certain Organizations (TEB. 11.1.01). The lowest total approximation for all five tax

expenditures was just over \$2.5 million in fiscal year 2017, and the highest total was just over \$3.1 million in fiscal year 2023.

Figure 4. Estimate of Forgone Revenue, FY2014 – FY2024



Data Source: DOR Tax Research

Credit (11.2.01)

The total amount of net raffle proceeds directed toward relieving the effects of poverty, homelessness, or disability was just under \$245,000 in calendar year 2024. The values presented in Figure 5 are reported in DOR form Schedule ER Lawful Gambling Tax Credit for Exempt Raffles. Gross receipts for exempt raffles were just under \$350,000, which is the total amount spent by those who participated in exempt raffles. Of that \$350,000, roughly \$100,000 was spent on prizes awarded. Just under \$21,000 was awarded in tax credits to those who hosted these raffles.

Figure 5. Schedule ER, Lawful Gambling Tax Credit for Exempt Raffles, CY2024 Sum Totals

Line #	Line Title	Sum Totals
1	Gross receipts for exempt raffles	\$347,137
2	prizes awarded for exempt raffles	\$102,717
3	Net receipts (subtract line 2 from line 1; the result cannot be more than Form G1, line 2C)	\$244,420
4	Exempt raffle tax credit (multiply line 3 by 8.5% [.085]). Also enter the result from G1, line 16	\$20,778

Data Source: DOR Tax Research

Estimating the amount by which the tax rate for the relevant tax could be reduced if the revenue lost due to the tax expenditure were applied to a rate reduction

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

The incidence of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system

None of the tax expenditures included in this evaluation are considered to be significant tax expenditures as defined by DOR Tax Research, and are therefore excluded from the requirement for an incidence study as part of a tax expenditure evaluation per Minnesota Statute 3.8855.

Administrative Burden

A questionnaire was administered to the regulation manager of the GCB to better understand the administrative burden and process associated with lawful gambling in Minnesota and what it would look like to monitor currently exempted and excluded activities. While the DOR is responsible for enforcing tax compliance in the state, the GCB processes applications, reports, and provides outreach to organizations conducting lawful gambling activities.

The administrative burden for the GCB is relatively low given the current exclusions and exemption. The GCB is tasked with making sure organizations are qualified to gamble under chapter 349, making sure organizations are spending money and reporting properly, serving as a disciplinary arm when organizations violate laws and regulations, and hosting classes for organizations to ensure laws and regulations are followed. Since the specific gambling activities covered in this evaluation are tax excluded and exempt, many of these responsibilities are not required of the GCB.

If the exclusions and exemption were to be repealed, the GCB estimates that organizations would experience a yearly loss of 8-9 percent in revenue from currently exempt lawful gambling activities. This estimate assumes that taxes would be similar to those charged on fully licensed organizations. This also assumes that organizations would have to report activity results to the GCB, as well as the DOR, which would require additional administrative costs associated with reporting and record maintenance. Within the GCB, an estimate of an additional two FTE would be required if current activities were no longer excluded and exempt. This estimate assumes that unless the current exclusions were maintained, any organization conducting lawful gambling activities would be required to register and report activities to the GCB and DOR. GCB estimates that an additional 600 authorizations would result from a repeal of the exclusions and exemption. Figure 6 shows by tax expenditure, whether or not the GCB could reasonably enforce the discussed gambling activities if they were no longer excluded or exempt. Reasonably enforce is defined as the ability of the GCB to theoretically enforce the discussed gambling activities without a significant increase in administrative costs.

Figure 6. Enforcement of Lawful Gambling Activities But For Current Exemptions

Exemption	Reasonably Enforce	Notes
11.1.01 Bingo at Certain Organizations	Yes	Could reasonably enforce up to 90-95% through voluntary compliance.
11.1.02 Bingo at Fairs and Civic Celebrations	Yes	Could reasonably enforce up to 90-95% through voluntary compliance.
11.1.03 Infrequent Bingo Occasions	Yes	Could reasonably enforce up to 90-95% through voluntary compliance.
11.1.04 Smaller Raffles	No	No way to know who is partaking in smaller raffles as the permit is not issued by the GCB.
11.1.05 Lawful Gambling Under Certain Conditions	Yes	May require additional resources and costs to the GCB. If the change was taxing groups that make a certain amount, that would be easy. If it is taxing a type of group as opposed to another type of group such as taxing a Minnesota non-profit, but not a church or 501(c)(3) or veteran's group, that could be regulated by the GCB but would require additional documentation be obtained from organizations to determine their non-profit status.

Note: The contents of this table are taken directly from interviews with the GCB

Federal and Other State Taxes

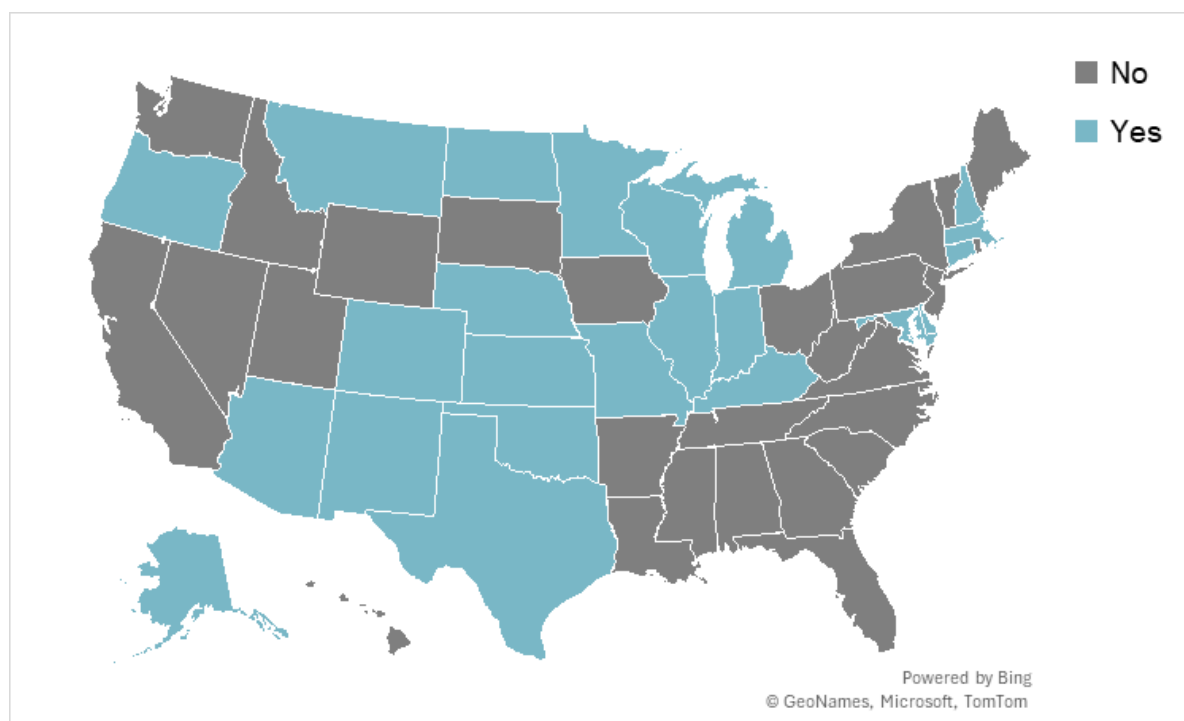
State-level taxation of bingo, raffles, and charity games varies in a multitude of ways. Twenty-one states impose an excise tax on gaming, wagering, and athletic events such as bingo, raffles, and charity games. Several states impose license fees in lieu of a tax. Of the 21 states that impose an excise tax, eight offer credit(s) for certain types of activities, three offer exemptions, and six offer both. The type of exemption or credit depends on the state. Eight states impose a tax and offer no form of tax expenditure.¹⁴

¹⁴ Bloomberg Tax Research, accessed 5-15-2025.

Most of the tax expenditures target specific groups (i.e., charitable institutions) or certain types of gaming (i.e., bingo).

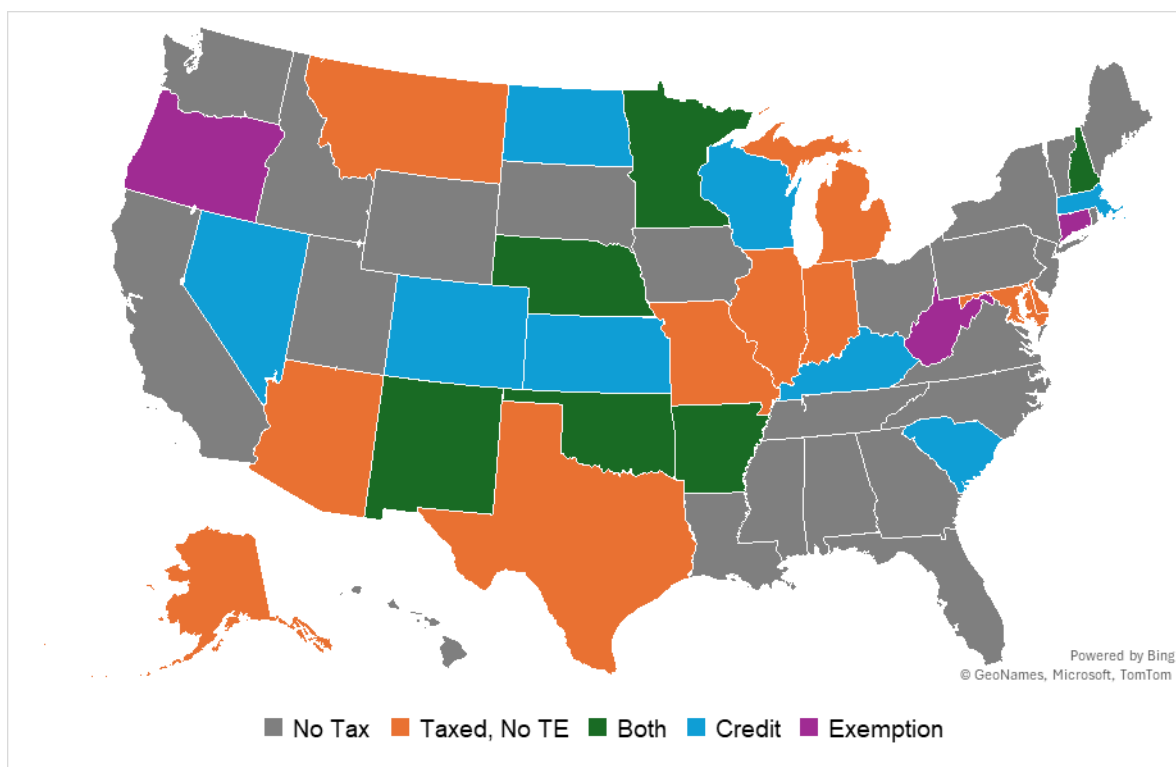
State-level and federal-level taxation does not capture the whole picture. For example, California does not impose an excise tax but does not prohibit local units of government ability to do so.¹⁵ In a different case, Nevada does not impose taxes on qualified organizations conducting charitable bingos or raffles; however, bingos and raffles conducted by casinos (or other non-charitable organizations) are subject to tax. See Figure 7 for an overview of which states impose a gambling excise tax and Figure 8 for states that impose a tax and offer some type of tax expenditure.

Figure 7. Imposition of Gambling Excise Taxes



¹⁵ Bloomberg Tax Research, accessed 5-15-2025.

Figure 8. Types of Tax Expenditures (TE)



The cumulative fiscal impacts of other state and federal taxes providing benefits to taxpayers for similar activities

Exclusions (11.1.01-11.1.04) and Exemption (11.1.05)

There were no other programs targeting lawful gambling in Minnesota available for taxpayers for similar activities identified. An environmental scan was conducted for programs that simplify compliance with and enforcement of lawful gambling and reduce administrative burden, but no other unique programs were identified.

Credit (11.2.01)

Two relevant programs were identified. 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”.¹⁶ At the state level, exempt qualifying organizations may deduct gambling fund transfers on their Unrelated Business Income Tax return following specific guidelines. Organizations must be tax exempt 501(c)(3) or

¹⁶ “Deductibility of Contributions from Gaming Proceeds as Section 162 Business Expenses for Calculation of Unrelated Business Taxable Income by an Exempt Organization,” Internal Revenue Service, accessed September 23, 2025, <https://www.irs.gov/charities-non-profits/eductibility-of-contributions-from-gaming-proceeds-as-section-162-business-expenses-for-calculation-of-unrelated-business-taxable-income-by-an-exempt-organization>.

501(c)(4) festival organizations licensed to conduct lawful gambling.¹⁷ No other programs were identified as targeting taxpayers for similar activities.

The Federal Government imposes an excise tax on state authorized and unauthorized wagers at a rate of 0.25 percent and 2 percent, respectively.¹⁸ Several exemptions and one credit are available for different wagering activities. Parimutuel wagering, coin-operated devices, and state-conducted lotteries are all exempt from the federal excise tax.¹⁹ A credit is allowed if a person overpays the tax imposed under section 4401.²⁰

Comparing the effectiveness of the tax expenditure and a direct expenditure

Exclusions (11.1.01-11.1.04) and Exemption (11.1.05)

Upon conducting a review of other states, no other states have direct expenditures targeting any of the exempt or excluded populations for lawful gambling purposes. Additionally, upon conducting a review of other Minnesota direct expenditures, Minnesota does not have any direct payment programs targeting lawful gambling.

Credit (11.2.01)

The credit for certain raffles has the objective to direct a higher amount of net raffle proceeds to be used exclusively to relieve the effects of poverty, homelessness, or disability than would occur but for the credit. There are numerous direct expenditure programs that are aimed at relieving the effects of poverty, homelessness, or disability. However, most programs are not hosted through lawful gambling activities. The only comparable type of direct payment program identified was a charity sweepstakes targeted to relieve the effects of poverty, homelessness, or disability. These activities are available to any individual who chooses to participate for the chance to win some monetary valued prize with funds from entries going to a listed charity and must include a free method of entry.²¹ As charity sweepstakes can be sponsored by any entity, there is no available data on the frequency or funds raised in Minnesota through this method of proceed donation.²²

¹⁷ "Deductibility of Gambling Fund Transfers," Deductibility of Gambling Fund Transfers | Minnesota Department of Revenue, December 11, 2024, <https://www.revenue.state.mn.us/deductibility-gambling-fund-transfers>.

¹⁸ Internal Revenue Code, Subtitle D, Chapter 35, Subchapter A, Section [4401](#).

¹⁹ Internal Revenue Code, Subtitle D, Chapter 35, Subchapter A, Section [4402](#).

²⁰ United States Code of Federal Regulations (CFR), Title 26, Chapter I, Subchapter D, Part 44, Subpart E section 44.6419-1. <https://www.ecfr.gov/current/title-26/chapter-I/subchapter-D/part-44/subpart-E/section-44.6419-1>

²¹ Jessica Fox, "Charity Sweepstakes Drawings vs. Raffles-Which Is Better?," Eventgroove, May 6, 2025, <https://www.eventgroove.com/blog/charity-sweepstakes-or-raffles-which-is-the-better-nonprofit-fundraiser/>.

²² Minnesota Statutes 2024, Section 609.75. <https://www.revisor.mn.gov/statutes/cite/609.75>

Conclusion

The four tax exclusions (11.1.01-.04), one tax exemption (11.1.05) and the Credit for Certain Raffles (11.2.02) all meet their stated objectives. Based on the interview with the GCB, the exemption and exclusions do reduce administrative burden at the agency. If the tax expenditures were to be repealed, and the GCB was required to enforce the tax on the currently exempt activities, they estimate an additional two FTE would be required to reasonably enforce the tax. The Credit for Certain Raffles likely meets its objective by simply existing. Claimants of the credit must contribute the net proceeds exclusively to relieve the effects of poverty, homelessness, or physical or mental disability for an individual or family, thus achieving the objective of directing a higher amount of net raffle proceeds to such causes. In light of these findings, no potential modifications to increase the tax expenditures efficiency or effectiveness were identified.

Appendix A. Methodology

Exclusions and Exemptions Methodology

The LBO requested summary filing data from DOR Tax Research documenting approximate claims for all exclusions and exemptions from 2014-2024. Additionally, the LBO reached out to the GCB for an interview to understand compliance with and enforcement of lawful gambling in the state and what enforcement would look like but for these exclusions and exemptions. Questions were intended to understand both the enforcement process and administrative burden associated with each exemption. Prior to the interview, the GCB was asked to respond to a questionnaire on administrative burden. The written responses were used to estimate the impact these tax expenditures have on reducing administrative burden and to help guide in-person interview questions.

Review of Summary Tax Filing Data and the Schedule ER Credit Form Methodology

The DOR Schedule ER, Lawful Gambling Tax Credit for Exempt Raffles form was reviewed to understand the credit calculation and qualifications. The LBO received summary data from DOR Tax Research documenting claims from Schedule ER, Lawful Gambling Tax Credit for Exempt Raffles for 2024. Data was separated into gross receipts for exempt raffles, prizes awarded for exempt raffles, net receipts, and the exempt raffle tax credit value by claim. The LBO further requested credit summary data dating back to 2014 to understand claims trends and summary statistics about gross and net receipts for exempt raffles. Claims data was then analyzed to understand trends in credit value claimed over time. It was presumed that the larger the claimed credit amount, the larger the value of exempt raffle proceeds going directly to the individual or family for the purpose of relieving the effects of poverty, homelessness, or physical or mental disability.

Appendix B. Exempted Lawful Gambling Conditions

- 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.
- 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.
- 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.