

Gambling and Taxes

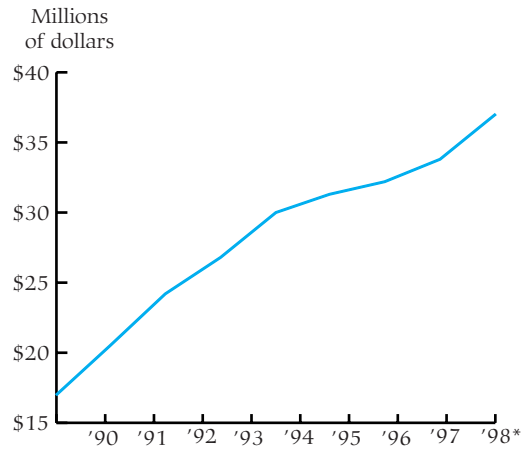
Montana Gambling Taxes

The Video Gambling Machine Tax, the major gambling tax in Montana, is equal to 15 percent of VGM expenditures, which are wagers minus payouts. Montana law specifies that one-third of the VGM tax revenue is distributed to the state general fund, and two-thirds to the municipality—or county, if the activity occurred outside city limits—where the gambling occurred. The VGM Tax is not collected on American Indian tribal gaming operations.

The Montana Lottery is required to distribute its net revenue to the state general fund. All pari-mutuel wagers are returned to gamblers except for 1 percent, which is retained to fund the Board of Horse Racing. There are also other gambling taxes and fees which go to the state general fund or to regulatory and administrative agencies. A summary of gambling tax revenue and distribution is presented in Table 1.

Gambling-related businesses pay a variety of other state and local taxes, such as property taxes, corporation profit taxes, and locally imposed sales taxes. Proprietors, stockholders, and employees also pay income taxes. These indirect taxes are usually not analyzed with gambling taxes because they are imposed on general economic activity. The overall amounts of indirect taxes are relatively unaffected by changes in gambling: if total economic activity is stable, the demise of one firm will be replaced by the growth in another.

Figure 1
Video Gambling Machine Tax Revenues
Montana, 1990-1998



*Projected
Source: Montana Gambling Control Division.

Table 1
Gambling Tax Revenues and Distribution
Montana, FY 1997
[(Millions of dollars)]

<u>Source</u>	<u>Total taxes</u>	<u>Distributed to</u>		
		<u>County/ municipal governments</u>	<u>State general fund</u>	<u>Regulatory agencies</u>
VGM tax	\$33.8	\$22.6	\$11.2	
VGM permit fees	3.4	1.7		1.7
Bingo/keno/taxes/permits	0.1		0.1	
Card table fees	0.1			-
Operator license fees	0.1			0.1
Manufacturer license fees	0.2			0.1
Other fees or licenses	0.1	-		-
Lottery	9.6		6.6	3.0
Pari-mutuel racing	0.1			0.1
Total	\$47.4	\$24.3	\$17.9	\$5.1

- Less than \$100,000

Note: Totals may not sum due to rounding.

Sources: Montana Lottery; Montana Gambling Control Division; and Montana Board of Horse Racing.

Video Gambling Machine Tax revenue has more than doubled in the last decade. As shown in Figure 1, they rose from \$17 million in 1990 to a projected \$37 million in 1998. Revenue from the Montana Lottery and pari-mutuel racing has been stable or declining during the same period.

VGM Taxes and Montana Cities and Towns

Video Gambling Machine Tax revenues have become increasingly important for all Montana governments. Initiative 105 (effective July 1, 1987) limited increasing revenue generated by property taxes, and Senate Bill 195 (passed by the 1997 Legislature and currently before the courts) may place further restrictions on these sources.

Cities and towns are particularly dependent on Video Gambling Machine Tax revenue. As reported in Table 2,

**Table 2
Video Gambling Machine Tax Distributions
FY 1990 and FY 1997**

	FY 1990	FY 1997
State		
VGM tax distribution (\$ millions)	\$5.7	\$11.3
Percent of general fund expenditures	0.9	1.1
Counties		
VGM tax distribution (\$ millions)	\$2.9	\$5.2
Percent of appropriations (16 funds)	1.2	1.5
Municipalities		
VM tax distribution (\$ millions)	\$8.4	\$17.3
Percent of general fund appropriations)	10.0	13.9

Sources: Montana Gambling Control Division; and Montana State University, State and Local Government Center.

**Table 3
Video Gambling Machine Tax Revenues as Proportion of Total Appropriations for 16 Funds
Montana Counties, FY 1990 and FY 1997**

County	— Proportion —		— Rank —		County	— Proportion —		— Rank —	
	1990	1997	1990	1997		1990	1997	1990	1997
Anaconda/Deer Lodge	0.084	0.092	1	2	Madison	0.011	0.011	13	18
Beaverhead	0.004	0.008	33	24	McCone	0.001	0.001	45	47
Big Horn	--a	0.001	51	45	Meagher	0.006	0.006	27	30
Blaine	0.002	0.002	41	41	Mineral	0.047	0.063	3	3
Broadwater	0.013	0.027	11	5	Missoula	0.014	0.017	10	11
Butte/Silverbow	0.067	0.100	2	1	Musselshell	0.002	0.007	39	28
Carbon	0.006	0.011	25	19	Park	0.021	0.023	5	7
Carter	--a	--a	49	52	Petroleum	0.0	--a	56	56
Cascade	0.017	0.015	7	13	Phillips	0.004	--a	32	53
Chouteau	0.004	0.003	34	38	Pondera	0.008	0.005	21	32
Custer	0.005	0.005	28	31	Powder River	--a	--a	55	54
Daniels	0.002	0.001	38	44	Powell	0.007	0.007	23	27
Dawson	0.004	0.021	30	8	Prairie	0.001	0.001	46	46
Fallon	--a	0.000	53	51	Ravalli	0.013	0.010	12	20
Fergus	0.006	0.007	26	26	Richland	0.002	0.004	40	34
Flathead	0.018	0.024	6	6	Roosevelt	0.003	0.014	36	15
Gallatin	0.008	0.007	20	25	Rosebud	0.009	0.018	18	10
Garfield	0.001	0.002	47	43	Sanders	0.008	0.009	22	22
Glacier	--a	--a	52	55	Sheridan	0.002	0.002	42	39
Golden Valley	0.002	0.002	43	40	Stillwater	0.015	0.019	9	9
Granite	0.008	0.006	19	29	Sweet Grass	0.003	0.003	37	37
Hill	0.011	0.012	14	17	Teton	0.002	0.004	44	35
Jefferson	0.016	0.014	8	14	Toole	0.004	0.002	31	42
Judith Basin	0.004	0.008	35	23	Treasure	--a	0.001	54	49
Lake	0.009	0.003	16	36	Valley	0.010	0.017	15	12
Lewis & Clark	0.009	0.013	17	16	Wheatland	0.005	0.010	29	21
Liberty	0.001	--a	48	50	Wibaux	--a	0.001	50	48
Lincoln	0.044	0.041	4	4	Yellowstone	0.007	0.005	24	33

--a: less than .0005.

Sources: Montana Gambling Control Division; and Montana State University, State and Local Government Center.

VGM FY 1997 tax distributions accounted for almost 14 percent of cities' and towns' total general fund appropriations. In FY 1990, these tax distributions were 10 percent of their general fund appropriations.

The list of 10 cities most dependent on VGM taxes changed significantly between 1990 and 1997. Only Grass Range and Rexford appear on both. Six of the top 10 cities in 1997 were either near Montana borders (Kevin, Rexford, Libby, and Hardin) or on Interstate 90 (Superior, Columbus), suggesting that cross-border patronage and freeway access may add to local demand.

The counties most dependent on VGM taxes have remained relatively unchanged: seven of the top 10 counties in 1990 were also on the list in 1997. Anaconda-Deer Lodge and Butte-Silver Bow were either the first- or second-ranked county in both years. They both have consolidated city-county governments and their entire VGM tax distribution (except for Walkerville) is paid to a single entity.

VGM Taxes in Other States

Other states derive revenue from video gambling

machines. Interstate comparisons are risky, however, because of the variety of different situations and the way taxes are computed. In Oregon, for example, VGMs are owned by the state and rented or leased to the operator. This allows the state to earn the profits, while reducing the risks and other burdens on the operator. In general, VGMs have provided states with increasing revenue, but annual growth has been sporadic, as in Montana (International Gaming & Wagering Business).

South Dakota and Louisiana are two states similar to Montana. Both have private VGM ownership and define the tax base (net revenue) similarly. South Dakota imposes a tax of 50 percent of net revenue, while the rates for Louisiana range from 22.5 to 32.5 percent of net revenue, depending on whether the VGM is located in a race track, truck stop, or restaurant/bar. The effective tax rate—the amount actually paid—also depends on license and permit fees, which differ between states.

Reference

International Gaming & Wagering Business. Various Issues.

**Table 4
Montana's Top Ten Governments Dependent on VGM Taxes**

<u>Cities and towns</u>		<u>Counties</u>	
<u>1990</u>	<u>1997</u>	<u>1990</u>	<u>1997</u>
1. Hamilton	Grass Range	Anaconda-Deer Lodge	Butte-Silver Bow
2. Grass Range	Kevin	Butte-Silver Bow	Anaconda-Deer Lodge
3. Clyde Park	Superior	Mineral	Mineral
4. Froid	Columbus	Lincoln	Lincoln
5. Eureka	Bridger	Park	Broadwater
6. Lima	Rexford	Flathead	Flathead
7. Troy	Dodson	Cascade	Park
8. Rexford	Hardin	Jefferson	Dawson
9. Poplar	Harlowton	Stillwater	Stillwater
10. White Sulphur Springs	Libby	Mineral	Rosebud

Source: Montana Gambling Control Division; and Montana State University, State and Local Government Center.

Table 4
Video Gambling Machine Tax Revenues as Proportion of General Fund Appropriations
Montana Cities and Towns, FY 1990 and FY 1997

Municipality	Proportion		Rank		Municipality	Proportion		Rank	
	1990	1997	1990	1997		1990	1997	1990	1997
Alberton	0.08	0.20	76	25	Jordan	0.06	0.13	97	59
Bainville		0.11		76	Kalispell	0.19	0.23	14	15
Baker	0.05	0.10	104	77	Kevin	0.13	0.39	29	2
Bearcreek	0.02	0.05	112	102	Laurel	0.10	0.13	66	60
Belgrade	0.13	0.14	33	49	Lavina	0.01		115	
Belt	0.13	0.20	42	23	Lewistown	0.15	0.16	20	43
Big Sandy	0.12	0.21	53	21	Libby	0.11	0.29	59	10
Big Timber	0.07	0.07	90	90	Lima	0.31	0.12	6	61
Billings	0.10	0.14	63	50	Livingston	0.08	0.15	77	46
Boulder	0.13	0.14	34	51	Malta	0.08	0.12	82	63
Bozeman	0.08	0.08	92	87	Manhattan	0.13	0.10	32	79
Bridger	0.14	0.36	31	5	Medicine Lake	0.05	0.05	101	101
Broadus	0.00	0.20	79	26	Melstone	0.12	0.17	54	37
Brockton	0.12	0.10	24	80	Miles City	0.08	0.12	83	64
Browning	0.10	--a	116		Missoula	0.08	0.10	78	78
Cascade	0.12	0.12	44	65	Moore	0.13	0.23	35	16
Chester	0.10	0.20	65	24	Nashua	0.08	0.06	85	95
Chinook	0.12	0.15	50	47	Neihart	0.03	0.02	109	111
Choteau	0.09	0.15	73	45	Opheim	0.11	0.19	60	28
Circle	0.06	0.05	96	104	Outlook	0.01	0.02	114	110
Clyde Park	0.55	0.10	3	81	Philipsburg	0.15	0.22	19	18
Columbia Falls	0.18	0.19	16	29	Plains	0.12	0.25	55	12
Columbus	0.08	0.37	84	4	Plentywood	0.08	0.09	80	82
Conrad	0.05	0.13	103	53	Plevina	0.05	0.06	100	99
Culbertson	0.08	0.07	81	92	Polson	0.10	--a	64	
Cutbank	0.11	0.21	57	20	Poplar	0.23	0.11	9	68
Darby	0.09	0.11	74	69	Red Lodge	0.07	0.07	91	91
Deerlodge	0.13	0.22	30	17	Rexford	0.25	0.34	8	6
Denton	0.03	0.06	110	96	Richey	0.02	0.04	113	107
Dillon	0.16	0.25	17	11	Ronan	0.11	--a	58	
Dodson	0.11	0.31	56	7	Roundup	0.12	0.19	47	33
Drummond	0.22	0.11	12	70	Ryegate	0.14	0.12	23	62
Dutton	0.14	0.15	26	48	Saco	0.07	0.06	87	98
East Helena	0.10	0.19	69	32	Scobey	0.15	0.13	21	56
Ekalaka	0.13	0.18	37	35	Shelby	0.09	0.16	70	41
Ennis	0.13	0.16	41	44	Sheridan	0.09	0.05	75	103
Eureka	0.40	0.13	5	55	Sidney	0.12	0.17	49	38
Fairfield	0.12	0.11	52	71	St. Ignatius	0.02	--a	111	
Fairview	0.10	0.18	62	34	Stanford	0.07	0.06	88	97
Flaxville		0.04		108	Stevensville	0.10	0.14	67	52
Forsyth	0.08	0.09	86	83	Sunburst	0.09	0.07	72	89
Fort Benton	0.05	0.04	99	105	Superior	0.19	0.39	15	3
Fork Peck	0.00	0.00	117	113	Terry	0.07	0.08	89	88
Froid	0.44	0.11	4	73	Thompson Falls	0.13	0.17	38	36
Fromberg	0.14	0.07	25	94	Three Forks	0.13	0.11	28	75
Geraldine	0.06	0.09	94	85	Townsend	0.16	0.21	18	22
Glasgow	0.04	0.07	106	93	Troy	0.27	0.17	7	40
Glendive	0.14	0.13	27	57	Twin Bridges	0.06	0.01	93	112
Grass Range	0.58	1.03	2	1	Valier	0.06	0.09	95	84
Great Falls	0.10	0.19	68	30	Virginia City	0.12	0.19	51	27
Hamilton	1.67	0.24	1	14	Walkerville	0.06	0.11	98	72
Hardin	0.20	0.31	13	8	West Yellowstone	0.05	0.04	102	106
Harlem	0.04	0.19	107	31	Westby	0.13	0.12	40	66
Harlowton	0.23	0.29	11	9	White Sulphur Spr.	0.23	0.16	10	42
Havre	0.11	0.17	61	39	Whitefish	0.13	0.13	39	58
Helena	0.09	0.13	71	54	Whitehall	0.14	0.21	22	19
Hobson	0.12	0.11	46	74	Wibaux	0.13	0.24	36	13
Hot Springs	0.12	--a	48		Winnett	0.04	0.09	108	86
Hysham	0.12	0.03	45	109	Wolf Point	0.04	0.11	105	67
Joliet	0.13	0.06	43	100					

--a: No gambling compact in force on reservation.

Sources: Montana Gambling Control Division; and Montana State University, State and Local Government Center.