

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7566
BILL NUMBER: HB 1523

DATE PREPARED: Jan 13, 1999
BILL AMENDED:

SUBJECT: Taxation of lottery winnings.

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill imposes state income taxes on lottery prizes exceeding \$1,000. It requires the Auditor of State to withhold taxes due on the winnings of consumers on lottery prizes of more than \$1,000.

Effective Date: January 1, 2000.

Explanation of State Expenditures: This bill imposes the adjusted gross income (AGI) tax and the supplemental net income tax (SNIT) on lottery prizes and retailer bonuses. The withholding of income taxes will increase the expenses of the Auditor of State by a minimal amount. However, the Lottery Commission is required to reimburse the Auditor of State for any of these expenses.

This bill establishes the threshold for the imposition of state income tax at \$1,000, while the threshold for the imposition of federal income tax is \$599. This would require the Lottery Commission to modify its administrative procedures to be able to track prizes and retailer bonuses at both thresholds. This would increase the Lottery Commission's administrative and computer expenses. The Lottery Commission's expenses are paid out of lottery's net income.

Explanation of State Revenues: Prize Money: This bill imposes the individual AGI tax (3.4%) on lottery prizes exceeding \$1,000. It is estimated that the amount of prizes exceeding \$1,000 ranges from \$100 million to \$130 million annually. The actual amount of prizes paid each year depends on the number and size of jackpots (including Powerball), as well as whether the winner chooses the annuity or cash option.

Based on the assumption that prize payouts remain within the above range, it is estimated that income tax revenue would range from *\$1.4 million to \$1.8 million* in FY 2000 (this estimate anticipates five months of withholding taxes). It is also estimated that income tax revenue would range from *\$3.4 million to \$4.4 million* in FY 2001 and beyond.

Retailer bonuses: This bill also imposes the corporate AGI tax (3.4%) and the SNIT (4.5%) on retailer bonuses exceeding \$1,000. It is estimated that retailer bonuses of more than \$1,000 equal approximately \$1 million each year. Based on the assumption that retailer bonuses remain constant, it is estimated that income tax revenue would equal approximately \$33,000 in FY 2000 (this estimate anticipates five months of withholding taxes) and approximately \$79,000 in FY 2001 and beyond.

Revenue from the individual AGI tax and the SNIT is deposited in the state General Fund. Revenue from the corporate AGI tax is deposited in the state General Fund and the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: The imposition of the individual AGI tax on lottery prizes exceeding \$1,000 will increase local revenue in those counties that have a local option income tax.

State Agencies Affected: Auditor of State; Lottery Commission; Department of Revenue.

Local Agencies Affected: Counties that have a local option income tax.

Information Sources: Nancy Dorsa, Lottery Commission, 264-4970.