

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6342**  
**BILL NUMBER: HB 1288**

**NOTE PREPARED: Jan 7, 2009**  
**BILL AMENDED:**

**SUBJECT:** Sales Tax on Lottery Tickets.

**FIRST AUTHOR:** Rep. Herrell  
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**  **GENERAL**  
 **DEDICATED**  
 **FEDERAL**

**IMPACT:** State

**Summary of Legislation:** This bill imposes the State Gross Retail Tax on the sale of lottery tickets. It establishes the Lottery Sales Tax Fund to: (1) pay the expenses of the Stroke Prevention Task Force; and (2) provide scholarships to Indiana residents attending state educational institutions. It requires State Gross Retail Taxes collected on the sale of lottery tickets to be deposited in the fund. It also repeals the expiration date of the Stroke Prevention Task Force and the Sales Tax exemption for lottery tickets.

**Effective Date:** July 1, 2009.

**Summary of NET State Impact:** The net impact to state funds due to the bill is outlined in the table below.

<b>Increase (Decrease) in millions</b>	<b>FY 2010</b>	<b>FY 2011</b>
Lottery Sales Tax Fund	50.0	56.2
State General Fund	(18.8)	(26.1)
Net State Impact	31.2	30.2

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* This bill will increase administrative expenditures for the DOR. The DOR will be required to update computer software and forms to collect and administer the Sales Tax on lottery sales. It is estimated that the DOR will be able to implement the provisions of the bill with its existing level of resources.

*Lottery Sales Tax Fund:* The bill provides that money in the fund shall be used as follows:

1. The first \$500,000 must be transferred to the General Fund to be used by Department of Health to pay expenses of the Stroke Prevention Task Force established by IC 16-41-41-2.
2. The remaining amounts in the fund must be used to provide scholarships to Indiana residents attending state higher educational institutions. The bill provides that a scholarship award may not exceed the sum of the amount charged by Ivy Tech Community College for tuition, books, and mandatory fees.

**Explanation of State Revenues:** *Lottery Sales Tax:* The bill imposes the Sales Tax on Hoosier Lottery ticket sales and establishes the Lottery Sales Tax Fund. The fund consists of Sales Tax revenue on lottery tickets, any appropriations from the General Assembly, gifts and grants to the fund, and investment income earned on the fund's assets. It is estimated that this bill could potentially increase revenue to the fund by \$50.0 M in FY 2010 and \$56.2 M in FY2011. The amount for FY 2010 is adjusted for 11 months of collections that will occur after the July 1, 2009 effective date.

*State General Fund Impact:* It is estimated that the bill could potentially decrease revenue in the state General Fund by \$18.8 M in FY 2010 and \$26.1 M in FY 2011. This impact would occur because: (1) Hoosier Lottery ticket sales and, as a result, surplus Lottery revenue would decrease due to the increased ticket price (e.g., from \$1 to \$1.07); and (2) transfers of Riverboat Wagering Tax from the state General Fund to the Build Indiana Fund (BIF) would increase as the distribution of Lottery profits to the BIF decreases. It is estimated that imposing the Sales Tax on lottery tickets could potentially decrease state lottery gross sales by \$95.6 M in FY 2010 and \$99.4 M in FY 2011. Over the last five years, the annual operating margin for the Hoosier Lottery has averaged about 26.2%. Since quarterly distributions of surplus Lottery revenue lag one quarter, the FY 2010 impact of the Sales Tax on Lottery tickets does not affect the first quarterly distribution of surplus Lottery revenue.

**Background Information:** BIF receives funds from two sources: (1) surplus Lottery revenue and (2) revenues from gaming taxes and pari-mutuel taxes. Under current statute, surplus Lottery revenue in the Lottery Commission's Administrative Trust Fund is first transferred to the Teachers' Retirement Fund (TRF) and the Pension Relief Fund (PRF). Once these transfers are made, the remaining surplus Lottery revenue is distributed to the BIF.

Current statute also requires distribution of revenue from the Riverboat Wagering Tax, the Pari-mutuel Wagering Tax, the Pari-mutuel Satellite Facility Tax, the Charity Gaming Excise Tax, and the Charity Gaming License Fee to the BIF. The total annual distribution to the BIF from Lottery, gaming, and pari-mutuel sources is effectively capped at \$250 M. This is because the annual distribution of Riverboat Wagering Tax revenue is limited to an amount equal to \$250 M minus the sum of the surplus Lottery revenue and revenue from other gaming and pari-mutuel taxes distributed to the BIF during that fiscal year. Thus, any decrease in distributions to the BIF from the latter sources results in an increase in the distribution of Riverboat Wagering Tax to the BIF. The required amount of Riverboat Wagering Tax is transferred to the BIF from the state General Fund at the end of the fiscal year.

A five-year history of Hoosier Lottery sales is provided in the table below.

<b>Sales in millions</b>	<b>Lotto Draw Game Tickets</b>	<b>Instant Tickets</b>
FY 2004	293.8	441.1
FY 2005	249.9	489.7
FY 2006	294.8	521.6
FY 2007	263.6	525.4
FY 2008	283.5	539.3

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** DOR; Hoosier Lottery.

**Local Agencies Affected:**

**Information Sources:** Randhir Jha, State Budget Agency, (317) 232-2971; Auditor of State *Revenue Trial Balance*; Hoosier Lottery, *Annual Financial Statements FY 1990-FY 2008*. Source list for research on the response of lottery sales to price changes is available upon request.

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