

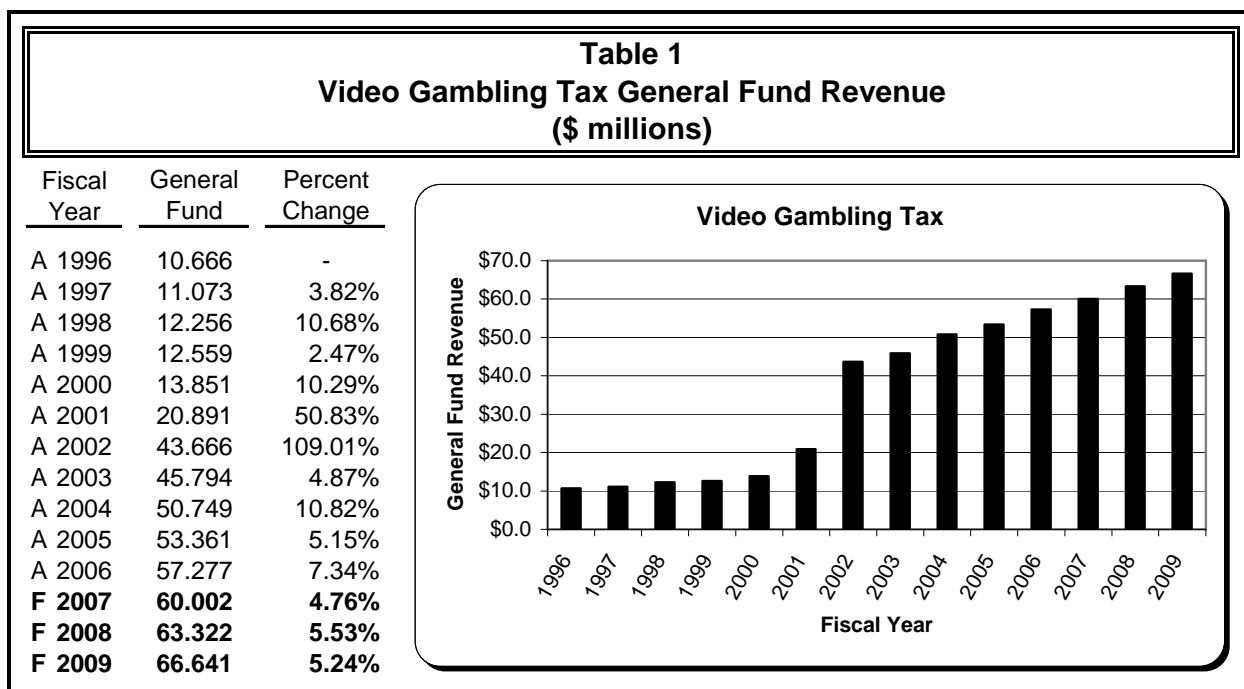
## VIDEO GAMBLING TAX

### Revenue Description

Section 23-5-610, MCA, establishes a 15% tax on the gross machine income received from video gambling machines. Gross machine income is the difference between total receipts from a machine and cash payouts. All video gambling tax collections are deposited in the state general fund.

### Historical and Projected Revenue

Table 1 shows actual general fund revenue from the video gambling tax for FY 1996 through FY 2006 and forecast revenue for FY 2007 through FY 2009.



HB 124 (2001 Session) changed the distribution of the video gambling tax. Prior to the fourth quarter of FY 2001, two-thirds of the video gambling tax was distributed to the county or municipal government where the machine was located, and one-third of the tax was deposited in the state general fund. Beginning in fourth quarter FY 2001, all video gambling tax collections are deposited in the state general fund. This change in distribution of the tax explains the large increase in general fund revenue in FY 2001 and FY 2002.

HB 758 (2003 Session) added an additional surcharge fee of \$10 on each video gambling machine for establishments with less than 20 machines and \$20 per machine

for establishments with 20 or more machines. HB 758 allocated all video gambling surcharge revenue to the general fund. Two years later, HB 802 (2005 session) eliminated the video gambling surcharge. Thus, the video gambling surcharge was only collected for FY 2004 and FY 2005. The surcharge amount was \$273,275 in FY 2004 and \$274,340 in FY 2005. The FY 2006 general fund revenue is overstated by \$461,281 as actual receipts were lower than the fourth quarter revenue accrued for accounting purposes.

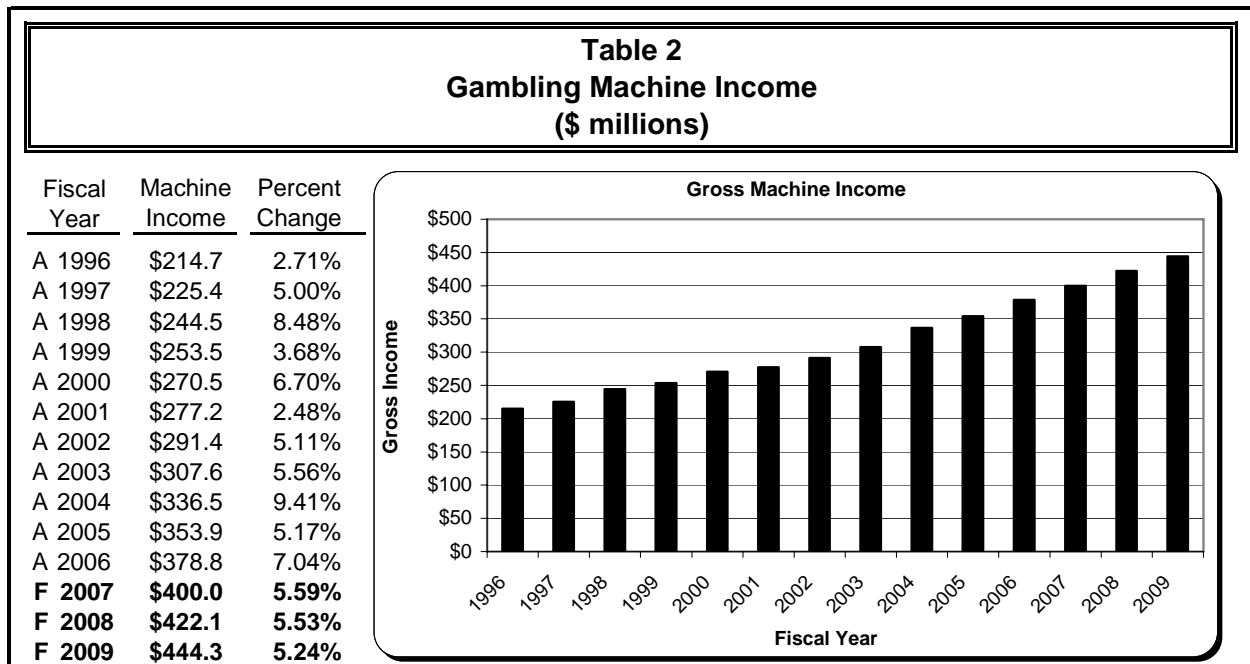
As Table 1 shows, general fund revenues from the video gambling tax have increased each year since FY 1996. Video gambling tax revenue is estimated to increase 4.76% in FY 2007, 5.53% in FY 2008, and 5.24% in FY 2009.

### Forecast Methodology and Projection Calculation

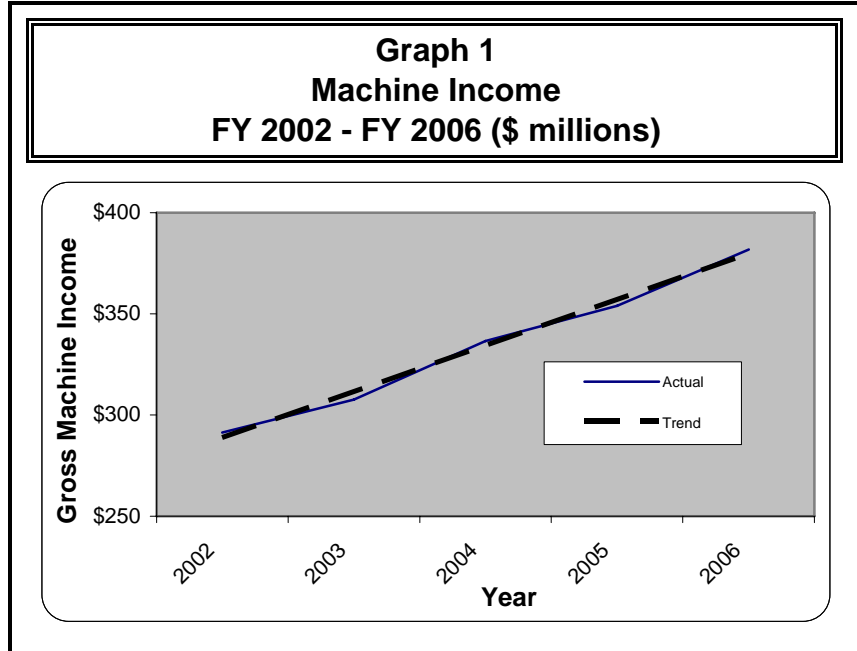
The video gambling tax forecast entails two steps. First, total video gambling machine income is calculated. Second, the video gambling tax rate of 15% is applied to machine income.

#### Calculate Machine Income

Machine income is the difference between total receipts from all video gambling machines and cash payouts. Table 2 shows actual and projected machine income for FY 1996 through FY 2009.



As Table 2 illustrates, machine income has increased steadily since FY 1996. Since FY 2002, there has been a clear positive trend in video gambling machine income. The increasing popularity of new multi-gaming machines has contributed to this trend. A linear regression was estimated using the trend over time of machine income. The regression, represented in Graph 1 by the dashed line, is highly correlated with actual machine income, represented in Graph 1 by the solid line, as evidenced by the R-squared value of 0.99. An R-squared value of 1.0 would represent perfect correlation between the predicted and actual machine income. The linear regression model forecasts machine income to be \$400 million in FY 2007, \$422 million in FY 2008, and \$444 million in FY 2009. This projection yields approximately 5.5% income growth each year.



Calculate Video Gambling Tax Revenue

Table 3 shows the general fund revenue calculation for the video gambling machine tax for FY 2007 through FY 2009. Video gambling machine income from Table 2, multiplied by the tax rate of 15% provides tax collections. All video gambling tax revenue is deposited in the general fund. General fund video gambling tax revenue is projected to be \$60.002 million in FY 2007, \$63.332 million in FY 2008, and \$66.641 million in FY 2009.

**Table 3  
Video Gambling Tax Revenue  
(\$ millions)**

Fiscal Year	Machine Income	x	Tax Rate	=	Tax Revenue
2007	\$ 400.0	x	15%	=	<b>\$ 60.002</b>
2008	\$ 422.1	x	15%	=	<b>\$ 63.322</b>
2009	\$ 444.3	x	15%	=	<b>\$ 66.641</b>

**Data Sources**

The general fund revenue data is obtained from SABHRS Report MTGL0109. The Department of Justice provided the data on video gambling income.