

## Department of Planning and Budget

### 2023 Fiscal Impact Statement

1. **Bill Number:** SB1142

**House of Origin**    ☐ Introduced    ☐ Substitute    ☐ Engrossed

**Second House**    ☐ In Committee    ☒ Substitute    ☐ Enrolled

2. **Patron:**    McPike

3. **Committee:** Finance and Appropriations

4. **Title:**    Sports betting; adjusted gross revenue.

5. **Summary:** Reduces the exclusion from a sports betting permit holder's adjusted gross revenue, on which it is taxed the value of all bonuses or promotions provided to bettors as an incentive to place or as a result of their having placed Internet sports betting wagers, by eliminating such exclusion for the first 12 months of sports betting activity for a permit holder, and subsequently limiting such exclusion to no more than 1.75 percent of the total amount of all sports betting wagers placed with that permit holder each month after the first 12 months of sports betting activity for a permit holder. Under current law, pursuant to the 2022 Special Session I appropriation act, after the first 12 months of sports betting activity, a permit holder is prohibited from excluding from adjusted gross revenue any bonuses or promotions provided to bettors as an incentive to place or as a result of their having placed Internet sports betting wagers.

6. **Budget Amendment Necessary:** Yes, Item 0 - Revenues. A language amendment to Item 494 would be required to eliminate a conflict with the provisions in the bill.

7. **Fiscal Impact Estimates:** See item 8.

8. **Fiscal Implications:** Under existing provisions of the Code of Virginia, when calculating adjusted gross revenue, sports betting operators are allowed to subtract certain elements from their gross revenue including all cash and the cash value of merchandise paid out as winnings to bettors, and the value of all bonuses or promotions provided to patrons as an incentive to place or as a result of having placed Internet sports betting wagers. This provision is modified by language in Chapter 2, 2022 Acts of Assembly, Special Session I (“the 2022 Appropriation Act”) which prohibits the deductibility of bonuses and promotions after an operator’s first year of operation. Current statute allows the deductibility of winnings with no limit on time or amount.

This bill would allow deductions for promotions and bonuses past an operator’s first year of operation limited to a maximum of 1.75 percent of wagers. The current tax rate is calculated based on the statutory 15 percent rate, which is applied against the operators’ adjusted gross revenues. Sports betting taxes are allocated 97.5 percent to the General Fund and 2.5 percent

to the Problem Gambling Treatment and Support Fund. Annualizing gross sports betting wagers based on reported activity between July and November of 2023 would estimate annual wagering activity at \$4.8 billion. Although it is estimated that this bill would reduce tax revenue by \$12.6 million, current revenue estimates in the introduced budget estimated sports betting revenue to be \$16 million and year to date the Lottery has collected \$37 million.

**9. Specific Agency or Political Subdivisions Affected:** Virginia Lottery.

**10. Technical Amendment Necessary:** No.

**11. Other Comments:** None.

February 13, 2023