

### SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

Date: April 15, 1998 Revised: \_\_\_\_\_

Subject: Jai Alai Permitholders

	<u>Analyst</u>	<u>Staff Director</u>	<u>Reference</u>	<u>Action</u>
1.	Rodriguez	Guthrie	RI	Favorable
2.	_____	_____	WM	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

#### I. Summary:

The bill provides a tax credit to jai alai permitholders equal to the amount of state taxes paid on handle and admissions taxes that exceed a permitholder’s operating earnings. The tax credit will be applied to the pari-mutuel taxes due during the permitholder’s next ensuing meets. The bill also would allow a jai alai permitholder to apply for or amend its license for the 1998-1999 fiscal year. The bill is estimated to have an annual negative impact on state revenues of approximately \$6.5 million.

This bill substantially amends the following sections of the Florida Statutes: 550.01215 and 550.09511.

#### II. Present Situation:

The 1996 Legislature enacted ch. 96-364, L.O.F. (hereinafter referred to as the “act”). The 1996 act provided increased opportunities for full-card simulcasting and intertrack wagering. It also provided tax credits and exemptions, established minimum purse requirements to benefit greyhound and horse breeders, and authorized card rooms at pari-mutuel facilities. The 1996 act enabled like-kind facilities in the South Florida market area to trade signals without unanimous consent from all permitholders in the area.

The 1996 act lowered tax rates on live handle for all jai alai permitholders and on ITW handle for jai alai permitholders in South Florida. It also authorized additional charity days for retired jai alai players.

Section 550.0951, F.S., provides for a daily license fee of \$40 per event for jai alai games. It provides for a tax on admissions equal to 15 percent of the admission charge or 10 cents, whichever is greater. It also provides that the tax on intertrack jai alai handle is 7.1 percent.

Section 550.09511, F.S., was amended in the 1996 act. The amendments to subsections (2) and (3), provided for lower tax rates on the live handle on jai alai, but these lower rates are subject to repeal on July 1, 1998. Currently, s. 550.09511, F.S., provides that the tax rate on live handle for jai alai is 3.85% for those permitholders restricted from year-round operation and 4.25% for all other jai alai permitholders. If repealed these rates would be increased to 5.0%. The tax on live handle in excess of taxes paid for fiscal year 1991-92 is 2.55%. If repealed these rates would rise to 3.3%.

The 1996 act also lowered the tax rate on the intertrack wagering for certain jai alai permitholders. For intertrack wagering between jai alai permitholders in the same designated market area (South Florida) the tax rates are currently at 6.1%, and if the handle is in excess of the taxes paid for simulcast handle in fiscal year 1992-93 the rates are lowered further to 2.3%. This is in contrast to the 7.1% paid for simulcast intertrack wagers by all other jai alai permitholders. These provisions also are subject to repeal on July 1, 1998. However, because jai alai permitholders in the same market area have not shared ITW signals in the past, such repeal would have no immediate consequence.

### III. Effect of Proposed Changes:

**Section 1** amends s. 550.01215, F.S., to provide that a jai alai permitholder is authorized to apply for a license or amend its license for the 1998-1999 fiscal year. The jai alai permitholder must apply for or amend its license between July 1, 1998, and July 10, 1998. The division must issue the new or amended license within 15 days of receipt of the application.

**Section 2** amends s. 550.09511, F.S., to provide that a jai alai permitholder may receive a tax credit for any taxes on handle or admissions in excess of its operating earnings. The term "operating earnings" is defined in this section as the total revenues from pari-mutuel operations at a jai alai permitholder's facility minus any state taxes and fees and minus total expenses. For purposes of this section total expenses will not include deductions for interest, depreciation and amortization, payments to affiliated entities other than for reimbursement of expenses related to pari-mutuel operations, and any increase in an officer's or director's annual compensation above the amount paid during calendar year 1997. The tax credit is to be applied to the pari-mutuel taxes due during the permitholder's next ensuing meets. The jai alai permitholders would still be liable for paying the daily license fees.

**Section 3** provides that the effective date of this act is July 1, 1998.

**IV. Constitutional Issues:****A. Municipality/County Mandates Restrictions:**

None.

**B. Public Records/Open Meetings Issues:**

None.

**C. Trust Funds Restrictions:**

None.

**V. Economic Impact and Fiscal Note:****A. Tax/Fee Issues:**

This bill provides to jai alai permitholders tax relief equal to the amount of taxes paid in excess of operating earnings. The division expects that under the bill, jai alai permitholders will pay no pari-mutuel taxes other than the daily license fees.

**B. Private Sector Impact:**

The tax savings provided in this bill will directly improve the profitability of jai alai permitholders.

**C. Government Sector Impact:**

The division estimates that the bill will result in a recurring negative fiscal impact of \$6,491,176 per year, which is the current total taxes on handle and admissions taxes paid by jai alai permitholders.

**VI. Technical Deficiencies:**

Currently, according to the division, the eight jai alai permitholders have three different fiscal year endings: December 31, April 30, and May 31. Permitholders have until 120 days after the end of the fiscal year to submit their year-end financial reports. The division expects that it will not be able to calculate a permitholder's tax credit until the new fiscal year is underway. This may result in ambiguity as to the tax obligations of a permitholder and may effectively deter the division from pursuing administrative action against a permitholder that refuses to pay taxes.

The division has also noted that use of the plural word “meets” rather than the singular “meet” may allow a permitholder to carryover any outstanding portions of a tax credit to the following state fiscal year.

**VII. Related Issues:**

According to the division, it will take 3 months to reprogram to its computer accounting system to implement the proposed bill. Therefore, the July 1, 1998, effective date may not provide sufficient time for the division to complete the reprogramming for the upcoming fiscal year.

The bill has technical deficiencies that may inhibit the division from adequately and appropriately implementing the proposed legislation.

**VIII. Amendments:**

None.