

## **LOTTERY AND GAMING TAX CREDIT**

The lottery and gaming credit provides direct property tax relief to homeowners as a credit on their property tax bills. The credit paid approximately 2.6% of the average homeowner's gross property tax bill in December 2007.

### **Background**

In April 1987, a state constitutional amendment was approved that authorized the Legislature to create a state-operated lottery and directed that net lottery proceeds were to be used for property tax relief. Legislation creating the lottery was enacted in November 1987, and the first sales occurred in September 1988.

Initially, net lottery proceeds were used to fund a Farmland Tax Relief Credit and to supplement other state funds used for school equalization aids and the state assumption (from counties) of district attorney salaries. In May 1991, a decision of the Dane County Circuit Court held that using net lottery proceeds to supplement school aids did not constitute property tax relief. In August 1991, the lottery tax credit was established to be the major means to distribute the lottery's net proceeds to property taxpayers (with the Farmland Tax Relief Credit remaining as the other avenue through which lottery net proceeds are distributed).

For the 1991/92 to 1995/96 property tax years, the credit was provided to properties used as the owner's "primary residence" (the place where the owner lives most of the time) at an amount equal to the school property tax on a certain amount of the value of the residence. The amount of value to which the credit applied varied year-to-year to expend the available funds. An organization of non-resident property owners challenged the legality of this credit. In October 1996, a decision of the Dane County Circuit Court held the credit violated the state constitution's uniformity in taxation clause and prohibited a distribution for the 1996/97 property tax year.

In response, the Legislature amended the law so that the lottery credit would be distributed to all taxable parcels. Like the old credit, the revised credit was computed as the school levy on a certain amount of property value. The credit was paid to all taxable parcels in the 1997/98 and 1998/99 property tax years.

In April 1999, a state constitutional amendment was approved which allowed lottery net proceeds to be used for property tax relief solely for resident homeowners and stated that the uniformity in taxation clause did not apply to the distribution of net lottery proceeds. In response, the Legislature amended the credit law so that the credit would once again be paid only on primary residences beginning with the 1999/00 property tax year.

### **Payment**

The state lottery is operated through a segregated fund. After deducting operating expenditures (such as prizes, retailer commissions, and administrative costs) and amounts paid to farmers through the Farmland Tax Relief Credit, the remaining proceeds are available to fund the lottery and gaming credit. The Department of Administration, with the concurrence of the Legislature's Joint Finance Committee, annually determines the amount available for distribution and notifies the Department of Revenue (DOR) of this amount by November 1.

DOR determines the estimated fair market value that will distribute the available funds. This "credit value", set at \$9,000 for 2008/09, is determined after taking into consideration the estimated number of claims that will be paid and school property tax rates (for K-8, Union High, and K-12 school districts). If the fair market value of a qualifying owner's home is more than the "credit value", a full credit is paid. If the fair market value is less than the "credit value", the credit is paid on the actual value.

The lottery and gaming credit is shown on tax bills as a reduction of property taxes due. If a taxpayer pays their taxes in two or more installments, the credit is applied to the first installment. The credit is paid to municipalities on the fourth Monday in March. The municipality treats the credit the same as general property tax collections paid by taxpayers.

For the owner of a principal residence that is a mobile home subject to a monthly parking fee (a property tax equivalent) in lieu of personal property taxes, the credit is applied proportionately to each month's fee. The credit for such mobile homes is also paid to municipalities on the fourth Monday in March. After deducting 10% for administrative costs, the remainder is shared with the school district where the mobile home park is located in the same manner that the property tax would be shared.

In 2007/08, the lottery and gaming credit reduced the property taxes owed by approximately 1,471,000 homeowners by an average of \$86, and reduced parking fees owed by approximately 31,900 mobile home owners by an average of \$75.

Lottery and gaming credit payments since the credit was first established are summarized in the table below.

Property Tax Year	Credit Value (\$)	Payments Made To:		Average Credit (\$)	Total Credits (\$ millions)
		Homeowners	All Taxpayers		
1991/92	\$8,200	X		\$142	\$173.4
1992/93	9,150	X		167	203.9
1993/94	5,900	X		105	128.7
1994/95	6,700	X		110	136.3
1995/96	8,200	X		125	155.9
1996/97	None	None	None	None	None
1997/98	6,800		X	77	205.8
1998/99	4,600		X	52	142.7
1999/00	15,500	X		165	216.3
2000/01	6,400	X		67	90.6
2001/02	7,600	X		77	105.0
2002/03	7,800	X		76	106.2
2003/04	8,700	X		83	118.2
2004/05	9,600	X		92	131.9
2005/06	9,400	X		82	119.9
2006/07	11,600	X		97	144.7
2007/08	10,100	X		86	129.6
2008/09	9,000	X		78	Est. 120.0