

SENATE BILL REPORT

SB 5287

As Reported By Senate Committee On:
Ways & Means, April 18, 2005

Title: An act relating to the taxation of social card games.

Brief Description: Authorizing a state tax on social card games.

Sponsors: Senator Prentice.

Brief History:

Committee Activity: Ways & Means: 2/16/05, 4/18/05 [DPS, DNP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5287 be substituted therefor, and the substitute bill do pass.

Signed by Senators Prentice, Chair; Doumit, Vice Chair; Fraser, Vice Chair; Fairley, Kohl-Welles, Pridemore, Rasmussen, Regala, Rockefeller and Thibaudeau.

Minority Report: Do not pass.

Signed by Senators Zarelli, Ranking Minority Member; Brandland, Hewitt, Parlette, Pflug, Roach and Schoesler.

Staff: Paula Faas (786-7449)

Background: The state does not impose a specific gambling tax. Most gambling activities are subject to the business and occupation tax, under the service classification rate of 1.5 percent. When the operator of the card room participates in the card game as a house or central bank, the measure of the tax is the amount of winnings less the amount of losses. For non-house-banked social card rooms, the tax is levied on the participation fees charged to card game players.

Taverns, restaurants, and other businesses primarily engaged in selling food or drink may be licensed to conduct social card games approved by the Gambling Commission.

Cities, counties, and towns may impose a tax on any gambling activity authorized by the state occurring within their jurisdiction. Local jurisdictions may impose taxes up to the following rates, but not all do:

Activity Maximum Rate

- Social Card Games 20%
- Punch Boards & Pull Tabs 10% (or at 5% of gross receipts)
- Bingo 5%
- Amusement Games 2%
- Raffles 5%

Local taxes are imposed on gross receipts less the amount paid out as prizes. For social card rooms, the Gambling Commission defines gross receipts as fees for participation in card games and the gross wagers received from house-banked social card games, less the amount paid to players for winning wagers, accrual of prizes for progressive jackpot contests, and repayment of amounts used to seed guaranteed progressive jackpot prizes.

House-banked card games are currently licensed in 95 locations in Washington. As of March 10, 2005, applications for nine additional house-banked card game licenses have been submitted to the Gambling Commission.

Summary of Substitute Bill: A new state tax of 5 percent is levied on the gross revenue of house-banked social card games. The state tax does not apply to non-house-banked social card rooms. House-banked social card games are defined as "a social card game in which the operator of the card room participates in the card game as a house or central bank." The bill provides that house-banked card games may not be offered in any location other than as specified in those 104 licenses.

The maximum tax rate that may be imposed by a local jurisdiction on house-banked social card games is lowered to 10 percent. Any local jurisdiction that imposed and collected at a tax rate higher than 10 percent on January 1, 2005, may continue to tax at that rate, but may not increase it. Any local tax on house-banked social card games in excess of 10 percent is credited against the state tax due, up to the amount of state tax due. The maximum tax rate that may be imposed by a local jurisdiction on non-house-banked social card games does not change.

The Department of Revenue will administer the tax and all revenues generated will be deposited into the public benefit account, created in the bill.

Substitute Bill Compared to Original Bill: The tax and changes to local tax rates only apply to house-banked card rooms, instead of house-banked and non-house-banked social card rooms. The state tax is 5 percent instead of 10 percent. Adds the provision that house-banked card rooms may not be offered in any location other than the 104 licensed by the gambling commission.

Creates the public benefit account (PBA). The revenue goes into the PBA instead of the general fund. An appropriations section from the PBA is added.

Appropriation: The bill specifies the following appropriations from the public benefit account for the 2005-2007 biennium:

\$1,000,000 to the Department of Health(DOH) to expand breast and cervical cancer screenings.

\$200,000 to the DOH to enhance the poison control center.

\$3,000,000 to the Department of Community, Trade, and Economic Development (CTED) to increase grant funding for civil legal representation of indigent persons.

\$1,000,000 to Pierce County Alliance's methamphetamine family services treatment program and Safe Streets of Pierce County's methamphetamine service (via a pass through grant from CTED).

\$1,000,000 to Snohomish County for methamphetamine prevention through a law enforcement strike team pilot (via a pass through grant from CTED).

\$2,000,000 to the Alliance of Boys and Girls Clubs of Washington State to provide access to after-school programs for underprivileged children (via a pass through grant from CTED).

\$200,000 to the Washington State Arts Commission for increased funding of quality art programs.

\$150,000 to the Criminal Justice Training Commission for expanding training for prosecuting attorneys.

\$740,000 to the Office of Public Defense (OPD) for training and technical assistance for trial-level criminal indigent defense.

\$4,000,000 to the OPD for a criminal indigent defense pilot program.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2005.

Testimony For: The cardroom industry has grown in Washington State. The state is short on funding, and this industry could provide a very accessible source of revenue for the state. The money should be earmarked for specific purposes. Jurisdictions currently taxing at rates above 10 percent appreciate being grandfathered in under this bill.

Testimony Against: Taxing cardrooms at 20 percent will prevent businesses from generating a profit. 53 cardrooms will close and 6,000 jobs will be lost. It's unfair to invest money in a business only to experience a doubling of the tax rate. Cardrooms provide important revenue for local jurisdictions whose revenue streams would be adversely affected if these businesses closed. Other cities are concerned that this bill reduces their taxing capacity.

Who Testified: PRO: Steve Colwell, David Baker. OTHER: Jim Justin, Association of Washington Counties.

CON: Doloris Chiechi, Recreational Gaming Association; Chris Kealy, Iron Horse Casino; H.T. Higgins, Big Daddy's Casino; Mike Davis, Casino Carribean; Robert Ransom, Shoreline City Councilman.