



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE
HARRISBURG, PENNSYLVANIA
17128-1100

THE SECRETARY

(717) 783-3680

June 3, 2014

Honorable Kim Ward, Majority Chair
Community, Economic & Recreational
Development
Senate of Pennsylvania
168 Main Capitol
Harrisburg, PA 17120-3039

Honorable Wayne Fontana, Minority Chair
Community, Economic & Recreational
Development
Senate of Pennsylvania
543 Main Capitol
Harrisburg, PA 17120-3042

Dear Senator Ward and Senator Fontana:

Thank you for the invitation to testify at the Senate Community, Economic and Recreational Development Committee hearing on June 3, 2014. While most of the responsibility and oversight for casino gaming rests with the Pennsylvania Gaming Control Board, the Department of Revenue and the Office of the Budget also have several important responsibilities. We respectfully submit this summary of our agencies' responsibilities along with an overview of state gaming revenues for your consideration.

Department of Revenue Responsibilities

- The department monitors a central control computer system that controls and links all slot machines to one central computer system.
- The department is also responsible for the accurate accounting and collection of the taxes and assessments due to the commonwealth from slots operations.
- With regard to table games, the department ensures that casinos file tax returns on time and pay the appropriate taxes and assessments.
- The department also performs tax clearances for all vendors, licensees, entities and individuals doing business or working for the casino industry to ensure that all appropriate state tax returns are filed and taxes are paid.
- The department audits each casino at least once per year, and also makes several unannounced visits each year to the casinos for compliance reviews. When compliance issues are identified auditors document areas of deficiency, make recommendations to correct these issues and generate tax assessments as appropriate.
- The department files weekly and monthly table game tax returns, which are subject to audit.

The department tracks how much slot machine money each casino takes through the central control system, to which every slot machine is connected. Additionally, every casino is required to file weekly and monthly table games tax returns, which are subject to audit.

GTECH Corporation, of West Greenwich, Rhode Island, a global leader in gaming technology, operates Pennsylvania's central control computer system and has since 2005, when the company was selected through a competitive procurement process to build and operate the system. Amounts played at slot machines, amounts won and promotional plays at slot machines are reported to the department daily by the central control computer system, which has a primary data center in Harrisburg and a back-up center at the GTECH facility in Austin, Texas. The state-of-the-art gaming central control computer system is capable of supporting up to 61,000 slot machines throughout the state. It allows state regulators to monitor individual slot machines, in real time, to ensure the integrity of slots gaming and to ensure state taxes on gaming are collected.

Once gaming taxes are collected, the department facilitates transfer of table games and slot machine tax monies to the recipient funds identified by law. The department does not, however, report slot machine and table game revenues; that function is performed by the Gaming Control Board.

Under personal income tax law, individuals must report gambling winnings to the department. All gambling winnings other than Pennsylvania Lottery winnings, after netting out the amount wagered, are subject to personal income tax and should be reflected on an individual's PA-40 personal income tax return and Schedule T. In addition, each casino is required to provide the department with the W-2G information it provides to the IRS each year, generally on prizes paid over \$1,200.

Office of the Budget Responsibilities

Pursuant to the Taxpayer Relief Act, the Secretary of the Budget must annually certify by April 15th of each fiscal year, the total amount of revenue in the Property Tax Relief Fund, the projected revenue to be deposited in the fund in the next six months, the total amount of revenue in the Property Tax Relief Reserve Fund and the amount available for Property Tax Relief. A certification letter is addressed to the Secretary of Education, who is responsible for notifying school districts in May as to the amount of relief available. Please see the attached current year property tax relief certification letter for reference.

State Gaming Revenue

The commonwealth receives up to 55 percent of slot machine gross terminal revenue, which is calculated as the amount wagered minus the amount won minus promotional plays. Below is a distribution of the state gaming revenue for the commonwealth:

- 34 percent is dedicated to property tax relief and various commonwealth programs. Payments are made to school districts twice annually on August and October 15th. Payments are made to the City of Philadelphia to reduce city wage taxes. Some school districts, governed by the commonwealth's Sterling Act, receive additional property tax relief because they cannot tax the wages of their residents who work in the City of Philadelphia. This funding also supports an expansion of the Property Tax/Rent Rebate program, which benefits older Pennsylvanians through the Lottery Fund. Additional annual disbursements include Volunteer Fire Company Grants, Payments in Lieu of Taxes, Local Law Enforcement Grants and a transfer to the Compulsive and Problem Gambling Treatment Fund;

- 12 percent is transferred to the Racehorse Development Fund to provide for horsemen's pension obligations, purses and breeders awards;
- 5 percent is transferred to the Economic Development and Tourism Fund to provide for projects in Allegheny County and the City of Philadelphia and Pennsylvania's H2O program for water, sewer and flood-protection projects; and
- 4 percent is divided between the host municipality and county of each licensed gaming facility.

Act 1 of 2010 allows licensed gaming facilities to offer table games. Gross Table Games Revenue is taxed as follows;

- 2 percent is divided between the host municipality and county of each licensed gaming facility;
- 14 percent of banked, non-banked, and electronic table games revenue is deposited into the General Fund (This rate drops to 12 percent two years following commencement of table games operations at the licensed facility); and
- 48 percent of fully automated electronic table games revenue is deposited into the General Fund (This rate drops to 46 percent two years following commencement of table games operations at the licensed facility).

Thank you for the opportunity to submit this information, which we hope is helpful to the committee. Please let us know if you have questions or if our offices can provide additional information.

Sincerely,



Daniel Meuser
Secretary of Revenue



Charles Zogby
Secretary of Budget