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HORSE RACING TAXES

House Bill 5400 (Substitute H-3) First Analysis (7-1-98)

Sponsor: Rep. Michael J. Griffin
Committee: Tax Policy

THE APPARENT PROBLEM:

Representatives of the smaller outstate horse racing tracks, such as those in Jackson, Saginaw, and Mount Pleasant, are fearful that they cannot survive. (The harness racing track in Muskegon closed in 1997.) They say the tracks are losing money each year. They have proposed legislation that will offer them assistance by lowering the taxes and fees they pay on simulcast wagering.

THE CONTENT OF THE BILL:

The bill would amend the Horse Racing Law of 1995 to lower the tax on simulcasting from 3.5 percent to 2.5 percent for the holder of a race meeting license whose average daily simulcast wagering in 1997 was less than \$95,000 per day. The tax is on all money wagered on interstate and intertrack simulcast races.

The bill also would eliminate the one-half of one percent fee that city area race meeting licensees can charge race meetings outside a city area for granting permission for a track to conduct an interstate simulcast of a different breed that the receiving track is licensed to race live. (A city area is defined to mean a city with a population of one million or more, including counties that lie within 30 miles of the city limits.)

MCL 431.318 and 431.322

BACKGROUND INFORMATION:

The Horse Racing Law of 1995 (House Bill 4526) eliminated the wagering tax on live races and established a wagering tax on interstate and intertrack simulcast races. The act also eased restrictions on simulcasting, permitting full-card simulcasting. Simulcasting is the live transmission of horse races from one track, either outside or inside the state, to another track. An "intertrack simulcast" is a simulcast from one racetrack to another within the state and an "interstate simulcast" is a simulcast from a track

outside the state to one inside the state. For calendar year 1996 each holder of a race meeting license was required to pay a 2.5 percent tax on all money wagered on simulcast races conducted at the licensee's race meetings. For 1997 and thereafter, the tax rate increased to 3.5 percent. Also, a city area track can charge a fee to a track receiving a simulcast it is sending if the simulcast is of races featuring horses of different breeds from those the receiving track is licensed to race. The maximum fee is 1.5 percent of the total amount wagered at city area race meetings and 0.5 percent of the total amount wagered at tracks outside a city area. (The analysis of House Bill 4526 of 1995-96 dated 4-10-96 contains a thorough discussion of horse racing issues.)

FISCAL IMPLICATIONS:

The Office of Racing Commissioner has estimated the revenue loss from the bill at about \$630,000. The revenue would be lost to the Equine Industry Development Fund. (7-1-98)

ARGUMENTS:

For:

Proponents of the bill want to develop legislation that will help smaller outstate harness racing tracks survive. While this bill currently has much opposition in horse racing circles, it will serve as a useful vehicle for stimulating discussion among the various interests about how to help the industry, and the harness raceways in particular, survive. In its current form, it would reduce taxes and fees on simulcasting for smaller tracks, which have lost money each year since the passage of 1995 legislation that itself was intended to help the industry compete in the growing entertainment and gambling market. Obviously, lowering the simulcast wagering tax will allow tracks to keep more of the money they generate. Racing specialists say the tracks that will benefit are those in Jackson, Saginaw, Swartz Creek, and Mount Pleasant.

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Response:

Opponents of this proposal would prefer that no legislation move until the various parties have had more time to discuss alternatives.

Against:

In its current form, the bill helps only some tracks when the whole industry is in trouble. It addresses only the problems of the small tracks and does not address the interests of larger tracks or the interests of horsemen or service employees. This is not a fair or comprehensive proposal. It also significantly reduces tax revenue from horse racing that supports numerous horse-industry related programs. This is self-defeating since the tracks need a healthy horse breeding industry. A number of proposals that would help the industry as a whole are under discussion. Among the items under consideration are: allowing the tracks to keep revenue from uncashed winning tickets (revenue which now goes to the state's general fund); increasing the "takeout" (or commission) from wagering that goes to the racetracks; and eliminating the restriction on when certain kinds of races (harness or thoroughbred racing) can be simulcast at tracks.

POSITIONS:

A representative of the Jackson Trotting Association and the Saginaw Harness Raceway testified in support of the bill. (6-24-98)

Among those who have indicated opposition to the bill as it is currently written are the Office of the Racing Commissioner (within the Department of Agriculture); the Michigan Harness Horsemen's Association; the Michigan Horsemen's Benevolent Protective Association; the Service Employees International Union, Local 79; and a representative from Hazel Park Harness Raceway. (6-30-98)

Analyst: C. Couch

This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.