

Overview of the Pari-Mutuel Tax

Task Force on Pari-Mutuel Wagering Taxation

July 16, 2021

Racing Industry Taxes – Three Additional Taxes or Fees

License Fee-KRS 137.170	Admission Tax-KRS 138.480	Pari-Mutuel Tax-KRS 138.510 et seq.			
Who: Every person engaged in the business of conducting a race meeting at which live horse races are run for stakes, purses, or prizes, under the jurisdiction of the Kentucky Horse Racing Commission	Who: Each person entering the grounds of any racetrack at which a live race meeting is being conducted under the jurisdiction of the Kentucky Horse Racing Commission	Who: All tracks conducting pari-mutuel wagering on: <ul style="list-style-type: none"> • Live racing • Historical horse races • Intertrack and simulcast racing • Advance deposit wagering 			
What: A license fee based on the track’s average daily mutuel handle for each day of racing: \$0-\$25,000 \$0 \$25,001 to \$250,000 \$175 \$250,001 to \$450,000.....\$500 \$450,001 to \$700,000..... \$1,000 \$700,001 to \$800,000.....\$1,500 \$800,001 to \$900,000.....\$2,000 \$900,001 and above.....\$2,500	What: A tax of fifteen cents (\$0.15) for each day	What: An excise tax with varying rates: <ul style="list-style-type: none"> • Live racing – 3.5% or 1.5% • Historical horse races – 1.5% • Intertrack and simulcast racing – 3% • Advance deposit wagering – 0.5% 			
When: Tentative report and payment filed 30 days following the close of each duly licensed race meeting Final report due on or before December 31	When: Collected by the racetrack from each person and paid to the state within 30 days after the end of each race meeting	When: Weekly report and payment of tax, no later than the 5 th business day following the close of each week of racing during the race meeting			
Receipts	Receipts	Receipts			
FY 21 (May)	\$242,691	FY 21 (May)	\$21,551	FY 21 (May)	\$27.7 M
FY 20	242,717	FY 20	143,685	FY 20	15.8 M
FY 19	268,875	FY 19	214,345	FY 19	14.6 M
FY 18	278,500	FY 18	195,837	FY 18	7.9 M
FY 17	276,596	FY 17	174,356	FY 17	6.8 M

Source for receipts: Tax Receipt Reports, Office of State Budget Director

Licensed Associations by Breed, May 2021

Association Name	Breed	Types of Pari-Mutuel Wagering Offered		
		Live Racing	Simulcast	Historical Horse Racing
Churchill Downs Racetrack	Thoroughbred	x	x	x ¹
Ellis Park Racing and Gaming	Thoroughbred	x	x	x
Keeneland	Thoroughbred	x	x	x ²
Kentucky Downs	Thoroughbred	x	x	x
Turfway Park	Thoroughbred	x	x	x ³
Oak Grove Racing, Gaming and Hotel	Standardbred	x	x	x
Red Mile Gaming and Racing	Standardbred	x	x	x ²
Corbin Harness Racetrack	Standardbred	x	x	x ⁴

Licensed Advance Deposit Account Wagering Providers, May 2021

AmWest Entertainment	TVG
eBet Technologies	TwinSpire
Lien Games Racing	WatchandWager.com
NYRA Bets	XpressBet

¹ HHR is offered through Derby City Gaming (part of the licensed premises of Churchill Downs Racetrack)

² HHR is offered through a joint-venture agreement between Keeneland and Red Mile

³ HHR is offered through Newport Racing and Gaming (non-contiguous track facility)

⁴ HHR will be offered to the public at the association's licensed premises in the future

Pari-mutuel Tax Distribution: Live and Historical Horse Racing Wagers as a Percent of Handle

	Live Wagers (Excludes Historical, Intertrack, Simulcast, and ADW)				Historical Horse Race Wagers (HHR)	
Amount Of Daily Average Live Handle	\$1.2 Million or More ⁵		Less Than \$1.2 Million		Tax Rate Doesn't Vary With Handle	
Type of Racetrack	Thoroughbred	Standardbred	Thoroughbred	Standardbred ⁶	Thoroughbred	Standardbred
Pari-mutuel Tax (Percent of Handle)	3.5%	3.5%	1.5%	1.5%	1.5%	1.5%
Statutory Deductions						
Development Funds	0.75%	1.00%	0.75%	1.00%	0.75%	1.00%
Equine Industry Fund ⁷	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
Higher Education Equine Fund ⁸	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Equine Drug Testing Fund ⁹	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Net Pari-mutuel Tax To General Fund	2.35%	2.10%	0.35%	0.10%		
Effective Tax Rate To General Fund					0.57% to 0.67%	

Source: KRS 138.510(1)(a)(b)(c)(d)(e)

	FY 21 YTD (May)		FY 20		FY 19		FY 18		FY 17	
	Live Racing	HHR	Live Racing	HHR	Live Racing	HHR	Live Racing	HHR	Live Racing	HHR
Total Handle	\$46,136,416	\$4,116,419,505	\$37,964,470	\$2,256,637,433	\$103,324,490	\$2,028,026,118	\$109,401,963	\$1,091,766,502	\$110,341,295	\$920,331,753
Thoroughbred Development Fund	339,883	24,353,533	275,110	15,577,748	764,424	13,977,415	810,178	7,109,908	817,737	5,873,572
Standardbred Development Fund	10,233	8,692,817	16,039	1,796,043	17,515	1,643,707	17,228	1,437,787	16,372	1,371,888
Equine Industry Fund	92,273	650,000	75,929	650,000	206,649	650,000	218,804	650,000	220,683	650,000
Higher Education Equine Fund	46,136	320,000	37,964	320,000	103,324	320,000	109,402	320,000	110,341	320,000
Equine Drug Testing Fund	46,136	320,000	37,964	320,000	103,324	320,000	109,402	320,000	110,341	320,000
Net Pari-Mutuel Tax to GF	159,431	27,409,942	129,668	15,185,770	358,133	13,509,269	379,461	6,538,802	382,920	5,269,516
Total KY Excise Tax	\$694,093	\$61,746,293	\$572,675	\$33,849,561	\$1,553,370	\$30,420,392	\$1,644,475	\$16,376,498	\$1,658,394	\$13,804,976

Source: Kentucky Horse Racing Commission. Pari-Mutuel Wagering Monthly Reports

⁵ FY 2008 was the last year in which a Kentucky racetrack had an average daily live handle of \$1.2 million or more.

⁶ In addition to the 1.00% of the pari-mutuel tax that is allocated to the Standardbred Development Fund, 0.25% of the commission (*i.e., a non-tax allocation*) on live wagers at Harness Racetracks is statutorily dedicated to the Standardbred Development Fund (**See footnote 9 and KRS 230.750 and 230.752**). In total, 1.25% of the amount wagered on live harness racing is allocated the Standardbred Development Fund. Wagers on live harness racing at county fairs are not subject to the pari-mutuel tax. Purses at harness races at county fairs are funded, in part, by unclaimed pari-mutuel tickets (KRS 230.398).

⁷ For historical horse racing, the amount statutorily dedicated to the Equine Industry Fund is limited to the lesser of 0.20% or \$650,000.

⁸ For historical horse racing, the amount statutorily dedicated to the Higher Education Equine Fund is limited to the lesser of 0.10% or \$320,000.

⁹ For historical horse racing, the amount statutorily dedicated to the Equine Drug Testing Fund is limited to the lesser of 0.10% or \$320,000.

Pari-mutuel Tax Distribution: Intertrack¹⁰ and Simulcast Wagers as a Percent of Handle

Type of Racetrack	Thoroughbred Racetracks ¹¹
Pari-mutuel Tax Rate (Percent of Handle)	3.00%
Statutory Deductions	
Development Fund	2.00%
Equine Industry Fund	0.05%
Higher Education Equine Fund	0.10%
Equine Drug Testing Fund	0.10%
Net Pari-mutuel Tax Deposited in General Fund	0.75%

Source: KRS 138.510(2), KRS 230.752, KRS 230.750.

	FY 21 YTD (May)	FY 20	FY 19	FY 18	FY 17
Total Handle	\$86,880,553	\$94,396,313	\$141,177,779	\$152,655,557	\$165,330,104
Thoroughbred Development Fund	1,295,412	1,507,562	2,281,917	2,450,746	2,667,248
Standardbred Development Fund	36,792	38,232	55,339	54,308	56,997
Quarterhorse Development Fund	8,274	7,575	15,276	17,191	16,928
Equine Industry Fund	33,512	38,834	58,813	63,056	68,529
Higher Education Equine Fund	67,024	77,668	117,627	126,112	137,059
Equine Drug Testing Fund	67,024	77,668	117,627	126,112	137,059
Net Pari-Mutuel Tax to GF	502,679	582,513	882,200	945,842	1,027,940
Total KY Excise Tax	\$2,010,717	\$2,330,054	\$3,528,798	\$3,783,367	\$4,111,759

¹⁰ There are no OTB facilities operating in KY at the present time. OTB wagers are intertrack wagers but are not subject to the pari-mutuel tax. Instead a 1% fee based on the amount wagered at the OTB facility is dedicated to local economic development in the areas in which they are located (75%/25% split between the city and the county).

¹¹ Note the pari-mutuel tax is applied to intertrack and simulcast wagers only at Thoroughbred tracks. Under KRS 138.510(2)(c) the pari-mutuel tax is not applied to intertrack and simulcast wagers at a racetrack approved after 1/1/1999 that has a total annual handle of less than \$250,000 (i.e., This excluded Thunder Ridge which is now no longer in existence). KRS 230.752 enacted in 2010, exempted intertrack and simulcast wagers at **all** harness racetracks from the pari-mutuel tax imposed in KRS 138.510(2). Instead, each harness track is allowed to retain 3% of handle to be allocated as follows: 2% for capital improvements, promotions, advertising, and purses; 0.75% for overnight purses; and 0.25% for the Kentucky Standardbred Development Fund.

Pari-mutuel Tax Distribution: Advance Deposit Account Wagering¹²

	Tax Rate Doesn't Vary by Race Type or Handle Amount
Pari-mutuel Tax (Percent of Handle) (KRS 138.513)	0.50%
Statutory Deductions: Percent of Tax Revenue Received (KRS 138.530)(3)(e)(1)(2)	
Wager on a KY race (Distributed to association conducting race) ¹³	85% (0.425% of Handle)
Wager on non-KY race (Distributed to Host track) ¹⁴	85% (0.425% of Handle)
Net ADW Tax Deposited in General Fund	15% (0.075% of Handle)

	FY 21 YTD (May)	FY 20	FY 19	FY 18	FY 17
Total Handle	\$415,271,295	\$282,790,277	\$256,862,470	\$236,917,908	\$208,021,481
Host Track Allocation	882,452	600,929	545,833	503,451	442,046
Purse Allocation	882,452	600,929	545,833	503,451	442,046
Net ADW Tax to GF	311,453	212,093	192,647	177,688	156,016
Total KY Excise Tax	\$2,076,356	\$1,413,951	\$1,284,312	\$1,184,590	\$1,040,107

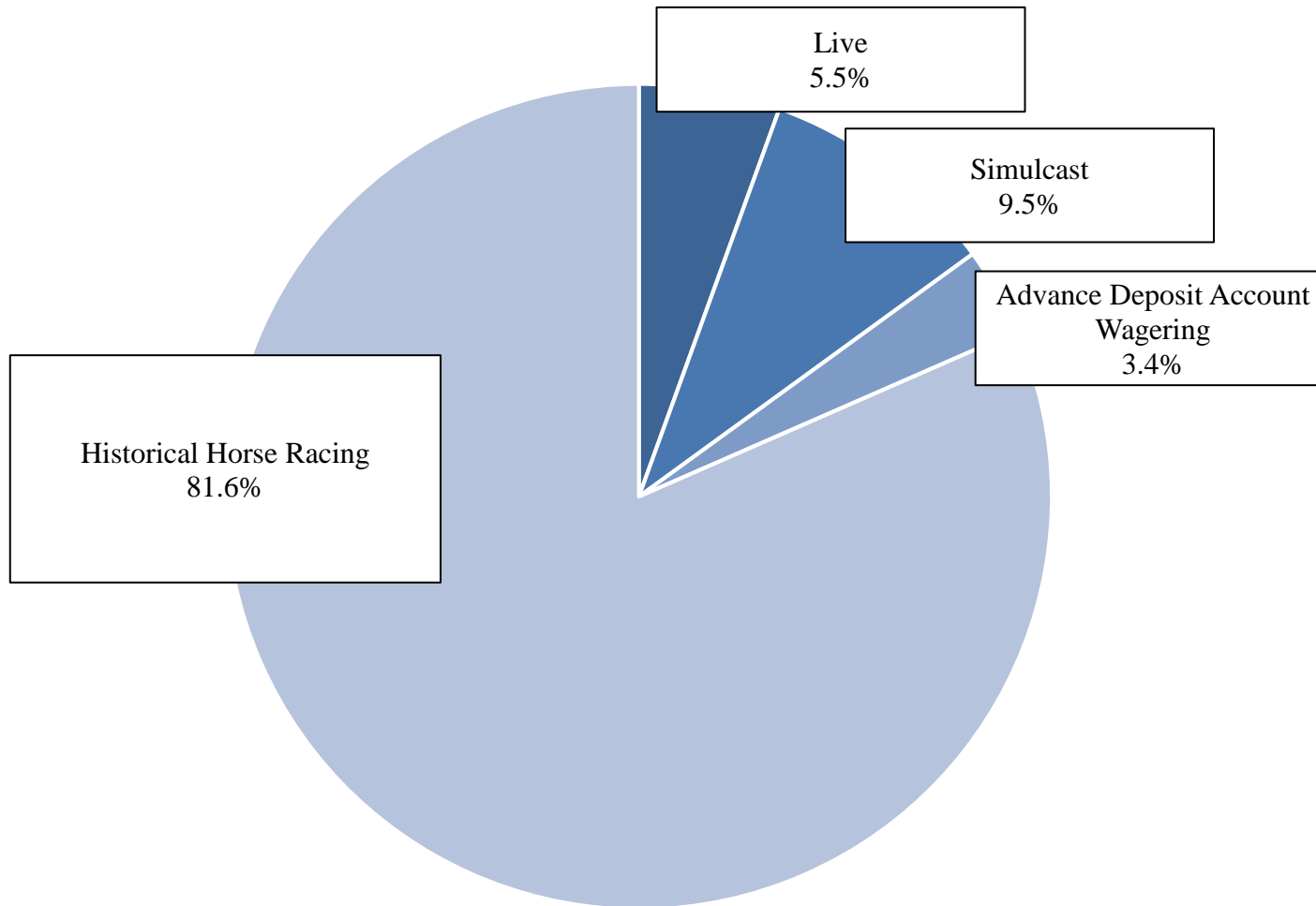
Source: Kentucky Horse Racing Commission. Pari-Mutuel Wagering Monthly Reports

¹² Applies to ADW wagers made by Kentucky residents only.

¹³ One-half of revenue received by association or host track must be distributed to its purse account.

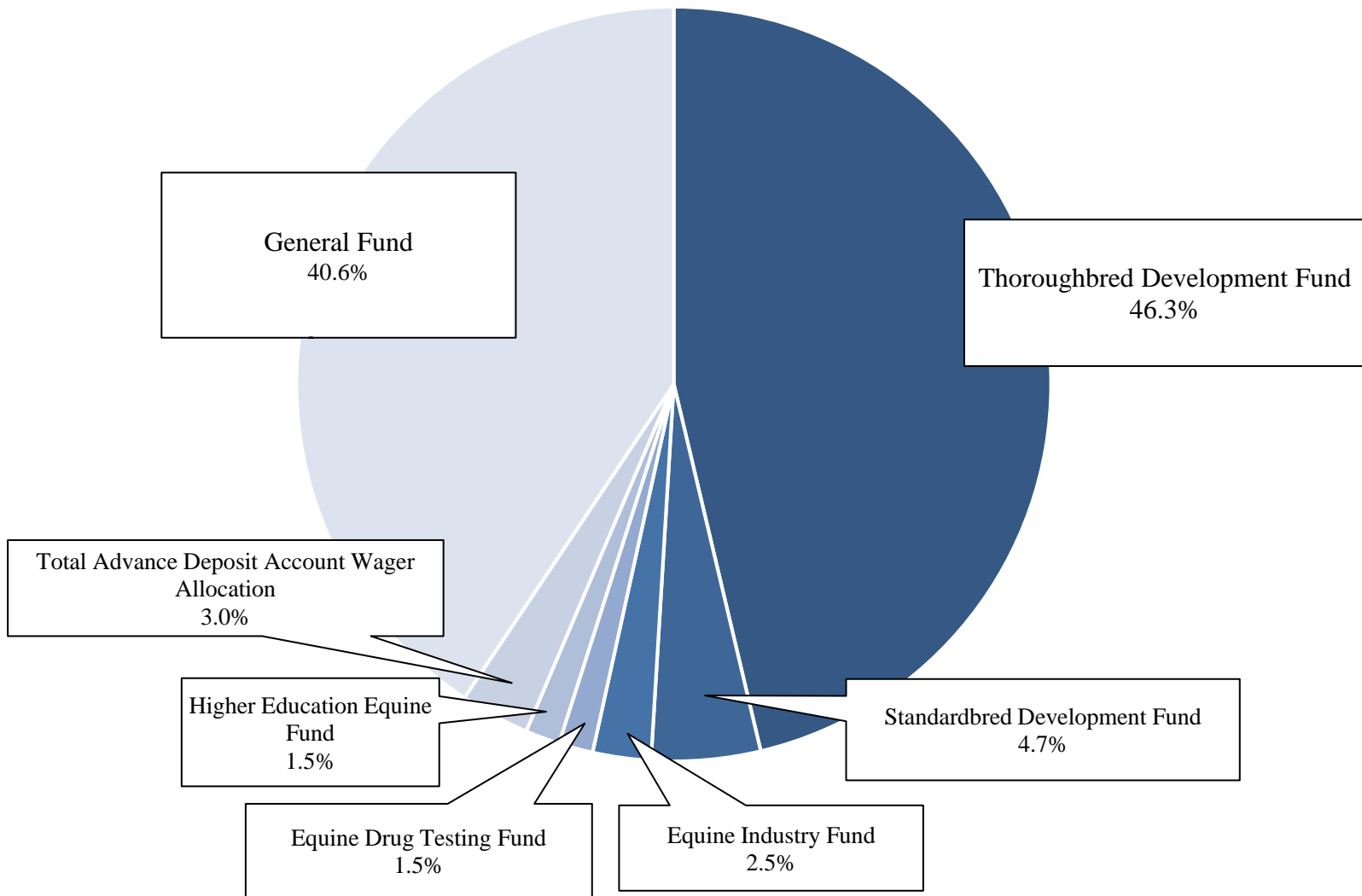
¹⁴ One-half of revenue received by association or host track must be distributed to its purse account. If KY resident is within 25 miles of a racetrack, the amount distributed goes to that racetrack.

FY 2019 Pari-Mutuel Tax Revenue by Wager Type



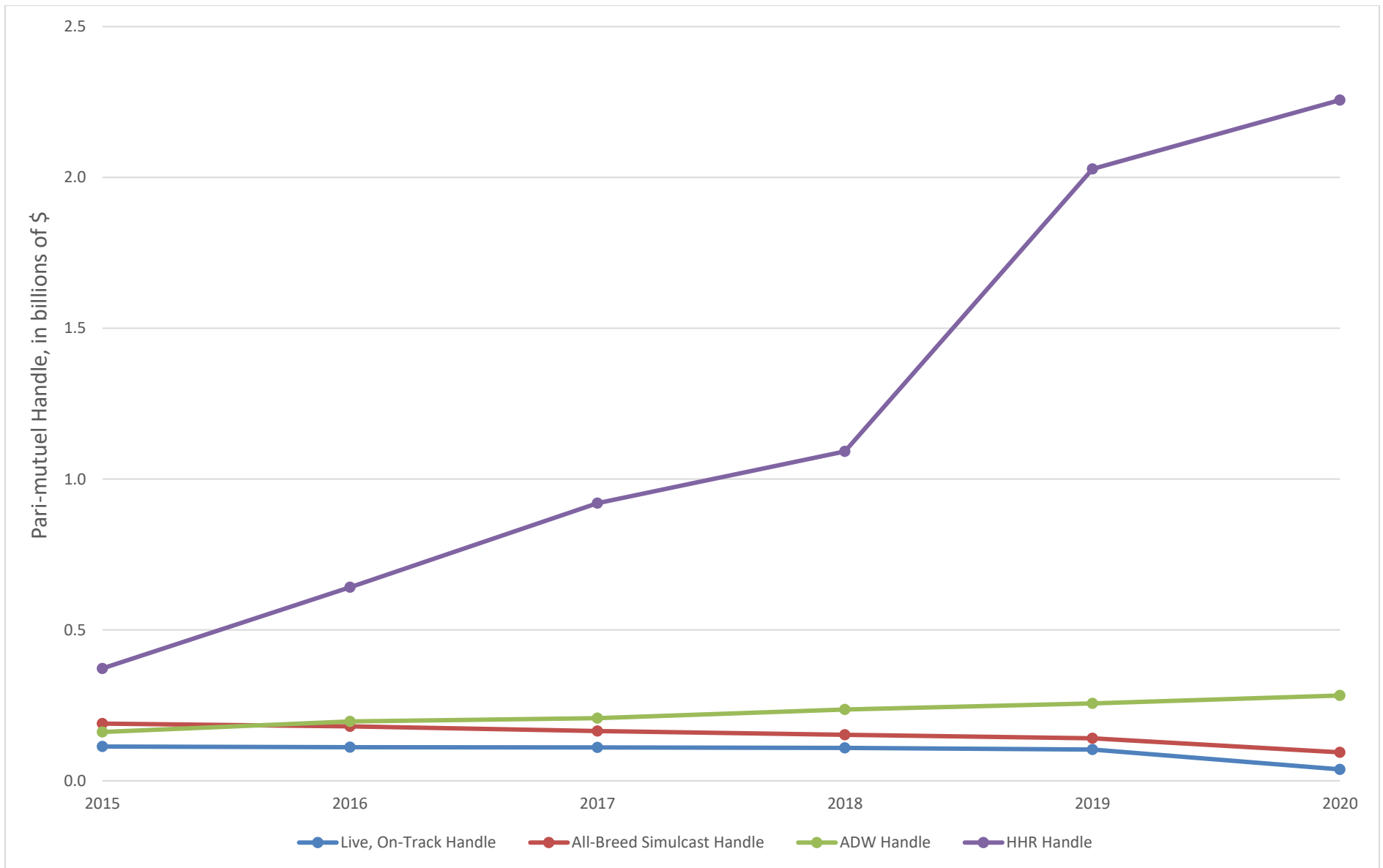
Data from the June 2019 Pari-Mutuel Wagering Report published by the Kentucky Horse Racing Commission.

FY 2019 Pari-Mutuel Tax Revenue Allocation by Fund



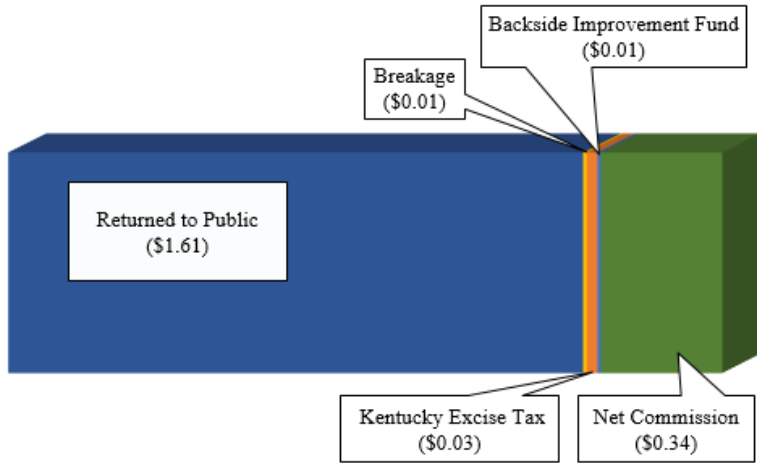
The Kentucky quarter horse, paint horse, Appaloosa and Arabian development fund does not appear on this graph given its small percentage of total revenues collected (0.04%).

Handle -- By Type of Wager



Wager Placed on a Live Race

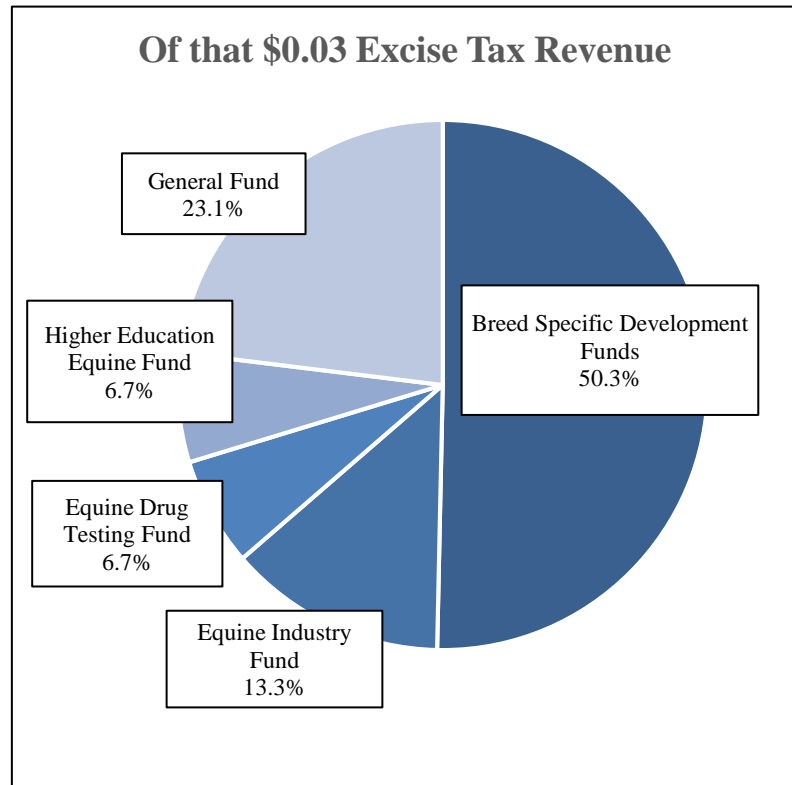
Distribution of \$2.00 Wager Made on a Live Race



Notes: The Kentucky excise tax and Backside Improvement Fund contributions are deducted from gross commission. The net commission reported above is the commission left after these funds are deducted. Gross commission is \$0.38 for every two dollar wager.

The net commission shown is further distributed according to confidential contractual agreements among the horsemen, the associations, and other relevant parties.

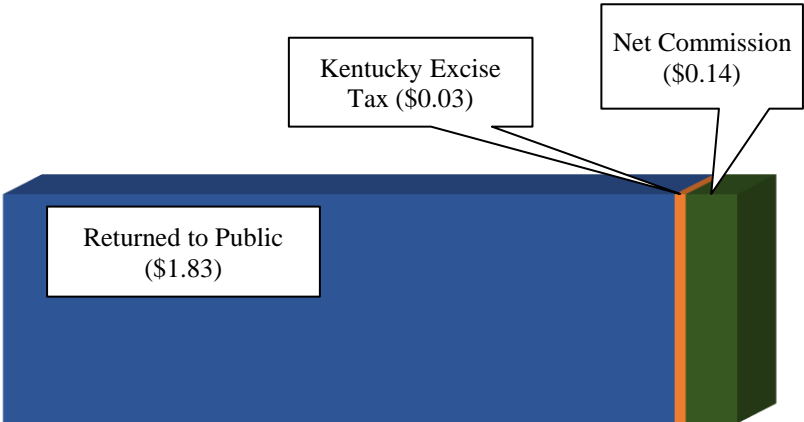
Of that \$0.03 Excise Tax Revenue



* The Breed Specific Development Fund Category (BSDF) is composed of the Thoroughbred Development Fund (TBDF) as well as a Standardbred Development Fund (SBDF). The TBDF receives 0.75 percent of the handle of all thoroughbred races and SBDF receives 1 percent of the handle on harness races. Additionally, a Kentucky quarter horse, paint horse, Appaloosa and Arabian development fund receives 1 percent of the money wagered on their breed's races which is included in the BSDF. Thoroughbred races are more common and, on average, the TBDF makes up 90 percent of all money collected in the BSDF (KRS 138.510(1)(c)).

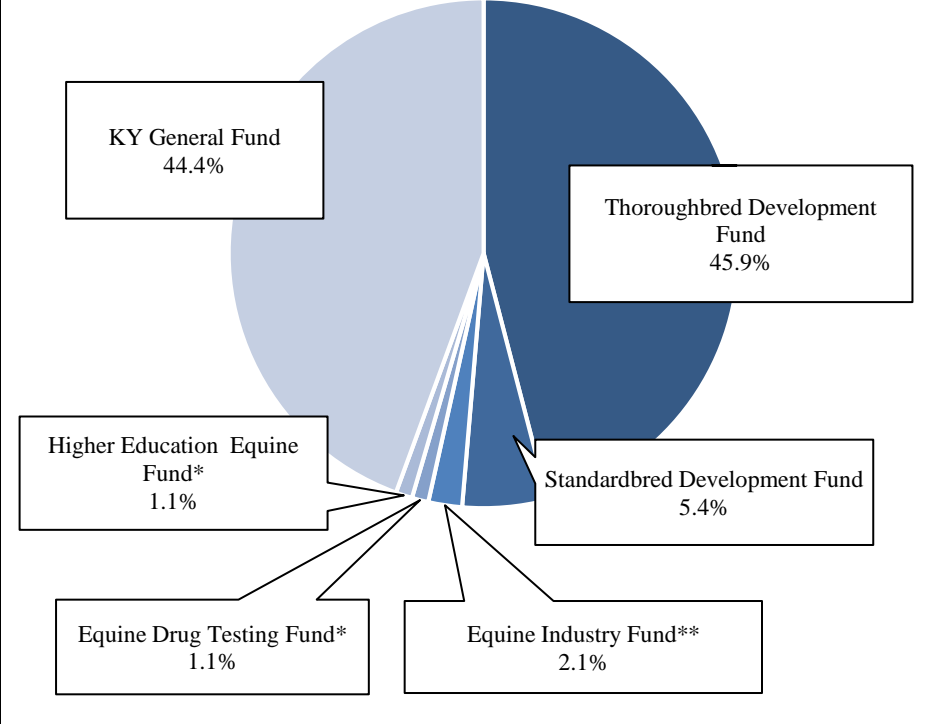
Historical Horse Race Wager (HHR)

Distribution of \$2.00 Historical Horse Racing Wager



Notes:
 Breakage accounts for less than \$0.00 of a \$2.00 Historical Horse Racing wager and is thus not visible in the figure.
 The net commission shown is further distributed according to confidential contractual agreements among the horsemen, the associations, and other relevant parties.

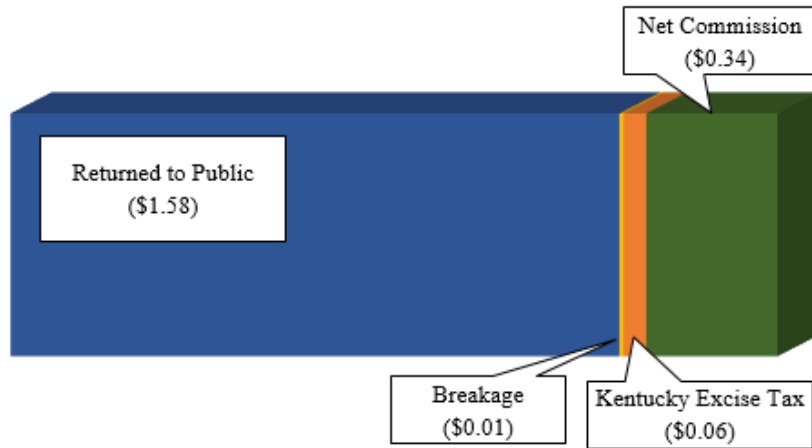
Of that \$0.03 Excise Tax Revenue...



*The yearly allocation of pari-mutuel tax revenue derived from Historical Horse Racing is capped at \$320,000 for both the Equine Drug Testing Program and the Higher Education Fund.
 ** The yearly allocation of pari-mutuel tax revenue derived from Historical Horse Racing is capped at \$650,000 for the Equine Industry Fund.
 *** The amount allocated to the individual breed specific fund is dependent on the type of track where the wagering occurred.

Wager Placed via Simulcast at a Thoroughbred Track

Distribution of \$2.00 of Net Revenue from Simulcast Wagering

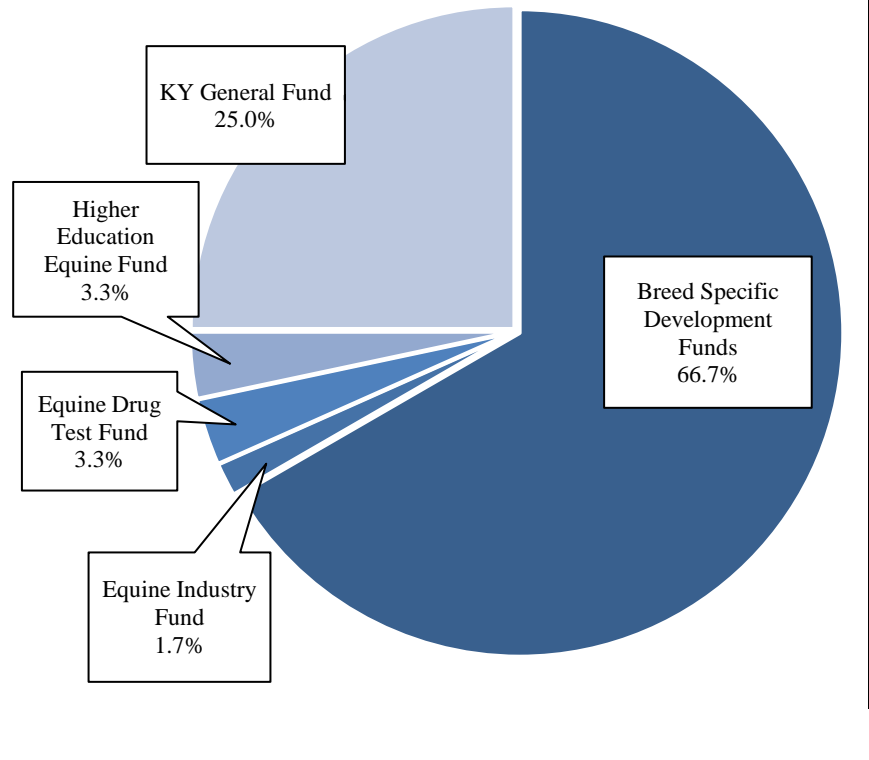


Notes:

The net commission shown is further distributed according to confidential contractual agreements among the horsemen, the associations, and other relevant parties.

This data was collected and provided by the Kentucky Horse Racing Commission and is approximate.

Of the \$0.06 Excise Tax Revenue...



*Statutorily, Kentucky places a 3 percent excise tax on the total Thoroughbred handle at Thoroughbred tracks (KRS 138.510(2)). Harness racetracks are exempt from the 3 percent excise tax levied in KRS 138.510(2). As of 2021 the exempt facilities are Oak Grove, and Red Mile (KRS 230.752).

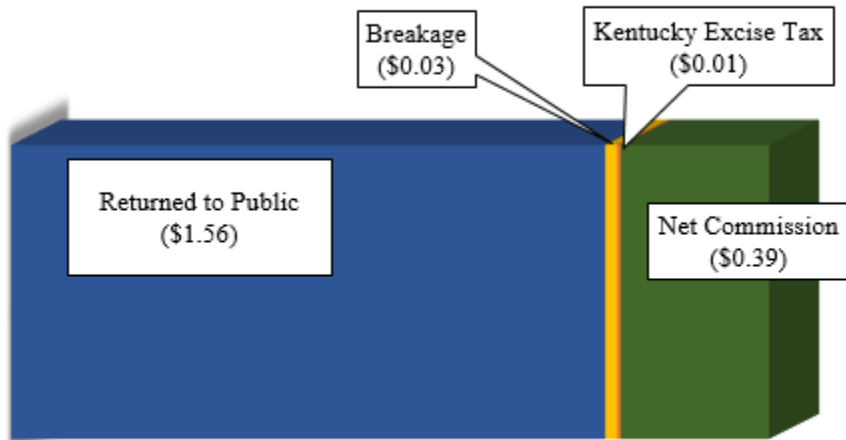
** If an interstate harness horse race has a purse in excess of \$75,000, the commission on the interstate wagers of the receiving track will be distributed as described KRS 230.3771(2)(i).

*** The commission from interstate wagers from quarter horse, paint horse, Appaloosa and Arabian races if the receiving track is a Thoroughbred track is distributed as described in KRS 230.3771(4)(b). Additionally, if the race is run in Kentucky, 22 percent of the host track's purse is allocated to the quarter horse, paint horse, Appaloosa and Arabian purse fund (KRS 239.3771(5)(c)).

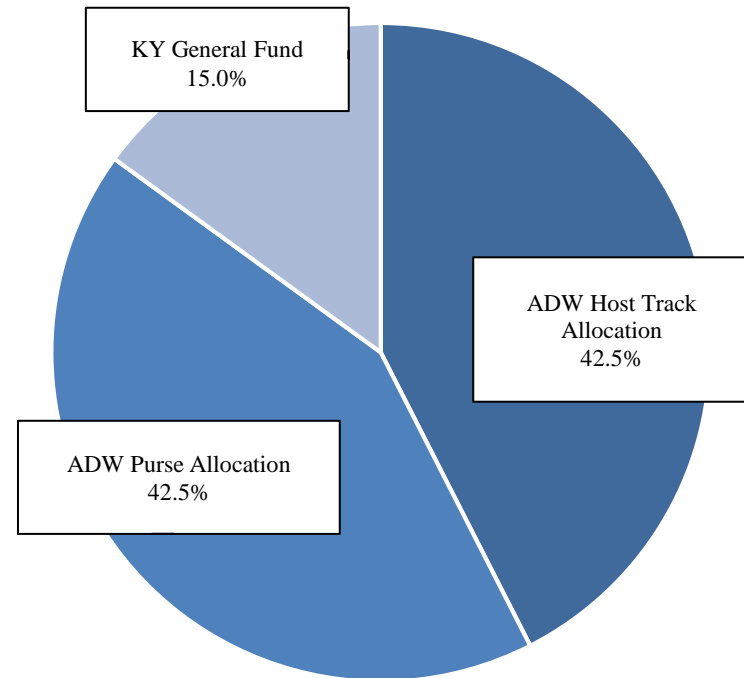
**** The commission derived from interstate wagering, after applicable taxes and any other obligations, is split equally between the receiving and host tracks unless otherwise agreed to as described in KRS 230.378 for certain races for both thoroughbred and saddlebred. Otherwise, the distribution shall follow what is laid out in KRS 230.3771.

Advance Deposit Account Wager (ADW)

Distribution of a \$2.00 ADW Wager



Of that \$0.01 Excise Tax Revenue...



Note:

The net commission shown is further distributed according to confidential contractual agreements among the horsemen, the associations, and other relevant parties.

* If the wager is placed on a race outside of Kentucky and the individual placing the wager registered their address within 25 miles of Kentucky track the association that is licensed to operate that track receives the Host Track Allocation.

** The Advanced Deposit Wagering excise tax levied in KRS 138.513 only applies to the amounts wagered by a Kentucky resident.