

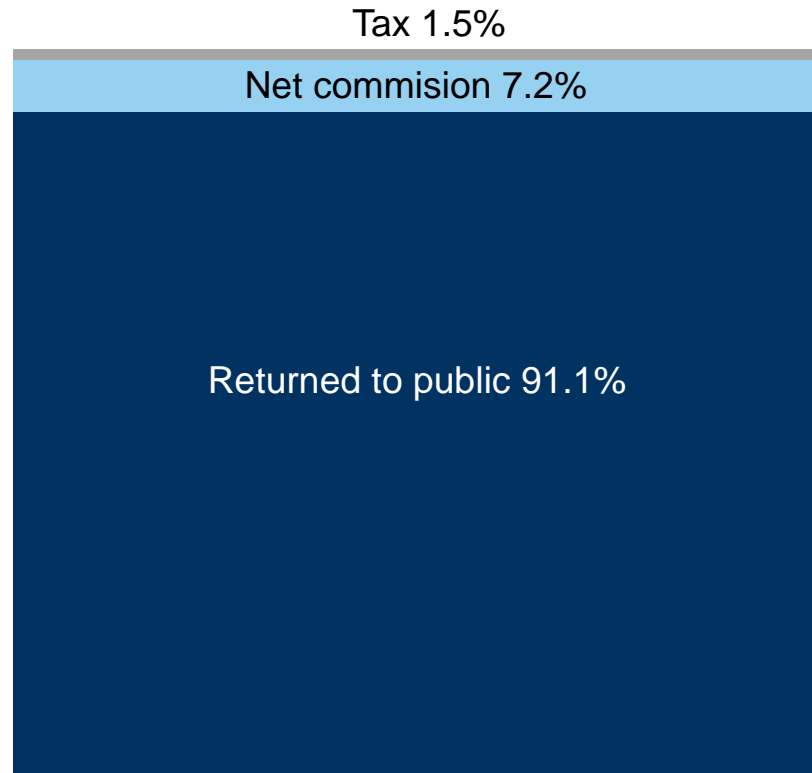
Effective Taxation of Historical Horse Racing

Pari-Mutuel Wagering Taxation Task Force

September 13, 2021



Kentucky's Tax on HHR: 1.5% of Handle



Breakage and change in pools
make up 0.2% of handle

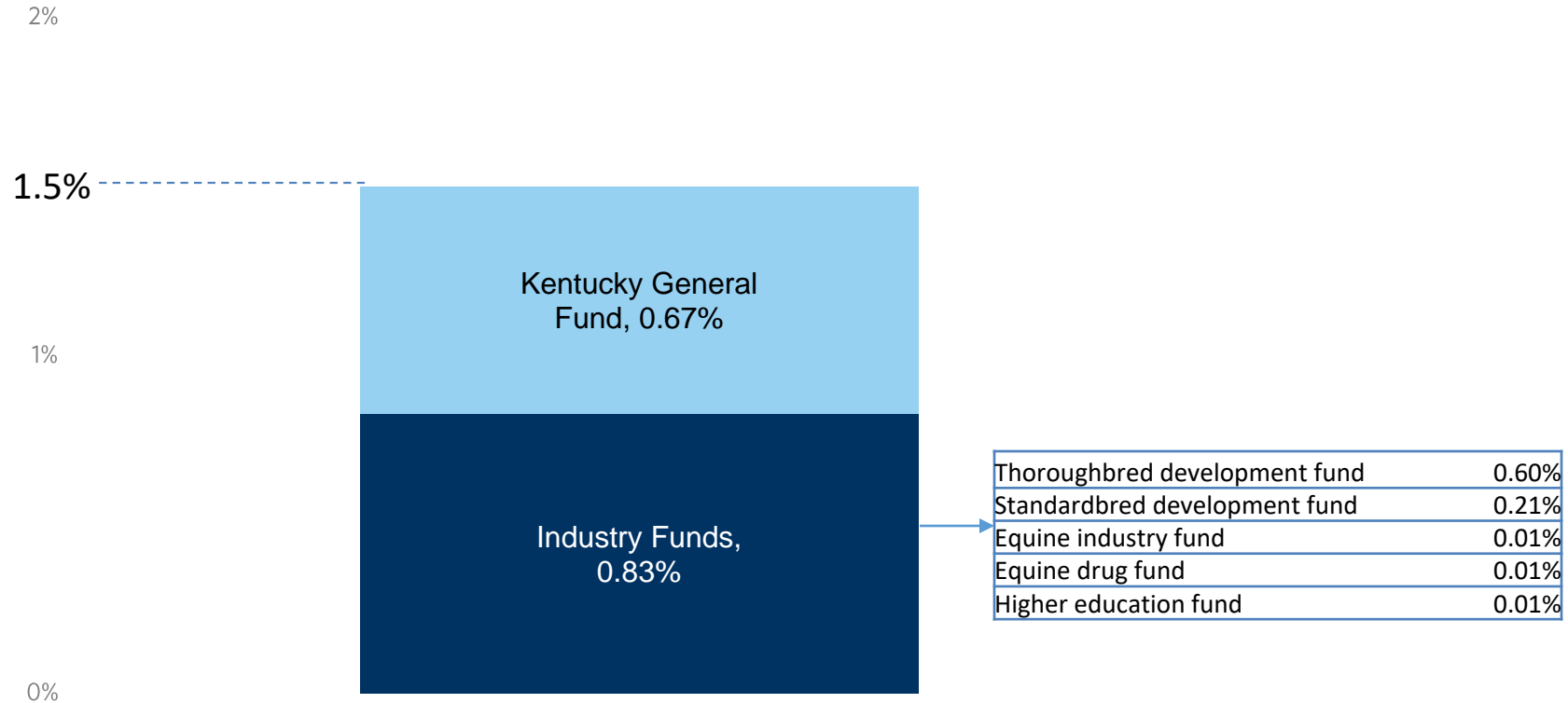
Source: KyPolicy analysis of Kentucky Horse Racing Commission reports, 2021 fiscal year.

Structure of HHR Tax

1.5% of Handle

- 0.75% for Thoroughbred or 1.0% for Standardbred to Development Funds
- Lesser of 0.2% or \$650,000 to Equine Industry Fund at U of L
- Lesser of 0.1% or \$320,000 to Higher Education Equine Fund
- Lesser of 0.1% or \$320,000 to Equine Drug Testing Fund
- Remainder to General Fund

Kentucky Effective HHR Tax as Share of Handle (2021)



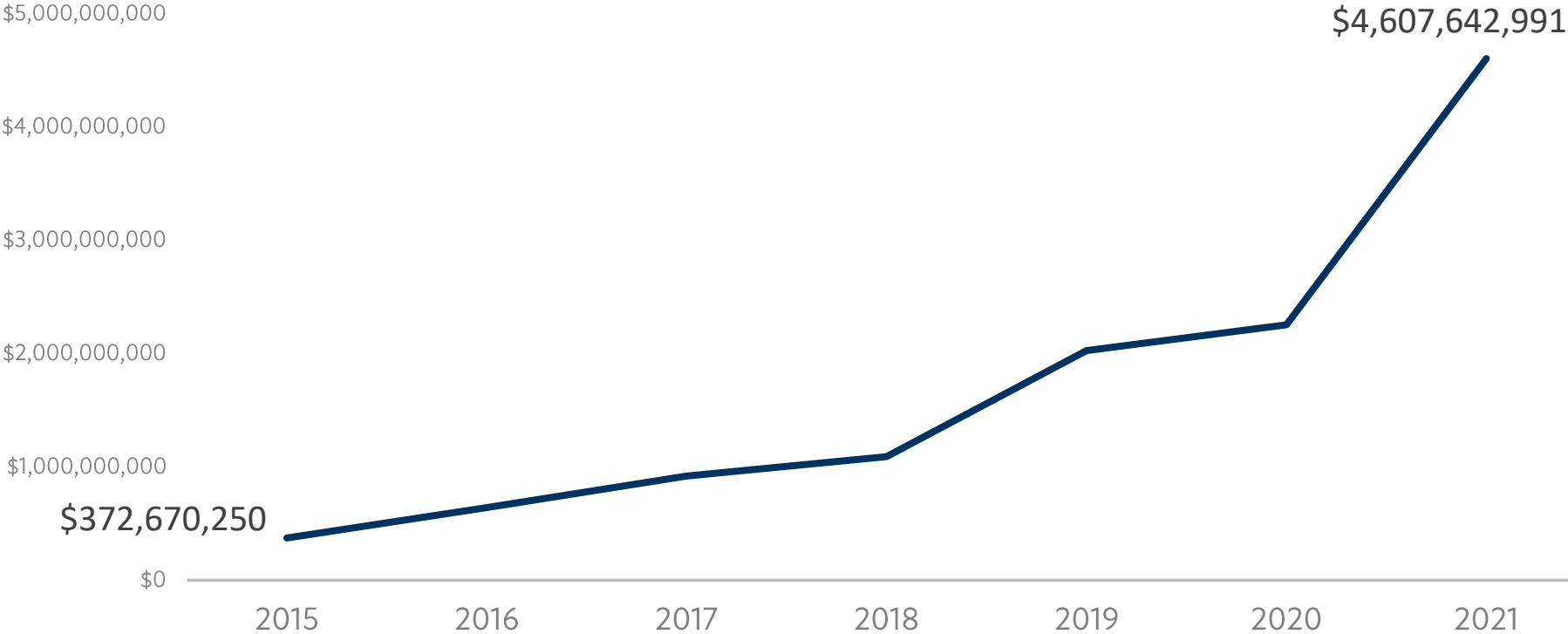
Source: KyPolicy analysis of Kentucky Horse Racing Commission reports.

Three Considerations Regarding the Tax Rate

- Handle does not equal ability to pay taxes because most is returned to public
- The growth of HHR in Kentucky
- The comparability of HHR machines to other electronic gaming machines

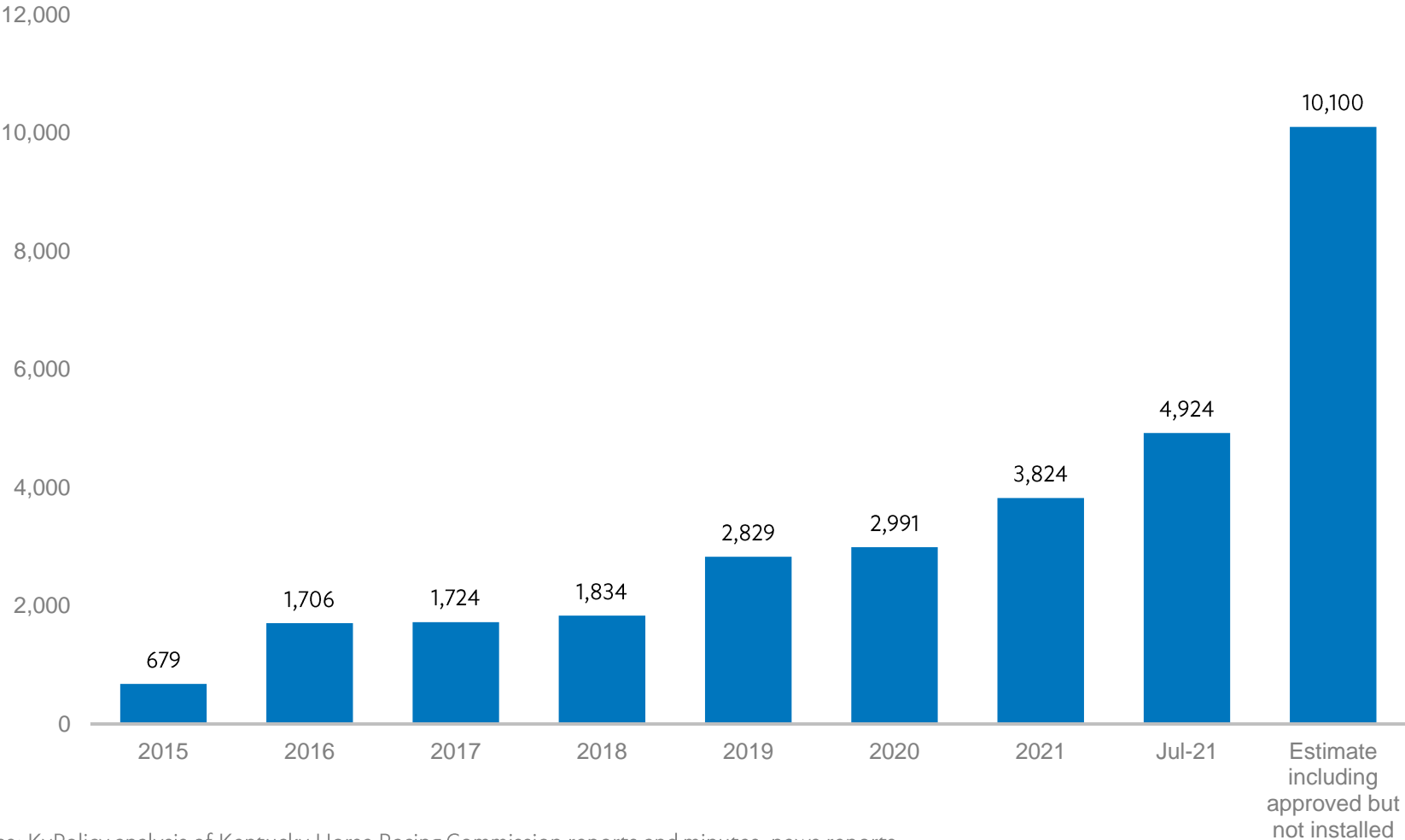
Handle (Amount Bet) on HHR in Kentucky

Total handle



Source: Kentucky Horse Racing Commission.

Number of HHR Terminals



Source: KyPolicy analysis of Kentucky Horse Racing Commission reports and minutes, news reports.

Examples of Nearby States' Payout Percentages for Electronic Gaming Machines

	Amount Bet	Return to Public	Payout Percentage	Amount Bet Per Capita
Indiana Racinos, Land-Based & Riverboat Casinos	\$17,809,320,673	\$16,047,170,076	90.1%	\$2,625
Missouri Riverboat Casinos	\$15,334,174,440	\$13,833,534,002	90.2%	\$2,491
Pennsylvania Racinos & Land-Based Casinos	\$23,253,907,552	\$20,941,854,617	90.1%	\$1,788
Ohio Racinos & Land-Based Casinos	\$20,870,969,181	\$19,026,616,375	91.2%	\$1,772
Kentucky HHR	\$4,607,642,991	\$4,199,799,571	91.1%	\$1,023
Virginia HHR	\$2,421,220,653	\$2,213,680,485	91.4%	\$281

FY 2021 data. Sources: KyPolicy analysis of Ohio Casino Control Commission, Ohio Lottery, Missouri Gaming Commission, Indiana Gaming Commission, Pennsylvania Gaming Control Board, Kentucky Horse Racing Commission, Virginia Racing Commission, U. S. Census data.

Two Types of Taxes

Tax on Handle

- Base is (Handle = Amount Wagered)
- Typically a lower tax rate because a larger base

Tax on Net Wagering

- Base is (Handle – Amount Returned to Public in Prizes = Net Wagering)
- Typically a higher tax rate because a smaller base

Examples of Nearby States' Net Wagering Tax Rates on Electronic Gaming Machines

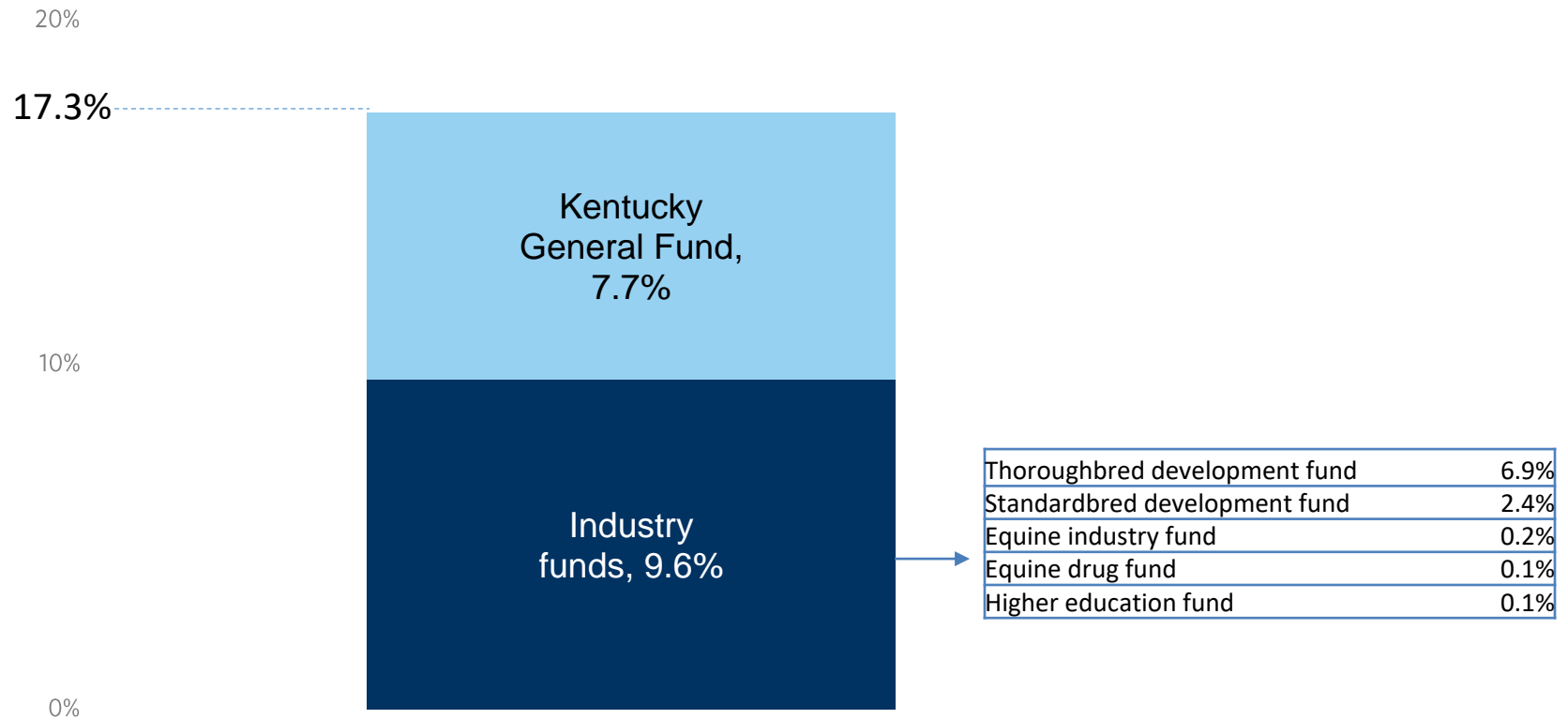
- Pennsylvania's racinos and casinos have a tax of 55% on electronic gaming machine revenue (equivalent to net wagering)
- West Virginia has tax of 53.5% on electronic gaming machine revenue
- Ohio has a tax rate of 33% on electronic gaming machine revenue at casinos, 33.5% at racinos
- Indiana has a graduated rate of 15%-40% on casino revenue and 25%-35% on racino revenue
- Missouri has a rate of 21%
- Illinois has a graduated rate of 15%-50%

Kentucky Historical Horse Racing Report for June, 2021

	June -21	June - 20	% Change	FYTD - 2021	FYTD - 2020	% Change
Total Handle	\$ 491,223,485	\$ 209,273,727	134.7%	\$ 4,607,642,991	\$ 2,256,637,433	104.2%
Less: Returned to Public	\$ 447,317,656	\$ 191,878,344	133.1%	\$ 4,199,799,571	\$ 2,065,160,499	103.4%
Less: Breakage	\$ 73,394	\$ 58,666		\$ 944,812	\$ 920,427	
Less: Change in Pools (Note 6)	\$ 1,206,590	\$ (347,237)		\$ 7,666,398	\$ 1,621,653	
Gross Commission	\$ 42,625,845	\$ 17,683,953	141.0%	\$ 399,232,209	\$ 188,934,854	111.3%
TB Development Fund (Note 1)	\$ 3,117,119	\$ 1,464,742	112.8%	\$ 27,470,652	\$ 15,577,748	76.3%
SB Development Fund (Note 2)	\$ 756,076	\$ 139,748	441.0%	\$ 9,448,894	\$ 1,796,043	426.1%
Equine Industry Program (Note 3)	\$ -	\$ -		\$ 650,000	\$ 650,000	0.0%
Equine Drug Research (Note 4)	\$ -	\$ -		\$ 320,000	\$ 320,000	0.0%
Higher Education Fund (Note 4)	\$ -	\$ -		\$ 320,000	\$ 320,000	0.0%
Kentucky General Fund (Note 5)	\$ 3,495,157	\$ 1,534,616	127.8%	\$ 30,905,099	\$ 15,185,770	103.5%
Total KY Excise Tax (1.5% of Total Handle)	\$ 7,368,352	\$ 3,139,106	134.7%	\$ 69,114,645	\$ 33,849,561	104.2%
% of Gross Commission	17.3%	17.8%		17.3%	17.9%	
Net Commission + Breakage	\$ 35,330,886	\$ 14,603,513	141.9%	\$ 331,062,377	\$ 156,005,720	112.2%
% of Total Handle	7.19%	6.98%		7.19%	6.91%	

Source: Kentucky Horse Racing Commission Pari-Mutuel Wagering Reports,
https://khrc.ky.gov/new_docs.aspx?cat=76&menuid=80

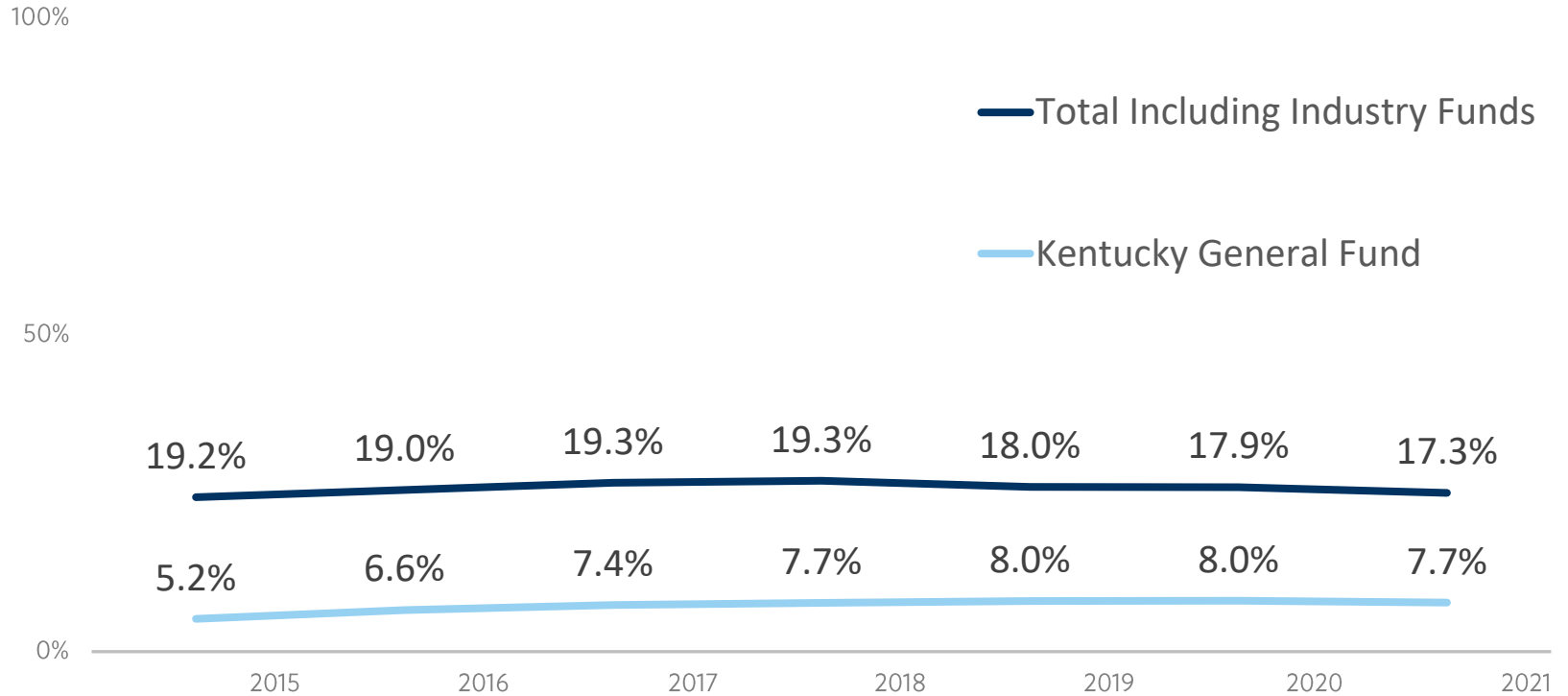
Kentucky's HHR Tax as a Share of Gross Commission (2021)



Source: KyPolicy analysis of Kentucky Horse Racing Commission reports.

Effective Tax Rate on Historical Horse Racing Over Time

Tax as a Share of Gross Commission



Source: KyPolicy analysis of Kentucky Horse Racing Commission reports.