

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB640**

**Bill Subtitle: TO ELIMINATE THE INCOME TAX DEDUCTION FOR GAMBLING LOSSES; AND TO DEDICATE THE SAVINGS FROM THE ELIMINATION OF THE INCOME TAX DEDUCTION FOR GAMBLING LOSSES TO BE USED FOR REDUCING THE DEVELOPMENTAL DISABILITIES WAITING LIST.**

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### **Basic Change :**

**Sponsors: Senators B. Davis, K. Hammer; Representatives J. Mayberry, Miller**

SB640 would eliminate the individual income tax miscellaneous itemized deduction for gambling losses as provided in § 26-51-424. The additional tax revenue from eliminating the tax deduction would be used exclusively for the Community and Employment Supports Waiver Program within the Arkansas Medicaid Program Trust Fund. The bill provides that monthly installments of 1/12 of \$11 million shall be deducted from the General Revenue Fund of the State Apportionment Fund, beginning on January 1, 2020, and this amount be transferred to the Community and Employment Supports Waiver Program within the Arkansas Medicaid Program Trust Fund. The bill will be effective for tax years beginning on or after January 1, 2019.

### **Revenue Impact :**

**FY2020 - \$0.5M net increase to State General Revenues**

[ \$11.5M increase in State General Revenues less \$11M decrease in State General Revenues as result of monthly revenue transfers to a designated account within the Arkansas Medicaid Program Trust Fund to be used exclusively for the Community and Employment Supports Waiver Program. ]

[ To arrive at the revenue impact of the increase in General Revenues resulting from the repeal of the deduction for gambling losses, the total amount of gambling losses claimed for tax year 2017 was obtained from the AIRS tax system. The total gambling losses of over \$244 million was multiplied by an effective tax rate of (4.7%) to arrive at the \$11.5 million increase in general revenue per tax year.]

### **Taxpayer Impact :**

Taxpayers with gambling winnings would no longer be able to claim a deduction for any gambling losses.

### **Resources Required :**

Computer programs, tax forms, and instructions will need to be updated.

### **Time Required :**

Adequate time is provided for implementation.

### **Procedural Changes :**

Computer programs, tax forms and instructions as well as training manuals will need to be updated. Department employees will need to be educated as well as the tax community.

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### Other Comments :

Revenue impact is based on 2017 tax year itemized deductions taken for gambling losses. Future changes in gambling withholdings could impact the income tax revenue forecast based on a possible decrease in winnings being reported.

### Legal Analysis :

Under current Arkansas law, gambling losses are deductible up to the extent of gambling winnings and not subject to the 2% limitation on miscellaneous itemized deductions.

HB1653 amends § 26-51-424(a)(2) to eliminate the income tax deduction for gambling losses and directs that the savings realized from the elimination of the deduction be used to reduce the developmental disabilities waiting list. The bill adds a provision that, beginning January 1, 2020, the Treasurer of the State, before making the percentage distributions of general revenues on the last day of each month as provided by law, shall deduct from the General Revenue Fund an amount equal to 1/12 of \$11 million each month for transfer to a designated account within the Arkansas Medicaid Program Trust Fund to be used exclusively for the Community and Employment Supports Waiver Program.

It is not clear whether the bill applies as intended to professional gamblers. New subdivision (a)(2)(B)(ii)(a) excludes gambling loss deductions for both casual gamblers (See (a)(1)(2)(B)(i)) as well as professional gamblers (See (a)(1)(2)(A)). If the bill's intent is not to eliminate the income tax deduction for losses by professional gamblers, the language in subdivision (a)(2)(B)(ii)(a) should be changed to substitute the term "subdivision (B)(i)" for "subdivision(a)(1)."