

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 4760-01  
BILL NO.: SCR 40  
SUBJECT: Lottery  
TYPE: Original  
DATE: May 2, 2000

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	\$8,253,856	(\$1,059,163)	(\$1,059,163)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>\$8,253,856</b>	<b>(\$1,059,163)</b>	<b>(\$1,059,163)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses  
This fiscal note contains 4 pages.

**FISCAL ANALYSIS**

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this proposal would have little or no administrative impact to the Department of Revenue. The DOR states that they are unable to calculate the revenue impact of this legislation without knowing who will request a lump sum distribution if the option is given to them. The DOR anticipates a short-term revenue gain if a lump sum distribution is requested. The long-term impact, however, is unknown.

Officials from the **Missouri Lottery Commission (LOT)** state they would provide each winner electing to receive a lump-sum payment with an estimate of the present value of their remaining payments. The actual present value will depend on the market at the date the winner makes his/her election. The LOT assumes that in the process of the selling the separately held securities for each jackpot winner that elects the lump-sum distribution, the state would not incur any expense except for costs of bidding, which would be minimal, or bear any gain or risk of loss on these sales.

The LOT states that based on an August, 1999 letter/phone survey of their winners, they estimate that up to 50% of the winners would choose a lump-sum settlement option. This would result in a one-time increase of state revenues, as defined in Article X Section 17 of the Missouri State Constitution, of approximately \$4,606,101 in fiscal year 2001.

Analysis of Missouri Winners (as provided by the Missouri Lottery Commission)

	Tickets	Face Value	Market Value
Multi-State Lottery Assoc.	21	\$238,975,000	\$158,094,149 1
Missouri held bonds	72	\$150,518,000	\$114,994,000 1
Missouri held insurance annuities	41	\$ 50,902,415	\$ 38,685,835 1
<b>Total</b>	<b>134</b>	<b>\$440,395,415</b>	<b>\$311,773,984</b>
Estimated cash-out value			\$155,886,992 2
Gross Income Tax due to cash-out			\$ 9,353,219 3
Less: Federal income tax deduction			<\$3,647,755> 4
Regular income tax			<u>&lt;\$1,099,363&gt; 5</u>
<i>Net increase in State Revenue FY 2001 per LOT</i>			<i>\$ 4,606,101</i>

ASSUMPTION (continued)

1. The market values were determined as follows:  
 Multi-state Lottery Association as of 10/31/1999  
 Missouri as of 6/30/1999  
 Insurance annuities estimates based on bond values
2. LOT has estimated that approx. 50% of the ticket owners will cash out based on survey.
3. Gross state income tax effect of the cash-out is computed at 6% of the Estimated cash-out value.
4. Maximum federal income tax on cash-out proceeds shown as a deduction from Missouri income.
5. The state income tax that would have been paid if regular annuity payments had continued.

**Oversight** assumes the Federal income tax deduction used to determine the deduction in state revenue in FY 2001 was overestimated by the LOT and has provided an updated analysis applying the \$10,000 cap per combined filer's (lottery winner's) federal tax deduction. Oversight estimates the fiscal impact to the state in FY 2001 as a positive \$8,253,856 from income tax on the lump-sum distributions. Oversight also assumes the loss in revenue in future years from a reduction of income tax revenue from the annuities would be \$1,059,163

Analysis of Missouri Winners (as revised by Oversight)

Estimated cash-out value	\$155,886,992
Less: Federal income tax deduction (50% of 134 winners) x \$10,000	<u>&lt;\$ 670,000&gt;</u>
Missouri taxable income	\$155,216,992
Tax (at 6%)	\$ 9,313,019
Less: Tax that would have been paid under annuity option	<u>&lt;\$ 1,059,163&gt;</u> <sup>1</sup>
<i>Net increase in State Revenue FY 2001</i>	<u><u>\$ 8,253,856</u></u>

1. Annual annuity payment per LOT	\$18,322,716
Less Federal income tax deduction	<u>&lt;\$ 670,000&gt;</u>
Missouri taxable income	\$17,652,716

Missouri tax on annuity payments (6%) \$ 1,059,163

**Oversight** used the LOT's estimate of 50 percent of current annuity recipients opting for the lump-sum distribution. Actual percentages could be higher, possibly reaching 100 percent. If 100 percent of the current annuity recipients opt for the lump-sum distribution, the fiscal impact to the state in FY 2001 would be a positive \$16,507,714. Estimated losses in revenue in the following two fiscal years from the absence of pre October 21, 1998 lottery winner annuities would be a negative \$2,118,325.

FISCAL IMPACT - State Government                      FY 2001              FY 2002              FY 2003

(10 Mo.)

**GENERAL REVENUE FUND**

Income - Income tax on lump-sum lottery distributions \$8,253,856 (\$1,059,163) (\$1,059,163)

**ESTIMATED NET EFFECT ON  
GENERAL REVENUE FUND**

**\$8,253,856 (\$1,059,163) (\$1,059,163)**

FISCAL IMPACT - Local Government

FY 2001 (10 Mo.)	FY 2002	FY 2003
\$0	\$0	\$0

FISCAL IMPACT - Small Business

Small businesses would not be fiscally impacted by this proposed legislation.

DESCRIPTION

This legislation allows the Missouri Lottery to offer its jackpot winners on, or prior to October 21, 1998, an opportunity to receive one lump-sum settlement of their remaining payments. This opportunity is available to the Missouri Lottery from July 1, 1999 until December 31, 2000.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Missouri Lottery Commission  
Department of Revenue



Jeanne Jarrett, CPA  
Director  
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