

Accounting in Gaming

State of Alaska, Department of Revenue, Tax Division



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Overview

The purpose of this presentation is to provide an overview of accounting terminology and concepts unique to charitable gaming in Alaska. Please refer to the referenced statutes and regulations on each slide for additional information.

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Gaming Entities

Before we begin, below are the types of gaming entities referenced on the subsequent slides.

- Permittee: A municipality or qualified organization that holds a gaming permit.¹
- Vendor: A business, such as a bar or liquor store, that sells pull-tabs on behalf of a permittee.¹
- Operator: An individual that is licensed to conduct gaming activity on behalf of a permittee.¹
- Multiple-Beneficiary Permittee: A partnership of two to six permittees who agree to jointly conduct gaming activities.¹

¹ AS 05.15.690

Method of Accounting

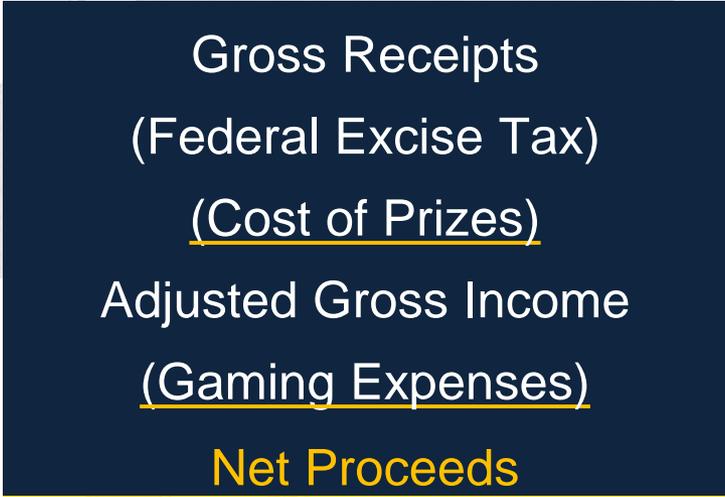
Reporting in gaming must conform to generally accepted accounting principles (GAAP), with slight modifications made through Alaska Statute 05.15 and 15 AAC 160.¹

- Bingo and pull-tabs are reported using the accrual method of accounting.¹
- All game types other than bingo and pull-tabs may be reported using either the cash or modified cash methods of accounting.¹

¹ 15 AAC 160.830

The Gaming Equation

Reporting in gaming is most easily summarized by the image below. Gross receipts less federal excise tax and cost of prizes equals adjusted gross income.¹ Furthermore, adjusted gross income less allowable gaming expenses equals net proceeds.¹



Gross Receipts
(Federal Excise Tax)
(Cost of Prizes)
Adjusted Gross Income
(Gaming Expenses)
Net Proceeds

¹ AS 05.15.690

Gross Receipts

- Gross receipts are the receipts from the sale of admission, tickets, or rights connected with participation in a gaming activity.¹
- Non-gaming sales, such as bingo daubers and snack concessions, are not included in gross receipts.²

Gross Receipts

Federal Excise Tax

Cost of Prizes

Adjusted Gross Income

Gaming Expenses

Net Proceeds

¹ AS 05.15.690(25)

² 15 AAC 160.600(e)(2)

Federal Excise Tax

- Federal excise tax is paid on wagers, wagering pools, or lotteries to the Internal Revenue Service (IRS).
- Organizations that are exempt from income tax, such as 501c nonprofits, are generally not exempt from the tax on wagering. However, they are sometimes exempt from the tax on lotteries.
- Drawings conducted by a 501c nonprofit are exempt so long as the net proceeds of the drawing do not benefit a private shareholder or individual.
- Bingo is generally exempt from federal excise tax.
- Please contact the IRS for more information regarding federal excise tax.

Gross Receipts

Federal Excise Tax

Cost of Prizes

Adjusted Gross Income

Gaming Expenses

Net Proceeds

Cost of Prizes

- Cost of prizes are the value of the prizes awarded for a gaming activity.
- Purchased prizes, cash prizes, and pull-tab playbacks are all included in cost of prizes.¹
- Donated prizes are not included in cost of prizes. Instead, the fair market value of any donated prizes are reported separately under the 'Donated Prizes' section of gaming reports.²
- Door prizes are not included in cost of prizes, they are instead reported as a gaming expense.³

Gross Receipts

Federal Excise Tax

Cost of Prizes

Adjusted Gross Income

Gaming Expenses

Net Proceeds

¹ 15 AAC 160.995(4)

² 15 AAC 160.620

³ 15 AAC 160.995(3)

Prize Limits

As detailed in the table below, charitable gaming has a variety of prize limits based on the type of gaming activity. Additionally, these limits are often different for permittees, multiple-beneficiary permittees (MBP), and operators.

	Permittee	MBP	Operator
Non-Bingo Annual Prize Limit ¹	\$2,000,000	\$2,000,000 per permittee	\$500,000 per permittee
Bingo Annual Prize Limit ²	\$840,000	\$840,000 per permittee	\$660,000 per permittee
Bingo Gross Receipt Prize Limit ²	85% of bingo gross receipts		
Bingo Session Prize Limit ³	\$5,000 per session		
Bingo Game Prize Limit ³	\$1,000 per game		

¹ AS 05.15.180(g)

² 15 AAC 160.600

³ 15 AAC 160.620

Adjusted Gross Income

- Adjusted gross income is equal to the gross receipts from the gaming activity less federal excise tax and cost of prizes.¹
- Operators are required to pay authorizing permittees 30 percent of pull-tab adjusted gross income annually.²
- Operators are required to pay authorizing permittees 10 percent of adjusted gross income from game types other than pull-tabs annually.²

Gross Receipts

Federal Excise Tax

Cost of Prizes

Adjusted Gross Income

Gaming Expenses

Net Proceeds

¹ AS 05.15.690(1)

² AS 05.15.128 & 15 AAC 160.270(a)

Gaming Expenses

- Alaska Statute 05.15.160 and 15 AAC 160.995(3) outline what qualifies as an authorized gaming expense.
- As a general rule, expenses must be reasonable and necessary for the conduct of the gaming activity in order to be allowable.¹
- Refer to the following slides for non-exclusive lists of authorized and unauthorized expenses.

Gross Receipts

Federal Excise Tax

Cost of Prizes

Adjusted Gross Income

Gaming Expenses

Net Proceeds

¹ AS 05.15.160 and 15 AAC 160.995(3)

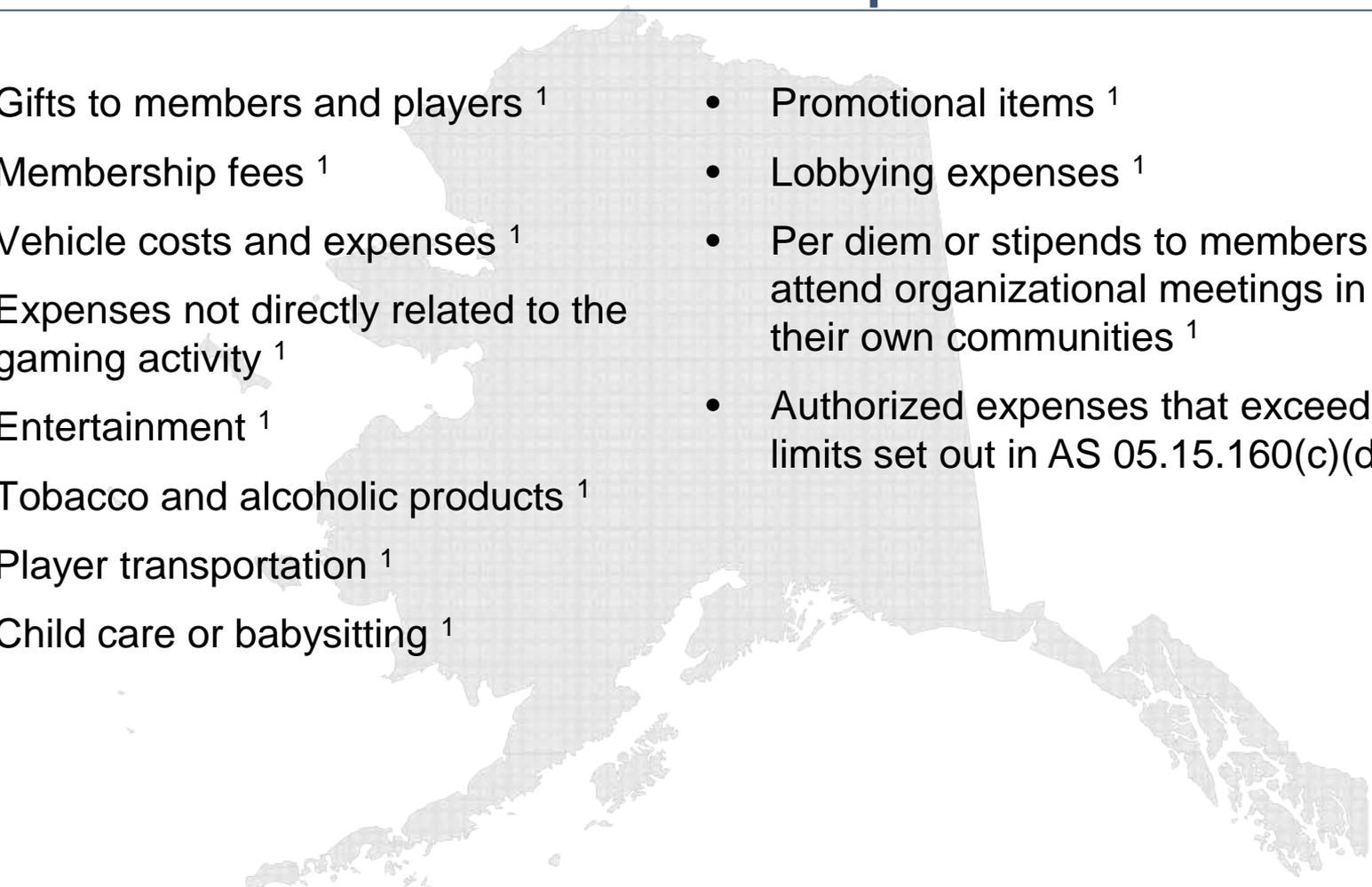
Authorized Expenses

- Wares and merchandise ¹
- Employee wages ^{1,2}
- The depreciation and maintenance of equipment used exclusively for gaming ²
- Printing raffle tickets ²
- Advertising ²
- Utilities, improvements, maintenance, property taxes, insurance, and depreciation of the portion of an owned building that is used for gaming activity ²
- The lease or rent of property and facilities ²
- Postage and freight ²
- Accounting services ²
- Payroll and pull-tab taxes ²
- Janitorial services ²
- Free food provided for player consumption ²
- Legal and consulting services directly related to gaming ²
- Door prizes ²
- Interest on allowable loans ²
- Other amounts allowed by GAAP as modified by AS 05.15 and 15 AAC 160 ²

¹ AS 05.15.160

² 15 AAC 160.995(3)

Unauthorized Expenses

- 
- Gifts to members and players ¹
 - Membership fees ¹
 - Vehicle costs and expenses ¹
 - Expenses not directly related to the gaming activity ¹
 - Entertainment ¹
 - Tobacco and alcoholic products ¹
 - Player transportation ¹
 - Child care or babysitting ¹
 - Promotional items ¹
 - Lobbying expenses ¹
 - Per diem or stipends to members to attend organizational meetings in their own communities ¹
 - Authorized expenses that exceed the limits set out in AS 05.15.160(c)(d) ¹

¹ 15 AAC 160.995(3)

Expense Limits

Gaming expense limits are determined by the type of gaming activity. However, unlike the prize limits covered previously, expense limits are the same for permittees, operators, multiple-beneficiary permittees (MBPs). Nevertheless, all expenses incurred for a gaming activity must be reported, even if they are in excess of the limits.¹

	Expense Limit
Pull-Tabs ²	70% of AGI
Other Game Types ³	90% of AGI
Door Prizes ⁴	\$240,000 a year
Advertising ⁵	5% of total AGI
Vendor Compensation ⁶	30% of the ideal net

¹ 15 AAC 160.835(e)

² AS 05.15.160(c)

³ AS 05.15.160(d)

⁴ AS 05.15.180(d)

⁵ 15 AAC 160.780

⁶ AS 05.15.188(h)

Net Proceeds

- Net proceeds is equal to gross receipts less federal excise tax, cost of prizes, and gaming expenses.¹ More simply, it is adjusted gross income less gaming expenses.
- How a permittee spends its net proceeds is not a gaming expense. Instead, how a permittee spends its net proceeds is reported on Schedule E of the Annual Financial Statement as a donation of net proceeds.
- Operators are required to pay net proceeds to authorizing permittees on a monthly basis.²
- MBPs are required to pay net proceeds to member permittees on a quarterly basis.³

Gross Receipts

Federal Excise Tax

Cost of Prizes

Adjusted Gross Income

Gaming Expenses

Net Proceeds

¹ AS 05.15.690(32)

² AS 05.15.087(a)

³ 15 AAC 160.361(g)

Reporting Inventory

- Pull-tab inventory can be reported based on the cost of the remaining number of sealed pull-tab series.¹ This method is referred to as the unopened game method.
- Pull-tab inventory can also be reported using a more precise method, such as the percentage of completion of individual games.
- Inventory is always reported at cost on Schedule C-1 and does not include the three percent pull-tab tax. Instead, the three percent pull-tab tax should be reported as a gaming expense.

¹ 15 AAC 160.835(j)

Contact Information

Revenue Online Help Desk

- Phone: 907.269.0041
- Email: tax.revenue-online@alaska.gov

Charitable Gaming Section

- Phone: 907.465.2581
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