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Note: Information for this article was provided by the IRS. Any questions about income from pull-tabs and federal income tax should be directed to the IRS.

TAXED

Income From Pull-Tabs Subject To Income Tax

An organization exempt from federal income tax under section 501(a) of the Internal Revenue Code must, as a condition of continued exemption, primarily carry on the activities for which that exemption was granted. Some business activities may further exempt purposes directly. For instance, the operation of a community swimming pool is a business that directly promotes social welfare. Other business activities, however, are conducted solely to raise funds for use in an organization's program but have no direct relationship to the achievement of any exempt purpose. For the most part, charitable gaming and bingo nights are activities that serve only to raise funds and have no independent exempt purpose.

Income from the public conduct of bingo and other gambling activities on a regular basis may be subject to the unrelated business income tax imposed by section 511(a) of the Code unless otherwise excluded.

Section 513(f) of the Code provides an exclusion from the definition of unrelated trade or business for certain bingo games. For a bingo game to qualify for this exclusion the wagers must be placed, the winners determined, and the prizes or other property distributed in the presence of all persons placing wagers in that game. The regulations further define "bingo" as a game of chance played with cards that are generally printed with five rows or five squares each. Participants place markers over randomly called numbers on the card in an attempt to form a preselected pattern such as a horizontal, vertical, or diagonal line, or all four corners and the first participant to form the preselected pattern wins the game. Bingo differs from other games of chance, such as keno games, card games, or lotteries.

The U.S. Tax Court held in *Julius M. Israel Lodge of B'nai B'rith No. 2113, v. Commissioner, T.C. Memo 1995-439*, that "instant bingo" (commonly referred to as pull-tabs) operated under the Texas Bingo Enabling Act is not excluded from the definition of unrelated business provided in section 513(f)

because wagers are not all placed, winners are not all determined and prizes are not all distributed in the presence of all persons placing wagers in the game (deal). Therefore, income from the sale of pull-tabs is unrelated business income subject to tax.

Section 513(a)(1) of the Code also excludes from the definition of unrelated trade or business any trade or business in which substantially all the work is performed for the organization without compensation. This exclusion may apply to organizations selling instant bingo (pull-tabs). To determine whether the "volunteer labor" exception applies, you must consider all labor performed to sell pull-tabs. This includes the wages paid to selling agents, the prize distribution agents, accountants and bookkeepers, as well as amounts paid for security and janitorial services for the location where pull-tabs are sold.

Organizations that have \$1,000 or more gross income from an unrelated business must file Form 990-T, Exempt Organization Business Income Tax Return. This filing requirement exists even if Form 990, Return of Organization Exempt From Income Tax, is not required. Unrelated business taxable income that is reported on Form 990-T is the gross income derived from any unrelated trade or business less deductions for ordinary and necessary business expenses which are directly connected with the carrying on of the unrelated trade or business.

Publication 598, Tax on Unrelated Business Income of Exempt Organizations, provides additional information about unrelated business income tax provisions. This publication, Form 990-T, Instructions for 990-T and other IRS forms and publications can be ordered by calling the Internal Revenue Service at 1-800-829-3676.



Reminder on 25% One-time License Fee Increase

On September 1, 1999, Charitable Bingo Administrative Rule 402.572, Temporary Capital Equipment Acquisition, went into effect. The rule provides for a one-time 25% increase in license fees for conductors and lessors in license classes E through J. The revenue generated from this one-time fee increase will be used to purchase a new Charitable Bingo System (CBS). The current computer system has undergone several conversions and suffered significant decline in functionality and integrity with each conversion. As a result, some historical data has been lost and programming logic in several areas became indecipherable and impossible to maintain. The system no longer fully supports business functions causing an increase in the development and implementation of manual processes and verification procedures. Repeated problems and errors with the current system have caused a general lack of confidence in the system's accuracy and reliability. In addition, the system is technologically obsolete in terms of hardware and software design and cannot be enhanced to include many of the beneficial features of newer technology offerings.

A new CBS will allow us to develop and implement a reduction in paper based processes, respond to licensees faster and more efficiently and be confident the information is accurate. Without a new system we cannot take advantage of current technology much less the high-tech advances of the new millennium.

Licensees have the option of paying the 25% increase in one payment or two payments of at least half of the one-time 25% fee increase. The total must be paid prior to August 31, 2001, or the next license renewal date, whichever is sooner. The fee increase will be in effect for all licenses issued September 1, 1999, through August 31, 2000. The rule has an automatic sunset of August 31, 2001. License fees for manufacturers, distributors and system service providers are not subject to the increase because their license fees are set by state statute.

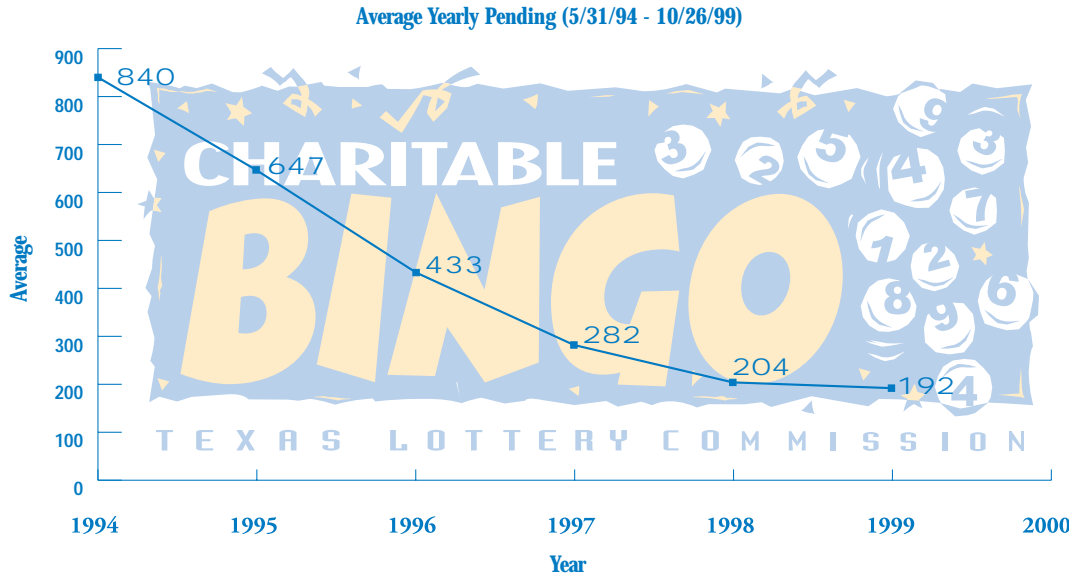
The chart below summarizes license classes, annual license fees, the 25% increase and payment options:

Renewal applications, for conductors and lessors, cannot be issued until the license renewal fee plus all or 50% of the 25% one-time fee increase is paid. If an organization chooses to pay 50% of the one-time fee increase the remainder will be due next year.

Class	Annual License Fee	One-time 25% Fee Increase	Total License Fee Due Including One-time 25% Fee Increase	Payment Due If Taking Half Payment Option for 25% Fee Increase	Payment Due If Taking Half Payment Option for 25% Fee Increase
E	\$ 600.00	\$ 150.00	\$ 750.00	\$ 675.00	\$ 75.00
F	\$ 900.00	\$ 225.00	\$ 1,125.00	\$ 1,012.50	\$ 112.50
G	\$ 1,200.00	\$ 300.00	\$ 1,500.00	\$ 1,350.00	\$ 150.00
H	\$ 1,500.00	\$ 375.00	\$ 1,875.00	\$ 1,687.50	\$ 187.50
I	\$ 2,000.00	\$ 500.00	\$ 2,500.00	\$ 2,250.00	\$ 250.00
J	\$ 2,500.00	\$ 625.00	\$ 3,125.00	\$ 2,812.50	\$ 312.50

*This amount must be paid prior to August 31, 2001 or the next license renewal date, whichever is sooner.

Yearly Average Licensing Pending Shows Steady Drop



The yearly average of licenses pending shows a steady decline since 1994 – from a high of 840 in 1994 to 192 for the first 10 months in 1999.

Billy Atkins, Director of Charitable Bingo attributes the decline to “The super job the staff has done. They are a talented and dedicated group of individuals who pride themselves on maintaining the highest level of service to you, our customers.”

Bruce Miner, Licensing Supervisor, attributes the decline in pending licenses to the quality of the staff, improved forms, the implementation of faxed and telephone amendment procedures, development of standardized procedures and the improved content and format of the Bingo Bulletin which provides our customers with important information, and improved communications at all levels in the organization. He said, “For the first time in several

years we are fully staffed with people who have a great work ethic and strive to provide a high level of customer service.”

The implementation of the Charitable Bingo website has improved customer access to information. In the very near

future all of the licensing forms will be available on

the website. The acquisition and implementation of the new CBS (Charitable Bingo computer system) will have a tremendous impact on all aspects of Charitable Bingo in Texas. It will provide faster, more reliable information that will contribute to a reduction in time required to process applications. Ultimately this system combined with the Internet should significantly cut paper based processes and processing time. The new millennium will truly be a revolutionary time for Charitable Bingo in Texas!

***“For the first time
in several years we are
fully staffed with people who
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to provide a high level of
customer service.”***

Bruce Miner, Licensing Supervisor

Roy Gabrillo Appointed Senior Audit Supervisor

Roy Gabrillo is now the Senior Audit Supervisor located in Austin. Roy was the Audit Manager in the Dallas Regional Office prior to accepting the Senior Audit Supervisor position and has worked in Bingo for over 8 years. He previously worked for the Texas Alcoholic Beverage Commission for over twelve years as an Audit Staff Supervisor. He graduated from Texas A & I University with a B.B.A. in Accounting. When asked to comment on his new job he said, "This position will provide me the opportunity to be part of a very innovative team. It will allow me to be more involved in the decision making process concerning Charitable Bingo. I plan to make the most of my position by keeping myself as accessible as possible to the regional managers and their staffs. I hope I can have an impact on Charitable Bingo in Texas by making suggestions that will have a positive effect. Whether it is by making the game more fun for players or by improving the services we provide our licensees. The only draw back about taking this job is that I will miss everyone in the Dallas office. They are a great asset to Charitable Bingo and I'm proud to have had the opportunity to work with them."

Jody Mehaffey Promoted to Audit Manager of the Dallas Regional Office

Please join us in congratulating Jody Mehaffey on her promotion to Audit Manager of the Dallas Regional Office. Jody has worked in Charitable Bingo for over seven years. Prior to her promotion she was Regional Assistant & Auditor IV of the Dallas Office. Jody received her B.B.A. in Accounting from The University of Texas at Arlington and is a Certified Public Accountant (CPA). When asked to comment on her new job duties she said, "I'm excited about my new position, and am looking forward to working closer with the staff in Austin. I am fortunate to have a good staff in the Dallas office. I appreciate all of the offers of support and assistance that I have received."

**Charitable Bingo
In The News**

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