

# Amusement Taxes for the Arts

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## **An Alternative Funding Source for the Arts**

An amusement tax—also called an entertainment tax—is an example of a local option tax that can be used as an alternative revenue resource for supporting the arts. This pamphlet describes amusement taxes and offers examples of the various ways municipalities have levied the tax, and the issues that agencies should consider when planning for the establishment of a tax. Case studies demonstrate different ways that communities have enacted this tax, the exemptions that are set, how revenues are distributed, the impact of this alternative revenue source for the arts, and lessons learned through their experiences. Although each community's story is unique, there are important aspects of their experiences that agencies and municipalities will find helpful in exploring the use of amusement taxes to enhance funding for the arts and culture at the local level.

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## **What is an Amusement Tax?**

An amusement or entertainment tax is one that is levied on a municipality's entertainment activities. In its most basic form, an amusement tax is placed on admissions to events such as sports, for-profit arts performances, entertainment shows, and movies. In some communities the amusement tax is extended to include pay television; admissions to golf courses, bowling alleys, and tennis courts; video rentals; and music store sales. Although many communities exempt nonprofit organizations from paying amusement taxes on

their ticket sales, others have included them in their admission taxes.

An amusement tax is usually levied in two ways. It can be a percentage of the ticket price or a flat per-ticket tax. Where communities differ widely is in the exemptions to this tax. For instance, some municipalities exempt nonprofit arts and cultural groups, others do not. Where the exemptions are clearly defined, the tax is easier to collect. In communities where the exemptions are complicated and criteria are vague, enforcement can be difficult.

### **Amusement Taxes At Work Across the Country**

The following case studies describe four different communities and their experiences with an amusement tax. Not all of them have been positive

experiences, and in some cases, the arts community has felt that the taxes offer more disadvantages than benefits. Each example brings up issues that are important considerations for any community thinking of enacting an amusement tax.

#### **Chicago, Illinois**

The City of Chicago has had an amusement tax in place for many decades. As a local option tax levied on admissions to

“most things that make you smile,” Chicago’s tax covers tickets to professional sporting events, bowling, miniature golf, movies, commercial musical attractions, and pay television (including cable). All nonprofit arts organizations are exempt from the tax, with the exception of professional live theater in venues with a seating capacity over 750.

Revenues from the amusement tax, currently 7% of ticket prices, are collected and added to the city’s general corporate fund, which in 1995 totaled \$27,300,000. Chicago’s tax is not specifically earmarked for the arts. Therefore, the city’s annual appropriations process determines which municipal departments receive the revenue from its amusement tax.

Chicago city council members enthusiastically support the amusement tax and feel it is an appropriate way to fund the discretionary portions of the city’s budget. No organized efforts to repeal the tax have taken place. In fact, the amusement tax rate has actually risen in the past few years from 4% to 7%. Overall, voters in Chicago are more sensitive about property taxes, so that for the present time, the amusement tax continues to provide a stable source of revenue to the city.

Revenue from the amusement tax has been climbing as Chicago’s entertainment sector continues to grow. Admissions are up, translating into a healthy revenue flow. For now, the amusement tax in Chicago provides a strong source of funding that has been used to support the arts enabling residents and tourists to enjoy the city’s many cultural offerings.

#### **Winnipeg, Manitoba**

The city of Winnipeg, Manitoba, in Canada, is currently in the process of evaluating its amusement tax

law, a three-year experiment that guaranteed a minimum amount of funding for the Winnipeg Arts Advisory Council and its grantees. In 1993, the municipal government, as a result of pressure to reduce taxes and spending, cut city arts funding 25%. In

response to the damage done by such a massive cut to the arts groups' annual grant, a new funding scheme was developed by members of the City Council in consultation with a group of arts organizations. Initially, most arts groups were not strong proponents of an amusement tax, but they were prepared to support it rather than have their municipal funding reduced so dramatically. The amusement tax revenue was earmarked for support to the arts, as opposed to arts grants coming from the city's general fund.

Winnipeg's amusement tax has some unique features. First, a set of exemptions was approved. A statement of intent was drafted to proclaim that the exemptions were "intended to assist not-for-profit cultural and athletic organizations in producing local entertainment and sporting events with admission prices at a level which encourage broad audiences" and to stipulate that fundraising events did not apply. Specific criteria governing the exemptions were also established. The Winnipeg Arts Advisory Council was given the authority to review applications for exemption and to make recommendations to the city's Finance Committee.

The new by-law took effect in 1994, and the city restored the arts funding to the 1992 level of almost \$2 million. If amusement tax revenues fell short of this figure, the balance was to be covered by the city's general fund. Revenues were earmarked specifically for arts and culture, with the Arts Council having the authority to make grant recommendations (as with the exemptions process) to the city, which has final authority. The bulk of funds were awarded as "primary operating grants" to nonprofit arts and cultural groups. The rest of the funds supported project grants, indi-

vidual artists grants, and the Arts Council's administrative expenses. Any excess revenues were placed in a reserve account to fund grants in the event of a shortfall.

A committee appointed by the Mayor is currently reviewing Winnipeg's amusement tax by-law and other cultural policies. As the evaluation unfolds, questions and concerns about the exemption process continue to surface, especially as there has been some disagreement between the Winnipeg Arts Advisory Council and the Finance Committee on interpretation of the criteria for exemptions. Arts groups are also making the recommendation that the city consider the support of the arts an essential service and provide grants from the city's regular operating budget. The lesson from Winnipeg is, that while the amusement tax has provided arts groups a source of stable funding for three years, the growth of the funding, concerns about future shortfalls, and the complicated nature of exemptions continue to be issues for resolution.

### **Portland, Oregon**

In Portland, the amusement tax, locally called the "user's fee," is added to tickets sold to all events in publicly-owned sports, arts and convention facilities. Any organization using these facilities must pay the tax from its ticket sales. The revenues flow to the facility's operating fund as earned income of the facility. In Portland, nonprofit arts groups must also pay a user's fee.

The philosophy behind this arrangement is that groups using the facilities benefit indirectly from the tax because revenues keep the facilities in operation.

Portland's user's fee was enacted in the late 1980s by the commission that manages the publicly-owned facilities. Users slated to pay the fee resisted, but tax proponents prevailed, gaining support from a well-organized effort on the part of the facilities showing comparable fees elsewhere in the nation.

A unique feature of Portland's tax is that it is based on a sliding scale tied to the price of the ticket. For tickets up to \$10.00, the fee is 50 cents; for \$10.01 to \$22.00, the fee is \$1.00; and for tickets priced \$22.01 and up, the fee is \$1.50. The arts community has benefited from the user's fee because it has enabled the facilities to stay in business. The fee generates approximately \$1 million, or 20% of the annual operating budget for the Portland Center for the Performing Arts, and has not contributed to a decline in ticket sales. However, the tax has been difficult to collect because the sliding scale is complicated.

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The user's fee continues to be a stable revenue source for the city's facilities. Established as a continuing policy, the fee does not need to be reauthorized as do other taxes. Despite the beneficial impact of funding on public cultural facilities, Portland's arts groups are working to get the user's fee reduced for nonprofit principal tenants as part of a larger effort to improve their revenue-generating and cost-cutting measures for the performances in the facilities.

Portland's experience offers an important lesson: the tax should be simple. Sliding-scale user's fees require time-consuming calculations and confirmations. It is much simpler to attach a set amount to the ticket price, or to determine the amount as a set percentage. As

ticket prices have increased, the scale has remained the same. If a sliding fee scale is used, it should be reviewed periodically to better link the fees to ticket prices. Portland's experience also reveals that amusement tax revenues dedicated to capital improvements, rather than operating costs, show tangible results which are more politically-palatable for the user groups.

### **Seattle, Washington**

The city of Seattle has an amusement tax that dates back to the 1940s. Called an admissions tax, it first began as a state tax enacted in the 1930s. The following decade, the state government shifted the tax authority to local governments throughout Washington state, making it a local options tax. Today, most cities in the state do have an admissions tax. Counties are also authorized to impose the admissions tax, but only in those jurisdictions that are not already taxed.

Seattle's 5% admissions tax has a long history of incremental change, specifically in the area of exemptions. Over the years, the city has established two main categories of exemptions: 1) non-profit arts, cultural, historical and scientific groups, as well as historic theaters, museums, the zoo and the aquarium; 2) certain events sponsored by human service organizations. All other events that require a ticket purchase are taxable, including sporting events, carnivals, movies, rock concerts, commercial arts performances, golf courses, and tennis courts.

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Revenue from the admissions tax is added to the city's general fund, and is not specifically earmarked for the arts. In fact, there is no direct budgetary connection

between the admissions tax and city support for the non-profit arts and cultural organizations. Instead, arts groups benefit directly from a 2% hotel-motel tax in King County. That tax was originally enacted to pay for the Kingdome sports facility. The revenues from the hotel-motel tax have been re-allocated so that arts groups receive approximately 50% of the funds. In addition to this, Seattle directly appropriates about \$2.1 million per year for arts programs.

Recently, a proposal was floated to expand Seattle's admissions tax to include non-profit organizations' events, with the revenue generated being invested in the facilities of those groups. The arts community successfully opposed this proposal, arguing that ticket sales would be affected by the imposition of such a tax.

The admissions tax in Seattle is permanent, requiring no reauthorization. As a revenue source for the city, it is considered to be volatile, relying heavily on professional sporting events. When Seattle's three professional teams are doing well, attendance is up and the tax money flows. When the teams are struggling, the revenue drops.

Seattle's case is an interesting one, primarily because of its complicated exemption structure. City officials note that the lesson to be learned from Seattle is to simplify the tax to make it easier to enforce. It is important to set exemption categories for broad and readily-defined groups, such as all non-profit groups, or those non-profit groups that are not locally based. Ultimately, a straightforward, well-defined, easily enforceable tax is preferable to a complicated set of exemptions.

### **Is an Amusement Tax Right for Your Community?**

Amusement taxes as a support mechanism for the arts have received mixed reviews. While many communities have enacted an amusement tax, few earmark the tax revenues

specifically for the arts. Instead, the revenue is added to the municipality's general fund from which arts groups may or may not receive funding. In communities where nonprofit arts groups are exempt from paying the tax, those groups are more supportive of the tax. When nonprofit arts groups must also pay the tax, they are often actively working to get the tax repealed. Their biggest concern is that arts patrons are price-sensitive, so that a tax added onto the ticket price will deter attendance. As arts groups struggle to adjust to fewer public and private funding resources, earned income is critical for meeting their expenses. An amusement tax may cut into that income.

In each of the communities cited, people concluded that the tax brought in much-needed revenue to the city. However, they all offered suggestions for ways to improve upon their current tax structure. Communities considering the enactment of an amusement tax would do well to study the fee structure and exemption categories of similar communities where arts groups feel they benefit from the revenue. Reviewing other communities and learning from their experiences, will strengthen the planning process and help identify, address and resolve the important issues associated with an amusement tax.

### **Critical Issues to Consider**

1. Are nonprofit arts organizations exempt from paying the tax? If not, the value of the amusement tax may be limited. In some cases, if arts organizations are not exempted, the tax may become a significant liability.
2. Are the guidelines for exemptions clear and well-defined? Use broad categories for groups, such as “nonprofits” or “nonprofit arts organizations.” Make sure guidelines are responsive to special cases, such as fundraising events.
3. Does a portion of the revenue from the tax get earmarked for nonprofit arts organizations? If not, the amusement tax may not be a significant asset to the arts community.
4. Is the tax structure simple and easy to enforce? Complicated tax structures cause confusion and reduce compliance. Avoid sliding-fee scales and other complicated multi-level fees. Use a percentage of the ticket price or a flat fee.

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### **Taking the First Steps: How to Implement an Amusement Tax**

1. Create a working group with community-wide participation to investigate and pursue amusement tax funding.
2. Determine funding needs in your area over the foreseeable future. Plan ahead.
3. Evaluate current funding sources for the arts in the community and their relative stability. Identify risks in current funding sources—this will affect future requirements.
4. Consider the political climate in terms of likely support for new funding initiatives. Identify likely resistance and plan for it.
5. Contact Americans for the Arts at 202.371.2830 for sample legislation.
6. Make sure the tax is structured to provide adequate support for the arts. (See “Critical Issues to Consider.”)
7. Seek out other local initiatives to which alternative arts funding can be attached. It is easier to leverage existing initiatives than to start from the beginning.

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### **About Americans for the Arts**

Americans for the Arts is the national organization that supports the arts and culture through private and public resource development, leadership development, public policy development, information services, public awareness and education.

Americans for the Arts is dedicated to the following six goals:

- Increase private and public resources for the arts
- Strengthen the effectiveness of local, state, regional and national systems of support and development for the arts
- Develop new leaders for the cultural community
- Further the role of arts education in schools and communities
- Heighten understanding of the role and value of the arts
- Increase access to and participation in the arts and culture for all people

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*Americans for the Arts is formerly the National Assembly of Local Arts Agencies and American Council for the Arts.*

### **About the Author**

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