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Implicit Taxation in Lottery Finance

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State lotteries as they are operated in the United State today involve four distinct aspects: legalization of lottery games, monopolistic provision by the state, marketing of lottery products, and extraction of a portion of the surplus they derive from sales for state revenue. In this paper we use conventional tools of applied public finance to examine the implicit tax levied by lottery agencies through this fourth function . We examine the incidence of the implicit lottery tax, focusing on the dominant lottery games used in the 1980s. We find that the implicit tax is regressive in virtually all cases. We then consider whether the implicit tax rate on lotteries is too high, comparing that rate to excise tax rates on alcohol and tobacco.

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