

TURNOVER TAX ON POKER MACHINES

The matter of the introduction of a Turnover Tax on Poker Machines in the Registered Clubs of N.S.W. for some people is as natural as night following day and for others as confusing as the predictions of Nostradamus.

This situation has unfortunately been brought about by views, opinions and arguments put forward by certain Government officials and ill informed persons associated with the Club Industry. The argument used by the Government to introduce such a tax in the Hotel industry is as follows:

"Duty on credits played is appropriate because:

- . it is a duty on the amounts risked by players;
- . except for hotel and club gaming machines, all forms of gambling taxes are calculated on the amounts risked;
- . this proposal moves to correct that anomaly;
- . the only other near equivalent rate of tax on amounts risked is on racing gambling at around 8% of turnover (bets).

These facts have been recognised by the AHA. Their counter proposal which led the Government to put its final position (at a reduced rate) was based on the duty being calculated on credits risked, ie. turnover.

The Government only requires a minimum of 85% of turnover to be returned to the players as prizes. Any higher rate of return is a commercial decision of the hotelier".

The above arguments by the Chief Secretary do not contain any substance on the Turnover Tax debate.

A turnover tax, to be put in a simplistic term, is a tax levied on all coins and credits played through a poker machine, therefore a tax percentage of 2.8% means that the relevant body would receive 2.8 cents for every \$1 played irrespective of whether it was a win or lose combination.

The concept of a turnover tax is fine provided that there are certain known factors, such as all machines being of the same or similar carded return to player percentage, or without a wide percentage return disparity. The implementation of a turnover tax may be questionable for the club industry because of the variety of percentage return to players, (85% to 98%), and the constant changes to an individual club's poker machine return configuration. This could be unfair especially since the volatility of these machines' performances is unpredictable to say the least. It should be noted that in other areas of gambling that have a turnover tax, such as the bookmaking fraternity, there is a built in facility to adjust immediately their gaming percentage return by adjusting the odds available to ensure that they can attract or in some cases reject potential gamblers. Regrettably the poker machine industry does not have this instant percentage adjustment factor.

It should be noted that poker machines with a high return to player percentage, say from 95% to 98%, can at times be running at a loss and would incur an additional loss via the turnover tax.

The turnover tax percentage that some industry associations espouse as being 2.8% is difficult to accept, especially when the calculations on these percentages do not acknowledge that there are over 600 clubs that do not pay the present supplementary tax nor the additional supplementary tax. The quoted turnover tax of 2.8% only represents a total tax on approximately 900 clubs divided by the total turnover of approximately 1532 clubs, which in turn becomes an invalid percentage. See the calculation below.

Total club industry poker machine turnover in 1988 was \$6,500,000,000.

Total tax collected	\$212,000,000
Less licence tax of	<u>\$ 30,000,000</u>
	<u>\$182,000,000</u>

Therefore \$182,000,000 as a percentage of total turnover is 2.8%.

As a guide to the effect a 2.8% duty on turnover would have on clubs two examples are given below, covering different size installations.

CLUB A HAS:

10 x 10c poker machines at \$200 per machine licence tax - \$2000
3 x 20c poker machines at \$1000 per machine licence tax - \$3000

TOTAL LICENCE TAX	<u>\$5000</u>
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Turnover for year 1988 - 1989	\$769,230
Nett Profit	\$ 99,999

Since this club is under the \$100,000 supplementary tax threshold, the only tax payable is \$5000 licence tax. Therefore \$5000 expressed as a percentage of turnover (769,230) is .65%, however should this club have to pay a turnover tax of 2.8% the total duty payable would be 2.8% of \$769,230 - which is \$21,538.40.

This represents an increase of \$16,538.40 - a staggering 330.8%. Such a substantial increase for a club of this size is unreasonable and no doubt their ability to meet their commitments would be severely affected with this additional financial burden of \$318.05 per week.

It should be noted that "Club A" has no \$2 or \$1 poker machines and would probably not install them for a number of years.

Another example of the effect a turnover tax would have is "Club B". This particular club has 222 poker machines and has a club retention rate of approximately 13% of turnover in 1988. Due to the introduction of \$2 and \$1 poker machines, (with a high carded return to player percentage), the club's retention rate dropped to 10.8% of turnover in 1989.

<u>1988 TOTAL</u>		<u>1989 TOTAL</u>	
<u>TURNOVER</u>		<u>TURNOVER</u>	
10 cent	\$39,429,276	10 cent & 20 cent	\$64,330,956
20 cent	\$26,374,956	\$1 and \$2	\$22,716,420
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	\$65,804,232		\$87,047,376
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Nett Profit (12.9% Turnover)	\$ 8,471,016	Nett Profit (10.85 Turnover)	\$ 9,362,796
Less Tax including licence, supplementary & additional supplementary tax	\$ 1,948,333	Less Turnover Tax of 2.8%	\$ 2,437,326
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PROFIT AFTER TAX	\$ 6,522,683		\$ 6,925,470
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The above example demonstrates that this club with \$2 and \$1 poker machines, has increased its turnover by \$21,243,144 (32.28%) yet the nett profit after tax was only a 16.19% increase on 1988. If the tax paid was on the same basis as in 1988 then the tax payable would be \$2,153,443. Therefore a turnover tax of 2.8% represents an increase in taxation of \$283,883, (13.2%).

These examples reinforce the industry's opinion that a direct tax on turnover is inequitable, difficult to justify and conceptually does not take into account the innovations that may be offered in the future for gaming machines. Furthermore, it may be argued that a direct tax on turnover could stifle a club's ability to offer its patrons a higher percentage return, therefore, the players "run" on poker machine is reduced greatly.

Where at present some clubs have poker machines that are set between 92% and 98% return to player, these clubs could be faced with no alternative but to reduce the player return, simply to maintain their profitability in order to continue servicing members' amenities. This surely would see the demise of \$2 and \$1 machines as the main marketing feature is the generosity of their return to player percentages.

Should clubs be forced to lower the return to player (because of turnover tax) it may be construed as an indirect tax on the poker machine public of N.S.W., which could have a dramatic effect on the commercial viability of those operating these gaming machines.

The club industry in general agrees, that the poker machine taxation system is in need of serious reform, due to its archaic complexity, and to some in the industry, a very confusing system. Therefore, it is of paramount importance that the financial architects of any new taxation system, when planning, build in the following points;

- (a) encouragement for clubs to return more to players,
- (b) take account of the way inflation affects the denominations of machines people play,
- (c) simplification of the method of calculating the duty payable by clubs,
- (d) allows the relevant body to collect these taxes monthly,
- (e) be revenue neutral on implementation of the system
- (f) be flexible enough to take into consideration future gaming concepts.

88/89

TURNOVER	54,021,926
NET	7,219,819 (Act.) 6,805,688 (Exp.)
LIC. FEE	146,133
S.L.T.	1,009,034
ADD. S.L.T.	443,882

TOTAL TAX = \$1,599,049

TOTAL TAX BASED ON T/O	=	2.96%
TOTAL TAX BASED ON NET	=	22.14%
TOTAL TAX BASED ON EXP	=	23.50%

OCTOBER 1988

SET TURNOVER TAX (2.96)

EXPECTED TAX (23.5)

5c	8,797	9,372
10c	76,507	76,471
20c	53,760	52,024
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TOTAL	\$139,064 =====	\$137,867 =====

OCTOBER 1989

SET TURNOVER TAX (2.96)

EXPECTED TAX (23.5)

10c	55,060	57,777
20c	37,806	38,852
\$1	167,827	62,019
\$2	107,727	41,983
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TOTAL	\$368,420 =====	\$200,631 =====

OCTOBER 1989

	<u>TURNOVER</u>		<u>ACTUAL</u>		<u>EXPECTED</u>	
		\$		%	\$	%
10c (70 Mach)	1,860,139		188,482	10.13	245,861	13.21
20c (50 Mach)	1,277,263		88,978	6.96	165,330	12.94
\$1 (20 Mach)	5,669,830		276,94	4.88	263,912	4.65
\$2	3,639,442		220,405	6.05	178,651	4.90
	<u>12,446,674</u>		<u>774,769</u>	<u>6.22</u>	<u>853,754</u>	<u>6.85</u>

BREAKDOWN PER MACHINE

	<u>TURNOVER</u>	<u>EXPECTED</u>
10c	25,137	\$ 3,323
20c	25,545	\$ 3,306
\$1	283,491	\$13,196
\$2	363,944	\$17,865
AVERAGE	<u>80,822</u>	<u>\$ 5,543</u>

SUMMARY

	<u>OCTOBER 1988</u>	<u>OCTOBER 1989</u>	<u>VARIATION</u>
TURNOVER	4,698,140	12,446,674	\$+ 165.00
EXPECTED \$	586,674	853,754	\$+267,080.00
TURNOVER TAX	139,064	368,420	\$+229,356.00
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			CLUB NET INCREASE
			\$ 37,724.00
			=====
EXPECTED TAX	137,867	200,631	\$+ 62,764.00
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			CLUB NET INCREASE
			\$ 204,316.00

12 MONTH SCENARIO

EXPECTED \$	3,472,040
TURNOVER TAX	2,981,628
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CLUB NET	\$ 490,412
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NOTES

So the Club could increase its Net Revenue by \$3,472,040 and pay tax on the money of \$2,981,628 or 86%.