

Trends in Gaming Taxation

Federation of Tax Administrators

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40-year trend in gaming taxation

- Nearly always upward
- Starting with New Jersey in 1978
 - 8%
 - Highest in Nation
- Trend continued for more than two decades
- Nearly always for political considerations

Taxation trend in 2020 and beyond

- Upward pressure
 - Political considerations still exist
 - Elected officials do not want to leave money on the table
- Downward pressure
 - Emerging forms of gaming don't work under higher tax rates
 - Nascent movement to energize existing gaming markets in face of saturation

Upward Pressure

- Budgets need to be balanced
 - Round up the usual suspect
 - Expand gaming
 - New licenses
 - New forms of gaming, retail locations to truck stops
 - Sports betting
 - Online gaming

Downward Pressure

- Bowing to reality: When rates reach nearly confiscatory levels, no room for further increases
- Recognition of reality: High tax rates in saturated markets leave little room for gaming operators to pursue different business models

Spectrum report on gaming in Louisiana

‘Tax rates that were established in previous decades cannot be assumed to be optimal in coming years. Consistent with that finding is the notion that operators who hold the privilege of a gaming license also bear responsibility to make an economic case for more sensible tax policies. Any change in tax rates, or other major policy changes, require operators to justify such relief. Will these changes lead to more investment, and if so, to what level with what projected outcomes? ‘

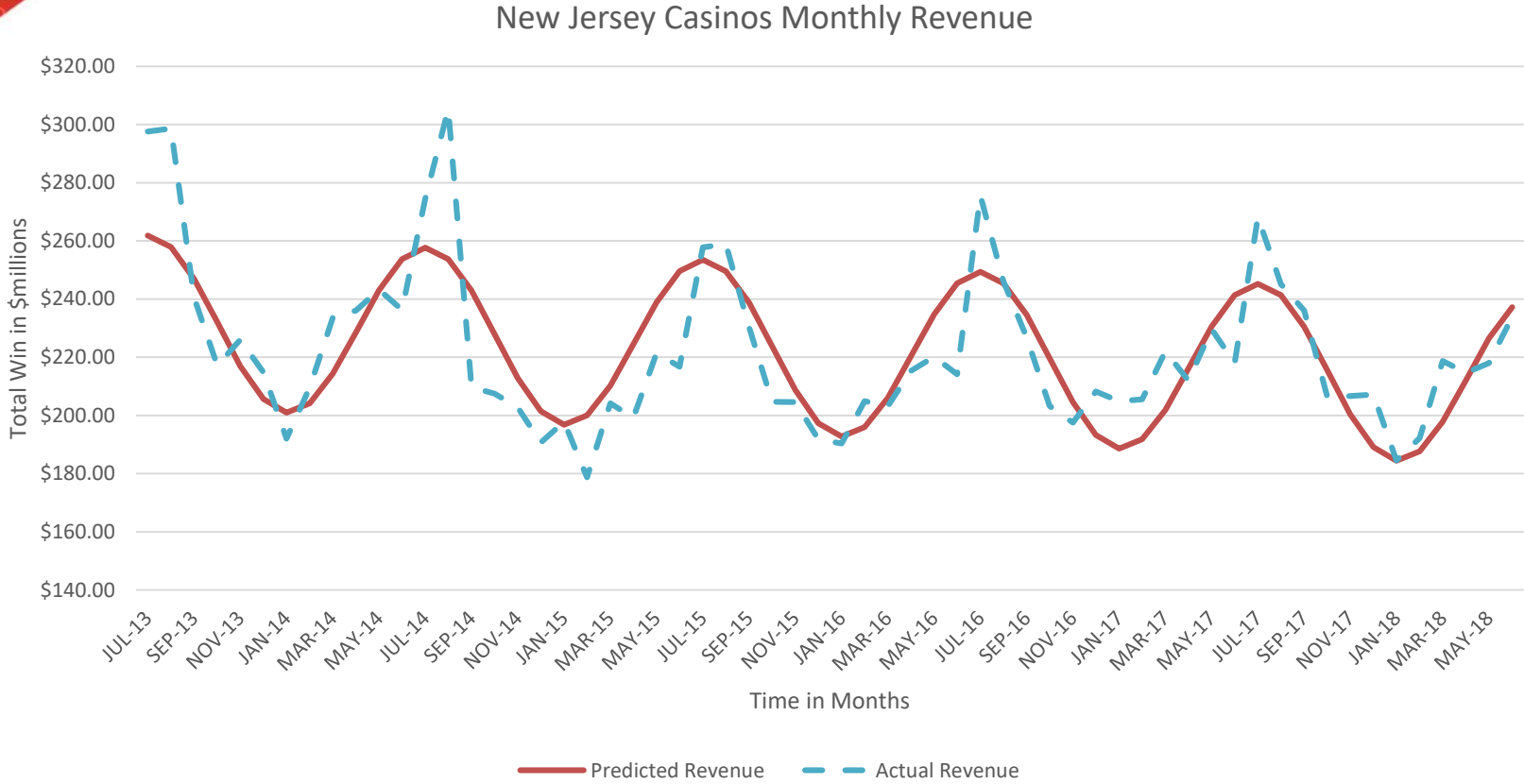
Spectrum report on gaming in Louisiana

‘The core recommendation at the heart of this report is: Gaming policy must be established on a foundation of flexibility, adaptability and an adherence to timeless principles, chiefly that a gaming license is a privilege, and the success of gaming depends on public trust ‘

Spectrum's universal recommendations

- Carefully re-evaluate tax policies with eye to ensuring that lower tax rates will lead to capital investment, effective business models
- View all forms of gaming through the widest possible prism

Pre-sports betting revenue trends in NJ

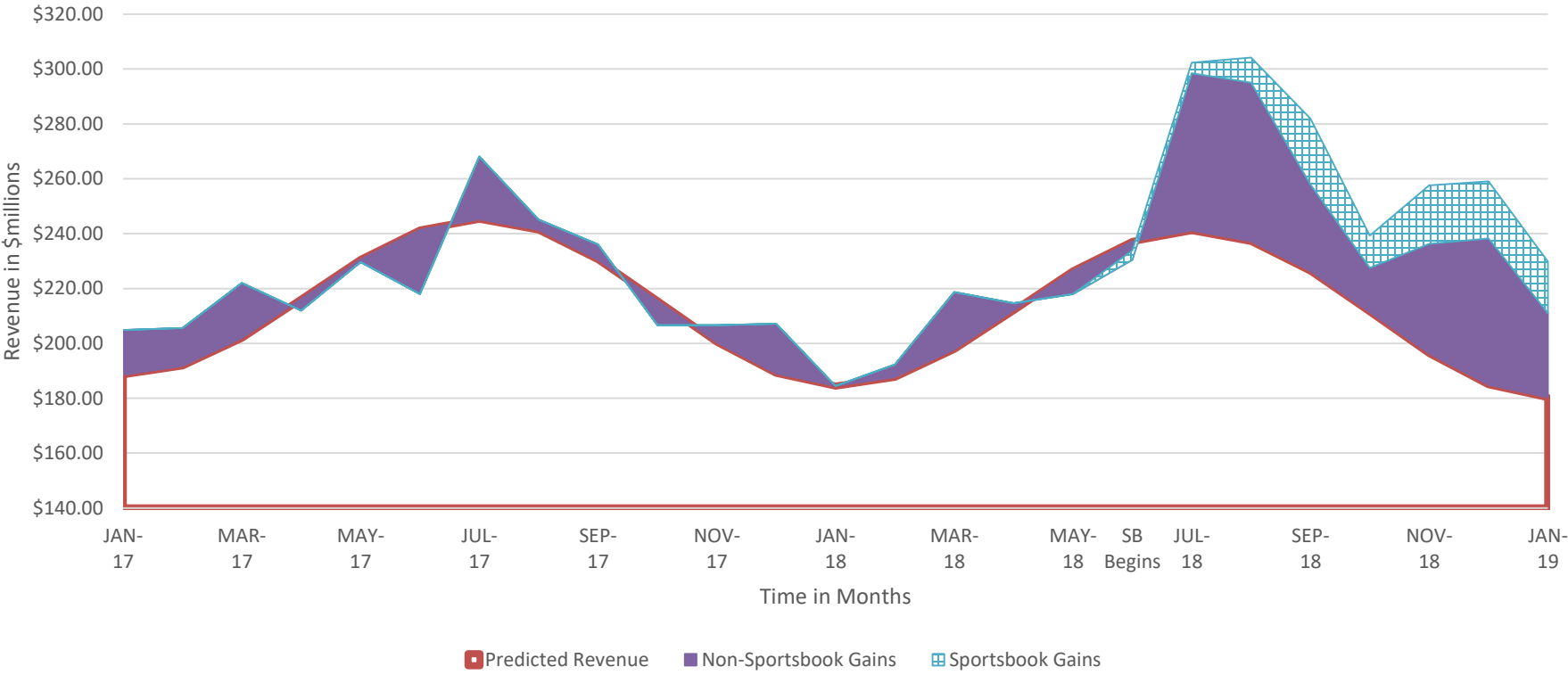


Data from Spectrumetrix™



After six months of sports betting, with additional casinos in market

New Jersey Casinos Monthly Revenue



Data from Spectrumetrix™



Fiscal view of online, sports betting: Multiple revenue streams

- Online, sports gaming revenue
- Increased land-based revenue
- Increased non-gaming spending
 - Sales tax
 - Entertainment tax
 - Hotel tax, other tax streams
- Potential for additional capital investment
- Increased employment, leading to additional fiscal benefits

Caesars' initial experience: Online as marketing channel

- “(The) poker market in land-based casinos has grown since the onset of online poker.
- Offline poker revenues have grown since the inception of online poker.”
- Caesars – which hosts highly successful Total Rewards marketing program – also noted that:
 - 80 percent of its online players are new customers.
 - Of players in Total Rewards database, 42 percent of those who played online were inactive prior to offering of online play and then reactivated after signing up online.

Tropicana's initial experience

- Approximately 60 percent of players who signed on to play online were “new acquisitions,” i.e., not previously enrolled in Tropicana’s customer database.
- Of remaining 40 percent, half were inactive or “lapsed,” had not generated any tracked play at Tropicana during previous 12 months.

Final considerations

- Relationship between land-based, online/mobile tax rates is crucial
 - Operators more likely to encourage play at lower tax rate
- High tax rates decrease likelihoods of inroads into reducing illegal play
 - Illegal sites offer better odds
 - Have history of paying bets
 - Tax rates on mobile/online should not exceed 15%