

GAMING TAXATION MODEL TO GENERATE TOURIST GAMING RESORTS IN SLOVENIA

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MODERN SLOVENIA GAMBLING HISTORY

Post WW 2 socialist era

□ After 1954

- ✓ **Slovenians free to get passport and go out to work and come back home**
- ✓ **Country opens the borders for tourists to get foreign currency - desperately needed**
- ✓ **Companies self managed by employees and supervised by state agencies**
- ✓ **Elements of free market, especially in tourism industry**

MODERN SLOVENIA GAMBLING HISTORY

First casinos allowed after 1963

- ❑ Small casinos in tourist resorts (selected places and limited number) to collect foreign currency
 - ✓ Portoroz at Adriatic Coast, San Remo casino model “imported”
 - ✓ Bled-Alpine resort
 - ✓ Ljubljana
- ❑ Secret police supervise gaming business operation
- ❑ Entrance not allowed to Slovenian citizens
- ❑ No taxes on GGR, no taxes on profit, money used to build tourist capacities in communities
- ❑ Employees got very high salaries- high professional and trained
- ❑ Players received honest and fair services

MODERN SLOVENIA GAMBLING HISTORY

Political crisis, more free market after 1980 to 1991

- ❑ Small local hotel company HIT in 1984 got the licence for a very small casino in an industrial town Nova Gorica
- ❑ HIT operates the industry as a private company, well paid employees motivated for profit and expand
- ❑ Gaming tax 8 %, low tax on profit, BUT all the profit belongs to the company (no owners !)
- ❑ HIT grew up in few years in a modern American style and biggest casino in the region (1.5 million foreign visitor per year)
- ❑ Gaming tax up to 20%, but HIT expand dramatically

MODERN SLOVENIA GAMBLING HISTORY

From Slovenian Independence 1991 to 1999, part 1

- ❑ Democratic life free market and privatisation :
 - ✓ Slovenians free to enter the casinos
 - ✓ Many restaurants open slot halls
 - ✓ HIT bought the land at freeway Venice- Ljubljana to build an Las Vegas style casinos
 - ✓ No gaming law amendments for totally new gaming environment
 - ✓ No responsible gaming awareness, no taxes (or very low) for slots outside casinos
 - ✓ Privatisation euphoria to overtake companies with no owners.
 - ✓ The only big STOP light was opened for HIT by Parliament in 1993,
- ❑ Established UNPIS - state agency to control gaming industry

MODERN SLOVENIA GAMBLING HISTORY

From Slovenian Independence 1991 to 1999, part 2

- ❑ Gaming Law amendments in 1993
 - ✓ No privatisation for casinos till 1999
 - ✓ Progressive taxes up to **60% to STOP HIT** and let survive small casinos
 - ✓ Private slot halls to pay some fixed tax amount per slot per month
 - ✓ No gaming responsibility under Gaming Law enforcement
- ❑ New democratic Slovenian state take care only to grab the money from gaming and to divert public opinion to “gambling thieves”, all others go ahead and take it by new privatisation law 1993

RECENT SLOVENIA GAMBLING HISTORY

Up and downs for gaming industry in 1999 to 2008, part 1

- ❑ Slovenian casinos privatised by special Law to be “state owned” or as some used to say nationalized
- ❑ Slovenia introduces VAT and slightly lower the progressive gaming taxes in 1999 to help HIT survive
- ❑ Gaming law amendments 2001-2003
- ✓ Private owned “Gaming casinos” limited to 200 gaming places (slots, electronic roulette) – named as “saloons”
- ✓ Strategy 1998 max 25 gaming saloons, Gaming Law set up to 45 saloons and closing down slots in bars and restaurants
- ✓ UNPIS main business to control taxes are fairly paid by all

RECENT SLOVENIA GAMBLING HISTORY

Ups and downs for gaming industry in 1999 to 2008, part 2

- ❑ **HIT in 2000 starts collaboration with universities home and abroad to promote **Tourist gaming resorts in SLO****
- ✓ Faculty of Economics(UL), UNR (William Eadington), UNLV..
- ✓ HIT invests in people training at home and in US - EDP at UNR
- ✓ Hit promote to establish MBA in Gaming at Slovenian university with support of UNR (College of Business and Institute for gaming)
- ❑ **Mother of all studies in 2001 called “New deal between RS and HIT”, Faculty of Economics (J.Prasnikar) at UL**
- ✓ **Lower gaming taxes to build tourist gaming resorts** was the message and Government will collect more money
- ✓ Hit bought the land for tourist gaming resort
- ❑ More and more “gaming saloons” operating better and better in the shadow of big casinos at Slovenian west borders
- ❑ Government gets more and more money and is not worried that its own “state casinos” operating poorly.

RECENT SLOVENIA GAMBLING HISTORY

Ups and downs for gaming industry in 1999 to 2008, part 3

- ❑ Ministry of Finance(Anton Rop), liberal government support the idea of New deal HIT- RS proposed by the study of professor Prasnikar at Faculty of Economics
- ❑ Anton Rop (president of the government 2002-04) lowers gaming taxes to support Hit to invest in an 300 mio € gaming resort project at Vogrsko exit freeway Venice - Ljubljana
- ❑ During 2001-2005 Hit is the only “state casino” doing well due to steadily lowering progressive concession tax from 35% to 20% (gaming tax remains at 18% on GGR)
- ❑ HIT **didn't follow** the deal HIT–RS to invest in new gaming resort at Vogrsko
- ❑ HIT launch in 2003 a new corporate strategy 2003-2007 to build **tourist gaming destination in Nova Gorica** with the money earned from lower taxes
- ❑ Hit don't' follow even its own strategy but invests in “many things” everywhere with poor results
- ❑ In 2003 Hit launches the idea of degressive concession tax model to promote investments in gaming related tourist services (follow the Las Vegas good experience): hotels and wellness event and conference rooms, nice restaurants and high end shops, thousands of parking spaces and...,,

RECENT SLOVENIA GAMBLING HISTORY

Ups and downs for gaming industry in 1999 to 2008, part 4

- ❑ In 2004 Hit strategic department warns that company is going into risk due to growing competition on limited market targeting only on drive-in guests (up to 150 km) from Italy
- ✓ “State owned” casinos cannot compete as more and more new private gaming saloons are doing better and better; they are also employing well educated former Hit employees
- ✓ Hit has to expand the market to west and central Europe, bringing gaming people for weekends and other guests to spent rest of the week at meetings, events, conferences...
- ✓ Again Hit needs lower taxes to invest a lot of money in Nova Gorica tourist gaming destination. It's tough because Hit didn't respect the promises to build Vogrsko resort, or to make Nova Gorica a tourist gaming destination

MODERN SLOVENIA GAMBLING HISTORY

Ups and downs for gaming industry in 1999 to 2008, part 5

- ❑ In 2004 Hit launches the idea to build a tourist gaming resort with an American strategic partner from LV.
- ✓ Basic idea was, Hit can go forward with American partner or on his own. In both cases Hit needs lower tax rates. Let's do.
- ✓ Gaming Law has to change the ownership limit to 20%.
- ✓ Doubts that Americans will be investing big money to non gaming amenities but remain a minor partner in gaming operation
- ✓ Hit needs a big events, leisure hotel operator as a partner
- ❑ Response came in May 2005 only from Harrah's, the biggest mostly gaming centric American operator

RECENT SLOVENIA GAMBLING HISTORY

Ups and downs for gaming industry in 1999 to 2008, part 6

- ❑ Harrah's proposed to target mostly the existing HIT (and gaming saloons) Italian gaming market, setting up arguments they can attract many times more people in the new big casino resort with little harm to existing operators
- ❑ Hit should say **NO** from the beginning in 2005 but entered in negotiations and pulled in the government that was pretty unhappy about.
- ❑ Did the Slovenian government really support the idea of a HIT-Harrah's partnership? Serious doubts
- ❑ Which minister will say: Sign the agreement first and we will change the Gaming Law after. No way, but happened in Slovenia.

RECENT SLOVENIA GAMBLING HISTORY

Ups and downs for gaming industry in 1999 to 2008, part 7

- ❑ Recently both partners HIT and Harrah's tried to reach a fair agreement and did the serious efforts and finally pulled out both with regrets.
- ❑ What are the consequences ? Good and bad
 - ✓ Good is, Hit gained worldwide exposure in gaming world-goodwill to be identified by from many as a gaming operator in Eastern Europe and abroad.
 - ✓ Bad is, Venice gaming lion was awakened from deep sleep and took the threats seriously, and will expand dramatically in 2008

RECENT SLOVENIA GAMBLING HISTORY

What next ? First, Slovenia analysis 2008

- ❑ Good issues
 - ✓ Safe country, well regulated gaming, gaming knowledge
 - ✓ Liberal Gaming Law, not to much public opposition yet
 - ✓ In the heart of Europe (freeways crossroads, airports...)
- ❑ Not good to be changed in Gaming Law
 - ✓ New tax environment: lower gaming taxes related to the investments in non gaming amenities that creates synergy with gaming services
 - ✓ Private ownership. Local communities only 25% voting shares; not necessary 25% capital and dividend shares
 - ✓ Amendments to Gaming Law to create a responsible gambling environment in the region, not only in Slovenia

GAMING TAX MODEL FUNDAMENTALS IN SLOVENIA

New proposals

- ❑ High gaming taxes for mainly gaming centric environments
- ✓ Less money from gaming taxes for community and more for fighting problem gambling and educating youngsters
- ✓ High threshold licence fee for one year gaming operation
- ❑ From high to very LOW gaming tax rate model for the operators in integrated resorts attracting people to stay in resort
- ❑ Entrance fee for locals, might be progressive due to the fact that every entrance in Europe is on line controlled
- ❑ No gaming promotion on streets, and electronic media or written materials accessed to the minors

ACTUAL GAMING TAX MODEL WORKS AGAINST GENERATING TOURIST GAMING RESORTS SLO

- ❑ Tax package for gaming saloons (B) and casinos (A)
 - ✓ Gaming tax : 18% for A and B on GGR
 - ✓ Concession tax : flat 20% (B) or fast progressive 5-20% (A) on GGR
 - ✓ Gaming operator no redemption on input VAT paid for non gaming amenities like hotel investments. This is an additional tax if we compare with non gaming companies investing in hotels. This tax presents from 3%-7% on GGR
- ❑ Results:
 1. paying tax on tax is not a good policy
 2. Gaming operator is PUNISHED for investing in non gaming or get incentives to invest in more gaming (e.g. SW for Loyalty programmes)
- ❑ TOO many gaming places: 15 casinos and 45 gaming saloons instead of 3-5 big tourist gaming destinations

GAMING TAX MODEL TO GENERATE TOURIST GAMING RESORTS IN SLOVENIA

- ❑ Gaming tax model:
 - ✓ Flat gaming tax rate: 5% (state budget) on GGR minus concession tax paid
 - ✓ Concession tax rate on GGR: degressive from 36 % to ZERO depending on non gaming amenities in integrated resort (number of hotel rooms, event and conference room, restaurants, other non gaming places...)
 - ✓ Concession tax divided $\frac{1}{4}$ state, $\frac{1}{4}$ province, $\frac{1}{4}$ municipality and $\frac{1}{4}$ for problem gambling programs
 - ✓ Input VAT paid by gaming operator is a deductible sum from gaming tax and concession tax to be paid to the state

Thank you for your attention

Q/C appreciated
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