

Tax Risk and Alternatives



Impact of Potential Tax Hike

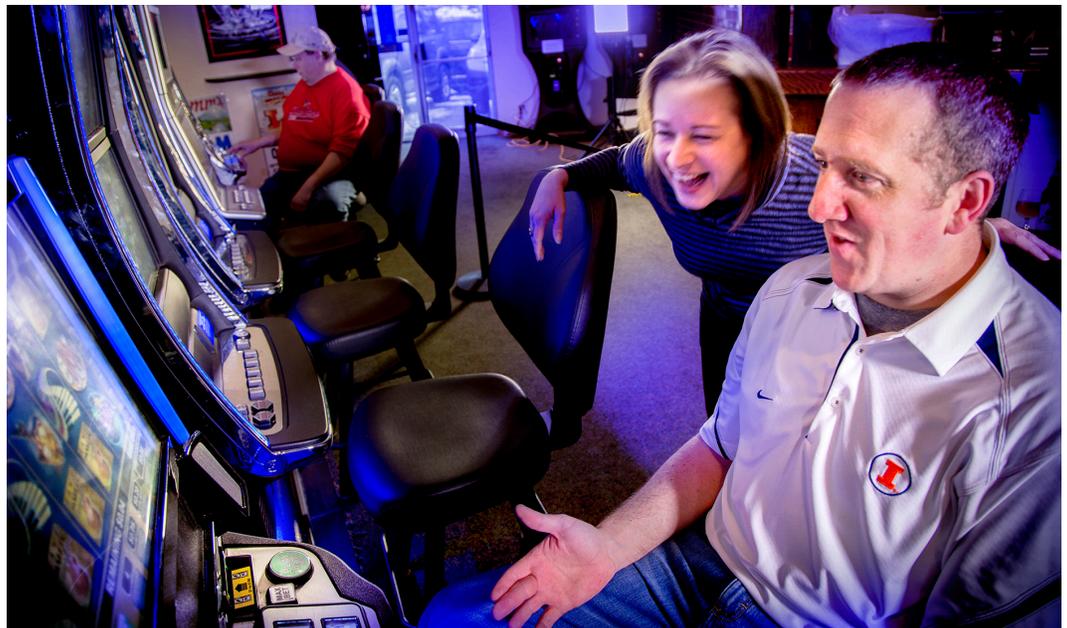
The financial windfall from video gaming could be undone by a tax hike, which could also hurt job creation, job retention and investment and re-investment in Illinois.

If a 5% increase in video gaming taxes were imposed, the study estimated state and local governments would lose \$6.5 million. Because the study assumed that the entire 5% would be taken by the state, local governments would be the biggest losers, seeing a net decline of \$5.6 million or 17%. The state would still see a net loss under a 5% tax hike, losing about \$900,000.

In addition to the tax loss, the study found that about 5,300 direct jobs and 1,698 indirect jobs would be lost.

The study estimated that 347 local establishments would be forced to close. There would also be a loss of between \$35 and \$107 million in dollars invested or reinvested in establishments.

A tax hike would also result in between \$85 and \$99 million in lost investment in gaming equipment and software. Sales tax losses would be between \$9.4 and \$11.6 million and taxes for video game stickers would decline by \$700,000.



Alternatives

The study looked at three possible changes that would increase video gaming revenues – higher maximum bet, higher jackpot and “wide area progressive” jackpots.

Maximum Bet – If the maximum bet were increased from \$2 to \$5, total gaming taxes would be expected to increase by \$65 million, with the state share rising by \$54 million and the local share going up \$11 million.

Higher Jackpot – If the current \$500 jackpot per wager was increased to \$1,000, the study estimated a \$39.6 million hike in gaming taxes, with the state receiving \$33 million more and local governments netting \$6.6 million.

Wide Area Progressive – A “wide area progressive” jackpot links multiple establishments to offer significantly larger winnings, much in the same way as “Powerball” multi-state lotteries. The wide area progressive jackpot would likely increase total video gaming tax revenues by \$19.8 million, with the state receiving \$16.5 million and local governments receiving an additional \$3.3 million.

Impact on Casino Gaming



The report raises important questions about the conventional wisdom that the Video Gaming Act has had a detrimental effect on the state's Riverboat Casino Industry. While riverboat gaming revenues have dropped slightly over the past decade, the report found that is consistent with regional and national trends, independent of video gaming.

The report reviewed 10-year trends in eight other states – Indiana, Iowa, Pennsylvania, Mississippi, Ohio, Louisiana, Michigan and Missouri – and found that almost all have trended in the same direction as Illinois over the past decade. The exceptions were Pennsylvania, which began casino gaming in 2006 and Ohio, which

authorized gaming in 2012. Pennsylvania saw an increase during its first four years of casino gaming, but leveled off. Ohio is still in its first three years of casino gaming.

The study noted that other factors, such as the Illinois Clean Air Act, had a much more clearly definable impact than video gaming.

The report also found that while video gaming and casino gaming customers share some characteristics, video gaming customers are less likely to travel outside of their community and are more likely to view video gaming as purely entertainment than other forms of gambling.

The study noted that video gaming revenues have more than offset any loss of Casino Gaming taxes, regardless of the reason for the decline. In addition, the tax rate collected on video gaming exceeds the rate paid by most riverboat casinos.

Because video gaming establishments are located close to home, customers living in border areas that might otherwise travel out of state for gaming entertainment are able to remain in Illinois and keep their dollars in-state.

