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What does the gaming industry pay in taxes, and does the gaming industry pay a proportionate share?

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Running head: TAXES PAID BY GAMING INDUSTRY

What Does the Gaming Industry Pay in Taxes, and
Does the Gaming Industry pay a Proportionate Share?

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Abstract

The purpose of this paper is to research what the gaming industry pays in taxes to the local and state governments, and if the gaming industry pays a proportionate share of taxes compared to the other sources of tax revenue generated from other non-gaming businesses in the State of Nevada. The scope of the paper is limited to the State of Nevada, and more specifically, Clark County. The sources used were personal observations, as well as published literature. In conclusion, the research will show that not only does the gaming industry pay a proportionate share of taxes to the local and state governments, but it will further show that the gaming industry pays a larger percentage of taxes than other non-gaming businesses in the State of Nevada to the local and state governments.

What Does the Gaming Industry Pay in Taxes, and
Does the Gaming Industry pay a Proportionate Share?

Introduction

The State of Nevada is the only state in the United States that has legalized casino gaming throughout the state, and subsequently, gaming is the major industry of Nevada. Not only is gaming a major industry in the State of Nevada, but the gross gaming revenue tax is the largest revenue generator source of tax for the State.

As a result of the large generation of tax dollars for the local and state government in the State of Nevada, other states in the union perceive Nevada and its gaming industry to be a “cash cow” and have consequently looked at gaming as a source of tax revenue for their states. However, the states that implemented gaming as an industry in their state have regulated gaming to small areas in the state, i.e., Indian reservations, river boats, and local cities such as Atlantic City in New Jersey, rather than as an industry throughout the state, and introduced high tax rates for the regulated gaming industry.

This paper is about the gaming industry and the taxes paid into the State General Fund by the gaming industry. The history of taxation will set the stage for why taxes are paid and the distribution of the taxes. A comparison is then made between the gaming industry and non-gaming industry by illustration and analysis of the taxes paid by a local casino, Ballys, and taxes paid by a local shopping mall, Meadows Mall. Specifically, the paper will focus on the comparison of property taxes paid by Ballys and the property taxes paid by the Meadows Mall. Finally, the paper addresses the future of gaming in the State of Nevada.

Definition of Terms

For the purposes of this paper, the gaming industry is defined as any business that pays for a restricted or nonrestricted gaming license that provides coin-operated games and/or table games to the public for gaming purposes.

Proportionate share is defined as a portion of taxes paid by a gaming business or a non-gaming business into the State General Fund that may be considered fair and/or equitable.

History of Taxation

A. General Taxation.

In order to understand the basic concept of taxation and its implementation, I consulted the New Encyclopaedia Britannica (1995) for the basis and theory of taxation. According to the New Encyclopaedia Britannica, the power to impose taxes is generally recognized as a right of the government. But, the making of decisions of the tax law is a political, not a legal, process. (New Encyc. . . ., p.402).

The New Encyclopaedia Britannica (1995) further stated that prior to the 19th Century, governments obtained tax revenues from nontax sources, such as tribute, income from the royal domains, and land rents. Some taxes were also collected from land taxes, tolls, customs, and excises. The first taxes on income or capital was an emergency measure used by the British to finance the Napoleonic Wars in 1799. (New Encyc. . . ., p.402).

According to the New Encyclopaedia Britannica (1995), the United States enacted an income tax during the Civil War. This income tax lasted from 1862 to 1872, was again enacted in 1894, and finally was ratified by Congress in 1913 through the Sixteenth Amendment of the United States Constitution and allowing a personal income tax. (New Encyc. . . ., p.409).

In Debt and Taxes (1994), Makin and Ornstein reinforce the basis for taxation, i.e., to finance wars, in their statement, "Wars have been the source of nearly all the debt created by government and of the taxes levied to pay for these debts." They further state that, "Wars require bureaucracies to run them and to cope with the more centralized economics that they tend to call forth. These bureaucracies seldom disappear entirely when their reason for being does." Not only do wars create debt for the expense of the war itself, but after the wars come veterans of the wars, pensions for the veterans, and health care for the veterans. All

of these debts become the burden of the government. (Makin and Ornstein, pp.41-42).

Consequently, the original basis for collecting taxes from individuals was to finance wars and its aftermath. Through time, governments have implemented the collection of taxes on individuals, corporations, property, goods and services, and gaming, to name a few, to finance the government operations at the local, State, and Federal levels.

Nearly all countries also impose a tax on corporations as an additional source of tax revenue, according to the New Encyclopaedia Britannica (1995), since corporations in industrialized countries tend to produce a greater tax revenue than individuals. In the United States, a tax on corporations was implemented in 1909. Additionally, corporate income tax was justified as a charge to the corporation for the privilege of doing business as a corporation, as a means of covering public service costs that benefit business, and as a way of capturing the large profits of corporations. (New Encyc. . . ., p.410).

Additionally, there are property taxes to finance the Federal, state, and local governments, as well as sales and excise taxes. According to the Encyclopaedia Britannica (1995), property tax is the chief source of revenue for local government. (New Encyc. . . ., p.414).

Even though the governments collect taxes from several sources, Rivlin points out in Reviving the American Dream (1992) that, “all levels of government are in serious financial difficulties.” Rivlin further discusses how the United States Government has risen to a complex organization in that in addition to taxation, it handles domestic policy, foreign policy, national security, and international affairs. The government constantly increases in size, takes on more and more employees, and expects the citizens to finance it all through taxation. (Rivlin, p.13).

Rivlin (1992) then discusses the problem of growth through industrialization. Population

has increased creating more demands on society and the environment. Pollution consequently becomes a problem, unemployment rises, poverty rises, productivity growth slows down, and education remains stagnant. (Rivlin, p.106).

Rivlin (1992) next focuses on the states and their independence from the federal government by stating that the states have strengthened and diversified their revenue systems. States have become much less dependent on property taxes and have concentrated on sales taxes which “now bring in more total revenue than property taxes.” (Rivlin, p.106).

Rivlin (1992) summarizes that the balance of power has shifted from the federal government to the states. “The states have strengthened their capacity for government and their revenue systems, while the federal government has found itself overstretched and short of hands.” (Rivlin, p.109).

Makin and Ornstein (1994) were also concerned about economic growth as was Rivlin. They also voiced a concern for a need to reform taxation, improve education for the general population, and property taxation. Of further concern, Makin and Ornstein noted that,

The struggles over deficits, including deep differences over priorities in allocation and distribution of resources, have occurred during an almost unprecedented era. . . The large budget deficits have not been generated in the typical and traditional ways--from a world or civil war, or via a deep economic depression. They emerged during both peace and economic prosperity, and continued regardless of economic conditions. (Makin and Ornstein, p.275).

Makin and Ornstein (1994) comment that the government, “made solemn promises . . . to provide benefits to citizens and giving them the status of ‘rights’ by calling them entitlements.” So, not only do the different levels of government face the increasing financial difficulties

resulting from the expense of wars and care of the veterans following the wars, but there is the added debt to the governmental levels arising from the increase in population and its resultant side effects, including entitlements to citizens that the government has promised. (Makin and Ornstein, p.275).

With all the problems facing the state and Federal governments in budget deficits and promises to the citizenry, it is no wonder that the states began looking for a quick solution to their economic problems. The State of Nevada looked at illegal gaming and recognized a solution to its potential economic problems.

B. Gaming Taxes.

According to Nevada Tax Facts (1997), the Nevada Taxpayers Association wrote that Nevada legalized gambling in 1931 due to the fact that illegal gaming was already widely accepted, a strong feeling that gaming should be regulated, and revenues should be derived from it. Thus, Nevada created a solution to increase tax revenues some 60 years ago by legalizing gaming throughout the state and by collecting tax revenues from the industry of gaming. All gaming taxes are legally defined as “license taxes”, and the gross gaming revenue tax is the largest revenue generator of taxes today in the State of Nevada. (Nevada Taxpayers Association, p.32).

Thompson, Coopers & Lybrand reinforce the purpose and impacts of taxation in International Surveys of Casino Taxation (1994) by stating that, “The main purpose of taxation is to raise revenues to pay the costs of government. An effective taxation system will produce an adequate revenue supply for a government in an efficient and reliable manner.” (Thompson, et al., p.2).

Thompson, et al. (1994) further states that,

Governments regulate businesses for a variety of purposes--to protect the consuming public, to assure honest competition, or even to limit market activities--through licensing or franchising. Taxes help to pay for the costs of regulation. They are also methods for imposing charges on businesses for the opportunity to participate in restricted commercial activities. (Thompson, et al., p.2).

Consequently, Nevada looked at legalizing gaming as not only a source of revenue for the state, but also through regulation and licensing, the industry of gaming would finance itself.

C. Sales Tax in Nevada.

A report written by Clayton, et al. (1997) entitled, Report on Sales, Use, Consumption, and Luxury Taxes, includes a history of the sales tax in Nevada obtained from the Nevada Tax Commission.

Clayton, et al. (1997) stated that on January 25, 1955, the State of Nevada enacted a state retail sales tax under N.R.S. 397. The rate was set at 2% and was levied against everyone. The State of Nevada allowed the following exemptions: proceeds of mines; motor vehicle fuels; animal feeds, seeds, plants, and fertilizers; meals and food products to students and teachers; storage containers; gas, electricity, and water; domestic fuels including oil and gas, newspapers, and periodicals; sales to non-profit organizations; and deliveries outside the State of Nevada. (Clayton, et al., p.4).

Clayton, et al. (1997) further stated that in 1956, the retail sales and use tax was instituted in the state, was voted on, and retained by referendum. Then, on February 21, 1963, statewide county taxes were deemed to be unconstitutional. In 1967, the legislature imposed a statewide county tax amending Title 32 which made provisions for a school support tax that was

an addition to the current 2% retail sales tax already in effect. The Nevada State Supreme Court reviewed the act and held that it was unconstitutional. (Clayton, et al., p.4).

Since 1963, Clayton, et al. (1997) reported that modifications have been made to the exemptions previously listed. Some of these modifications changed the products which were tax exempt at that time and added new items to the list of tax exempt goods. These modifications include food purchased not intended for immediate consumption is tax exempt, as well as prescription medications. Utilities are now taxable with the exception of water, and newspapers and periodicals are no longer exempt to Nevada residents. (Clayton, et al., pp.3-4).

The Nevada Taxpayers Association states in Nevada Tax Facts (1997), that the state retail sales tax, which is now known as the sales and use tax, is paid by the last day of the month following the month in which the taxes were collected. In Clark County, the state sales and use tax is 7% and is distributed for use in the following manner:

State Sales and Use Tax	2%
Local School Support Tax	2-1/4%
Basic City County Relief	1/2%
Supplemental City County Relief Tax	1-3/4%
Flood Control	1/4%
Water and Wastewater Facilities	1/4%

On April 1, 1999, an additional 1/4% sales and use tax will be imposed, raising the total sales and use tax collected in Clark County to 7-1/4%.

History of Gaming Taxes in Nevada

The Nevada Taxpayers Association (1997), provided the history of gaming taxes and fees for the State of Nevada. Although gaming was forbidden in the State of Nevada in 1864 by the first Legislature, gaming was later legalized in 1869. Fees for the gaming licenses were paid quarterly and set at \$250 in counties with less than 2,000 voters, and set at \$400 in all other counties. Forty years later, in 1909, gambling was once again made illegal. However, the Legislature changed its position in 1915 and allowed “social gambling” which allowed for “drinks, cigars, or prizes not to exceed two dollars”. Because of lenient enforcement, gaming survived during this time period. (Nevada Taxpayers Association, p.32).

Nevada Taxpayers Association (1997) reports that in 1931, Assemblyman Tobin of Humboldt County introduced an Act which became the basis for the current regulations of gaming. The Act passed and allowed legal gaming. More importantly, revenue for the state could be obtained through taxation on gaming and established these taxes as “license taxes”. (Nevada Taxpayers Association, p.32).

Nevada then divided the license taxes for gaming into two categories, i.e., non-restricted licenses and restricted licenses. Although the original division of non-restricted and restricted licenses was designed for an establishment operating more than seven slot machine or roulette games for a non-restricted license and seven slot machines with no games for a restricted license, the regulations were changed through the years and raised the number of slot machines to 16 as the determinant for non-restricted or restricted licensing. (Nevada Taxpayers Association, p.32).

The Nevada Taxpayers Association (1997) then described how the gaming taxes and fees were introduced throughout the years from 1931 to present day. The license fees were paid three

months in advance on each game or slot machine handle and charged at the rate of \$10 per month per slot machine handle, \$25 per month per table, and \$50 per month for all other games. These license fees were given to the County Treasurer by the sheriff who also collected the fees and delivered the licenses. The monies collected were then distributed by the County Treasurer with the State receiving 25%, the county receiving 25%, and the towns and cites receiving 50%. (Nevada Taxpayers Association, p.32).

The Nevada Taxpayers Association (1997) continued with the history of the gaming tax wherein a bill was introduced in 1945 allowing that all gaming revenues exceeding \$3,000 per quarter be taxed at the rate of 1%. This new tax became known as the gross gaming revenue tax which is now the largest generator of gaming tax revenue. Although Governor E.P. Carville did not sign the bill, the bill became a law anyway, and, in 1947, the gross gaming revenue tax was increased to 2%. Additional taxes imposed in 1947 included a table game tax and betting on horse racing. Also during this time frame, licensing and regulating was authorized by the Nevada Tax Commission. (Nevada Taxpayers Association, p.32).

Taxation of gaming was changed once again in 1949 according to the Nevada Taxpayers Association (1997), and establishments operating more than 10 games were charged \$1,000 per game. Then, in 1955, the Gaming Control Board was created under the Nevada Tax Commission by passage of the Gaming Control Act. The annual game tax was increased, and the gross gaming revenue tax was modified. The gross gaming revenue tax was modified to a graduated rate so that the quarterly gross gaming revenues of less than \$150,000 were charged 3%, gross gaming revenues between \$150,000 and \$400,000 were charged 4%, gross gaming revenues between \$400,000 and \$1 million were charged 5%, and gross gaming revenues over \$1 million were charged 5-1/2%. (Nevada Taxpayers Association, p.33).

The Nevada Taxpayers Association (1997) wrote about minor changes that occurred over the next several years. Some of these changes included the equal return of the annual state license tax to each of the counties in 1957, the creation of the Nevada Gaming Commission in 1959, the creation of the pari-mutual wagering tax in 1959, the creation of the gross receipt tax for race books in 1959, and the creation of a 10% casino entertainment tax in 1965. The Nevada Gaming Commission oversaw activities of the Gaming Control Board, and the Nevada Tax Commission no longer was involved in gaming. (Nevada Taxpayers Association, p.33).

Then, in 1967, another addition to the taxation on gaming was implemented wherein a slot license tax and a quarterly State games license tax were imposed. But, because the Legislature expected the Federal slot tax of \$250 to be repealed, "any Federal credit allowed was payable to the State to the extent the credit was allowed". As expected, the Federal slot tax was repealed on July 1, 1980, and the Federal slot tax of \$250 went to the State. (Nevada Taxpayers Association, p.33).

Gaming taxes were once again increased in 1981, when the gross gaming revenue tax was increased another 1/4% on revenue over \$400,000 per quarter, and slot machine fees were increased \$10 per machine per quarter for all gaming licenses. It was not expected for these increases to last, but in 1985, both increases were made permanent. (Nevada Taxpayers Association, p.33).

Additional increases included the increase in fees for gaming devices, both in manufacturing and distribution, and a new license fee for slot route operators in 1983. The gross gaming revenue tax jumped once again another 1/4% in 1987 for establishments with gross gaming revenue over \$134,000 per month, and restricted slot license tax was increased at the rate of \$45 for 5 machines or less and \$90 for more than 5 machines. (Nevada Taxpayers

Association, p.33).

The last increase to gross gaming revenue tax was in 1989, when the establishments with gross gaming revenues over \$1 million was increased a final 1/4% raising the current rate of gross gaming revenue tax to 6-1/4%. Other minor changes since 1989 to gaming taxation included an increase to the restricted slot license of \$16 per quarter in 1993, the end of the Racing Commission in 1993, and the ban of dog racing in 1997. (Nevada Taxpayers Association, p.33).

In Creating a Computerized Competitive Information System for the Hotel and Casino Industry (1992), Brock, Newman, and Thompson add more information to the unique history of gaming in Nevada. In 1931, when the State of Nevada legalized gaming, no other state in the union permitted casinos. There were no state lotteries, and legitimate betting on horse races occurred in only three states. Charity gaming of other forms was negligible, and there was no organized gaming on Indian reservations. (Brock, et al., p.44).

Brock, et al. (1992) further stated that the initial casinos of Nevada were taverns and saloons that had some gaming tables and slot machines, and marketing of gaming outside the small communities located throughout Nevada was negligible until the late 1930s. At that time the Smith family of Reno, Nevada, constructed signs reading "Harold's Club or Bust" along major highways coast to coast. To further promote gaming, William Harrah, also of Reno, Nevada, formed bus junkets from San Francisco to promote tourism to Reno and Lake Tahoe. (Brock, et al., p.44).

Not only was tourism promoted through simple advertising at this time, but the idea of vacation packages to promote tourism began. In 1941, Brock, et al. (1992) stated that the El Rancho Vegas was built at the beginning of the "Strip", and this new property offered gaming-

centered vacation packages to “personalities” of Southern Nevada. However, the onset of World War II limited local capital resources and retarded growth of tourism centered around gaming. After the war ended, organized crime became interested in the advantages of legalized gaming, and Bugsy Siegel and Meyer Lansky built the Flamingo on Las Vegas Boulevard, two miles south of El Rancho Vegas. (Brock, et al., pp.44, 46).

Brock, et al. (1992) continued the history of gaming into the 1950s and 1960s stating that the Desert Inn, Stardust, Sands, and Thunderbird casinos were built using capital resources from organized crime that were unavailable from other commercial sources. There was now a national demand for legalized gaming, and it seemed that all the casinos had to do was open their doors to the public for profits to be generated. However, the federal government proved to be a threat to gaming and organized crime, and the Nevada Resort Association was formed in 1961 by the casino chiefs to openly lobby for legitimate gaming. (Brock, et al., pp.46-47).

With the threat of the federal government and additional taxation looming over the casinos, expansion of the industry began to dry up. It is the writer's conclusion that private industries were unwilling to associate with organized crime, and legitimate investors were unwilling to take the risk of investing in the gaming industry because of the perceived association with organized crime.

Brock, et al. (1992) concluded that very few individuals had the capital or the inclination to enter the gaming industry. Individual investment in gaming changed with the appearance of Howard Hughes in late 1966, when Mr. Hughes appeared in Las Vegas and bought several casinos. Although the concept of individual investment in gaming became a reality, and organized crime was no longer the major source of investment in gaming, Hughes made no improvements on his properties, nor did he invest in new construction of the establishments. As

a result, the Nevada Resort Association pressured the state legislature to change the licensing law, and in 1969, the Corporate Gaming act became law. Under the enactment of this law, publicly-held corporations could hold corporate gaming licenses for the first time without having all stockholders individually licensed. Thus, new forms of investors could now enter the gaming industry, i.e., corporations. (Brock, et al., pp.47-48).

Brock, et al. (1992) continued into the 1970s, stating that the casinos prospered, but, with the opening of Atlantic City in New Jersey in 1978, the establishment of lotteries in most states, and parimutuel betting on horse and dog races, a new problem raised its head--competition. Several small and mid-sized casinos were forced to file bankruptcy. In 1983, Las Vegas realized the need for change. Marketing strategies were increased, and the building of mega-resorts began. (Brock, et al., pp.48-49).

Brock, et al. (1992) created the following table which is a history of the gaming industry as it relates to the casinos:

- 1931 - Casino gaming legalized in Nevada
- 1937 - Harold's (Smith) Club advertises nationally
- 1941 - El Rancho Vegas - First Strip casino
- 1946 - Flamingo opens Vegas market to World
- 1950 - Kefauver Commission attacks gambling/Harrah's starts bus junket
- 1955 - Nevada Gaming Board created
- 1959 - Gaming Commission set up
- 1960 - Feds pressure
- 1961 - Mob involvement in casinos/forming of Nevada Resort Association
- 1964 - New Hampshire lottery starts

1966 - Howard Hughes buys into Vegas

1969 - Corporate casinos licensed

1972 - Casinos prosper

1978 - Atlantic City casinos open

1981 - Casinos stagnate

1985 - State lotteries proliferate

1987 - Casinos prosper

1988 - Indian gaming act passes

1989 - Deadwood, South Dakota casinos open

1990 - Riverboat casinos authorized/Mega casinos open: Mirage, Taj Mahal, Excalibur

(Brock, et al., p.45).

Thompson, et al. (1994) further establishes the need for legalization of gaming in Nevada. Gambling in casinos was legalized in Nevada in 1931 for two reasons. First, the state and local governments saw an opportunity to increase general revenues. Secondly, the legalization of casino gambling would eliminate illegal casino gambling. When gambling was legalized, the illegal gaming ceased almost immediately as the operators of the illegal gaming obtained licenses to operate legal games. Licenses were easy to secure, and the cost to obtain said licenses by the businesses were low. Additionally, the tax rate was minimal at the inception of legalized gaming. (Thompson, et al., p.3).

According to an article in the Las Vegas Review Journal, Part 1: The Early Years entitled, "A Winning Proposition", Hopkins (1999), Mayme Stocker held the first lawful casino license. Mrs. Stocker moved to Las Vegas in 1911 with her husband, a railroad man, and her three sons in pursuit of railroad jobs. In 1920 Mayme Stocker opened the Northern Club and

was the original licensee because anyone connected with the railroad was not supposed to have anything to do with gaming. Since Mrs. Stocker's husband and three sons either worked for the railroad or aspired to work for the railroad, Mrs. Stocker was the only family member eligible for a gaming license. (Hopkins, p.61).

Hopkins (1999) quoted Mrs. Stocker's son, Harold, who stated that, "Although legal gaming is usually considered to date from 1931, five games were legal in the 1920's". These five games included stud, draw, and lowball poker, "500", and bridge. Harold further credits his older brother, Lester Stocker, for legalizing gambling. Lester Stocker tried to legalize gambling in 1925, in 1927, and again in 1929. But conditions changed in 1930 when some high-roller gamblers in Reno were sent to prison, and enforcement became less lenient. Lester called a meeting at a back table in the Northern Club which included some club owners, a city councilman, a high state official, a businessman booster, and two assemblymen. \$10,000 was collected which was given to a Winnemucca legislator, Phil Tobin, to introduce the bill, and the bill was passed. (Hopkins, p.63).

Balboni (1999) also wrote an article in the Las Vegas Review Journal, Part 1: The Early Years entitled, "More Sinner than Saint", stating that Tony Cornero "built the combination hotel, casino, night club and speakeasy which was the prototype for later resorts." Mr. Cornero envisioned Las Vegas with classy, carpeted casinos rather than tiny places with sawdust on the floor. He felt that classy casinos would attract the wealthy men and women and consequently built the Meadows in 1931 which not only had a casino, but a 30-room hotel with baths for each room, electric lights, and a showroom. It was built near the intersection of Fremont Street and Charleston Boulevard, and many of its guests were the professional and business elite who were dressed in their Sunday best rather than dressed in cowboy boots and jeans. (Balboni, p.62).

Thompson, et al. (1994) continued with the history of gaming in Nevada stating that, "In 1945 the state established a system of collecting taxes based upon the gross gambling win of each casino" rather than just a taxation on each slot machine and/or game. Later, the state installed more regulations and licensing procedures, as well as increasing the costs to license a gaming establishment. However, the state has one of the lowest gross win taxes of any jurisdiction in the world to-date to encourage investors to establish casinos in Nevada. Additionally, approximately one-third of the state's working force is directly related to the casino/tourism industry, and approximately one-third of the working force hold jobs that are indirectly related to the casino/tourism industry. (Thompson, et al., p.3).

Nevada State Gaming Control Board

Nevada has carefully regulated gaming since legalizing gambling as stated above. The Nevada State Gaming Control Board is the agency that helps police the regulations and collection of taxes from the gaming industry.

I interviewed Steve Du Charme (personal communication, March 1, 1999), who is currently the Chairman of the Gaming Control Board. There are five offices of the Gaming Control Board located throughout the State of Nevada: Laughlin, Elko, Carson City, Reno, and Las Vegas. There are 426.5 positions with the Gaming Control Board, and the annual budget for the Gaming Control Board comes directly from the State General Fund. The Gaming Control Board is comparable to the police and prosecution of gaming for the State of Nevada.

The Governor appoints three full-time positions at 4-year terms which include the Chairman and two other positions. Of the three appointment positions, the requirements include a position for an individual with a background in accounting, a position for an individual with a background in law enforcement, and a position for an individual with a background in public administration.

Additionally, the Nevada Gaming Control Board does not have an attorney on its staff. The Gaming Control Board does, however, have access to the legal services of eight, full-time Assistant Attorney Generals.

For continued regulation of gaming, the State of Nevada also implemented the Nevada Gaming Commission in a judiciary capacity over gaming. The Nevada Gaming Commission hires five part-time individuals who work for the Gaming Commission on staggered terms. The Chairman is usually an attorney and one of the other four positions is usually held by an individual who has an accounting background. Another criterion is that no more than three

individuals of the same party are appointed to the Nevada Gaming Commission. Additionally, the Nevada Gaming Commission does not have managerial authority over the Gaming Control Board and is comparable to the judicial system of gaming in that it adopts the gaming regulations and has the final authority on licensing matters. A copy of the Nevada Gaming Regulatory Structure is attached in the Appendix.

Under the Gaming Control Board are seven separate divisions which include: Administration Division, Electronic Services Division, Investigations Division, Corporate Securities Division, Tax and License Division, Audit Division, and Enforcement Division.

The Gaming Control Board not only regulates the gaming establishments in the State of Nevada, but it also provides licensing of manufacturing and/or distribution of games to the gaming establishments. The new games are tested to see if they can be easily cheated and if they are fair to the players. The lab submits a report to the Board, and the report is then put on the Public Agenda to discuss the report and make recommendations to the Nevada Gaming Commission. The Electronic Lab charges \$165 for each E-prom modification and \$55 for each associated equipment for approval through the Electronic Lab. There is also a new game approval fee of \$55 per hour.

Investigations for the licensing are paid by the applicants. These investigations can and have exceeded \$1,000,000 in fees. The Gaming Control Board estimates the approximate amount of fees necessary to complete an investigation of the applicant for the gaming license, and the applicant pays the money into the fund in advance. The fees and expenses for conducting the investigation are then charged against the retainer deposited. Additionally, a revolving fund of \$10,000 is placed in an account for travel expenses for the investigations, and the revolving fund is also used for follow-up investigations which may or may not be part of the

condition of the license. Investigators charge \$45 per hour for gaming applications, along with closing fees of \$200. Applicant fees include \$500 for a non-restricted license and \$150 for a restricted license.

Corporate Securities reviews the SEC filing regarding stock offerings and sale of bonds. The applicant with SEC filings in Nevada has to follow regulations in Nevada if it is located in a foreign state and has a minimum set of standards to follow regarding the stock offerings.

The Audit Division completes an audit on each gaming establishment every three years. However, a Certified Public Accountant hired by the gaming establishment must audit each gaming establishment every year, and said audit is turned into the Gaming Control Board annually for review. This creates a check and balance system between the two audits to provide continued honesty by the gaming industry to the state for payment of licenses and taxes.

The Enforcement Division employs 99 agents. They are dressed in plain clothes, not a uniform, and they carry a gun and a badge. The agents can make arrests only for gaming-related crimes. The agents perform spot checks on the gaming establishments checking for work cards, checking the games, and checking for minors in the gaming area, among other duties. Any player disputes that cannot be resolved at the gaming establishment are handled by the Enforcement Division. The agents assemble the evidence, write reports, and make recommendations to the Gaming Control Board which recommendations can be appealed. Three board members then vote at a public meeting on the recommendations. The Enforcement Division is not responsible for overseeing security at the gaming establishments; however, each gaming establishment must meet certain requirements for surveillance, commonly known as the "Eye in the Sky". The gaming establishments are required to video tape and save the video tapes for at least seven days for gaming establishments that have more than three gaming tables

and slot machines that pay more than \$3,000,000. Gaming establishments who have less than 3 gaming tables and no slot machines with payouts over \$3,000,000 are not required to install surveillance equipment.

Gaming regulations are enforced with an iron hand. If a gaming establishment is caught cheating its patrons, it can lose its license. Other regulations include Regulation 6-A which is the anti-money laundering regulation. Under this regulation, an individual cannot change anything over \$2,500 into different denominations of money. If an individual brings in \$3,000 to the cashier's cage in \$10 bills for credit to be played against, then that individual is given his \$3,000 back in \$10 bills when he leaves the establishment, provided he has not used the \$3,000. Currently the casinos have made a practice of placing the cash in an envelope marked with the individual's name, date, and amount of currency. That individual is then given the same currency back when he asks for it so that there is no question as to possible money laundering. The fines are steep if a casino is charged with money laundering. A minimum mandatory fine of \$25,000 is imposed for money laundering, and the fines are deposited into the State General Fund. Any buy-in for over \$10,000 requires that additional paperwork be prepared.

Fines are also imposed for minor infractions, and a remedial program is set up to assure that the minor infraction has been corrected. Examples of minor infractions include improperly filling out the forms for buy-ins over \$10,000, not filling out all the forms, and minors in the casino. The fines are high too preclude gaming establishments from infractions, but not as high as losing their license for cheating the customers.

The Act for the Gaming Control Board was entered in 1959. There were no formal regulations for gaming prior to that time.

In An Economic View of the Nevada Gaming Licensing Process (1992), Cabot and

Schuetz relate that, "Gaming control is perhaps a unique subset of social regulation". Although the primary purpose of gaming regulation was to keep the criminal element out of the gaming industry, the gaming industry did not want to be perceived as dishonest. The development of the gaming industry would be impaired if it were perceived as dishonest, and proper accounting for tax revenues was of major concern. Consequently, control over the gaming establishments and regulations were imposed to assure honesty to the patrons, as well as honesty to the state and local communities in the payment of tax for revenues so important to the economy of the state. Hence, the development and implementation of the Nevada Gaming Control Board and Nevada Gaming Commission. (Cabot and Schuetz, p.125).

Types of Taxes in the State of Nevada

This paper will next focus on the tax revenues collected from the gaming and non-gaming industries and will compare the gaming tax revenues to non-gaming tax revenues in an effort to conclude whether or not the gaming industry pays a proportionate share of tax revenues. It is expected to be revealed that the gaming industry pays as much, if not more, of the tax revenues from profits generated through gaming as opposed to the non-gaming industry.

The following are the major types of taxes obtained from Nevada Taxpayers Association (1997) that all gaming and non-gaming businesses in Nevada pay and the funds into which they are paid:

1. Business Taxes & Fees - These taxes include business tax (also known as employee tax), incorporation fees, limited partnership fees, trademarks, tradenames, UCC filings, SIIS, and unemployment insurance and are paid into the State General Fund. (Nevada Taxpayers Association, pp.5-13).
2. Drug Taxes - These taxes include controlled substance tax and special drug manufacturing taxes which are paid into the State General Fund. (Nevada Taxpayers Association, pp.15-16).
3. Excise Taxes - These taxes include cigarette, other tobacco products, and intoxicating liquor licenses which are paid into the State General Fund and local government fund. (Nevada Taxpayers Association, pp.17-19).
4. Fuel Taxes - These taxes include state motor vehicle fuel tax, aviation fuel tax, county motor vehicle fuel tax, county RTC motor vehicle fuel tax, special fuel tax for diesel vehicles, jet fuel tax for the state, and jet fuel tax for the county which are paid into the City General Fund, County General Fund, State Highway Fund, and fund for the governmental entity

who owns the airport. (Nevada Taxpayers Association, pp.21-31).

5. Gaming & Entertainment Taxes & Fees - These taxes include gaming taxes and fees; casino entertainment tax; city-county gaming tax; county gaming fees; gross gaming revenue fee; pari-mutual wagering tax; race wire license fee; slot license fee for non-restricted gaming and slot license fee for restricted gaming; slot machine excise tax; slot route operator, manufacturer, and distributor fees; state games annual license fee; and state games quarterly license fee. These taxes and fees are paid into the State General Fund, County General Fund, and City General Fund, as well as the higher education capital construction fund and state distribution school fund. (Nevada Taxpayers Association, pp.32-45).

6. Insurance Tax - These taxes include the insurance premium tax which is paid into the State General Fund. (Nevada Taxpayers Association, pp.46).

7. Lodging Tax - These taxes include the state transient lodging tax, local transient lodging tax, and county lodging rates which are paid into the City and County General Funds. (Nevada Taxpayers Association, pp.48-50).

8. Mining Tax - These taxes include the abandoned mine abatement fee, geothermal permit processing fee, mining claim filing fee, net proceeds of minerals and patented mines tax, and oil and gas administrative fee. These taxes are paid into the Division of Minerals Fund, as well as the city, county, town, school district, and state special funds. (Nevada Taxpayers Association, pp.52-57).

9. Miscellaneous Taxes - These taxes include boxing and wrestling fees, car rental tax, livestock tax, local franchise fee, tax on estates, tire tax, and transportation services authority fee which are paid into the State General Fund, grants for amateur boxing, license expenses, state livestock fund, local government fund, university endowment and K-12 class-size

reduction, solid waste management account, and transportation services authority fund. (Nevada Taxpayers Association, pp.58-64).

10. Motor Vehicle Taxes - These taxes include motor vehicle registration tax, motor vehicle privilege tax (basic), and motor vehicle privilege tax (supplemental) which are paid into the state highway fund, and local, county, and state funds. (Nevada Taxpayers Association, pp.65-69).

11. Property Taxes - These taxes include real property (ad valorem) tax, personal property tax, and real property transfer tax which are paid into the state debt and indigent funds and local government tax distribution funds. (Nevada Taxpayers Association, pp.70-74).

12. Public Utility Taxes - This tax includes a public utility assessment fee which is paid into the Public Utilities Commission and Bureau of Consumer Protection. (Nevada Taxpayers Association, pp.75).

13. Sales & Use Taxes - These taxes include state sales and use tax, local school support tax, basic city-county relief tax, supplemental city-county relief tax, and county optional sales tax. These taxes are paid into the school distribution fund and local government fund. (Nevada Taxpayers Association, pp.76-82).

According to the Nevada Taxpayers Association (1997), the above taxes generated approximately \$4,681,724,249 in revenue for the State of Nevada in fiscal year 1996-1997, most of which is deposited in the State General Fund.

Gaming and License Fees and Tax Rate Schedules

I contacted P.D. Wynn of the Gaming Control Board of the State of Nevada (personal communication, November 17, 1997), who gave me the following information for state gaming license fees and tax rate schedules for non-restricted and restricted licensees.

A. Nonrestricted Gaming License

A nonrestricted gaming license is issued for the operation of games and/or tables only; for the operation of 16 or more slot machines only; or, for the operation of games and/or tables in conjunction with slot machines. The following table was extracted from the State Gaming License Fee and Tax Rate Schedule for Nonrestricted and Restricted Licenses which is used by the Gaming Control Board for the collection of tax revenue.

Slot Machines

The annual tax is \$250.00 per machine which is payable in advance and computed on a prorated basis. A quarterly license fee is paid at the rate of \$20.00 per machine, payable in advance. There is no proration for the quarterly license fee.

Games

An annual license fee is payable in advance. There is no proration fee, except that monthly proration will apply if the operation is now or the operation has been temporarily closed with the approval of the State Gaming Control Board. The annual license fee is payable as follows:

1 game	\$ 100.00 total
2 games	\$ 200.00 total
3 games	\$ 400.00 total
4 games	\$ 750.00 total
5 games	\$ 1,750.00 total
6-7 games	\$ 3,000.00 total
8-10 games	\$ 6,000.00 total
11-13 games	\$ 650.00 each game

14-16 games	\$ 1,000.00 each game
17 or more games	\$16,000.00 plus \$200.00 for each game over 16

A quarterly license fee is also payable in advance, and there is no proration fee.

Monthly Percentage Fee

A monthly percentage fee is based on the gross gaming revenue which is payable on or before the 24th day of each month covering the preceding calendar month. The monthly percentage fee is computed as follows and increases as the gross gaming revenue increases:

3% of the first \$50,000.00 during the month, plus
 4% of the next \$84,000.00, plus
 6-1/4% of revenue exceeding \$134,000.00

Casino Entertainment Tax

A casino entertainment tax is payable on or before the 24th day of each month covering the preceding calendar month. This tax applies only to licensees licensed for more than 50 slot machines, more than 5 table games, or any combination thereof. The tax rate is 10% of all amounts paid for food, refreshment, merchandise, and admissions or similar charges, while in a casino entertainment status.

A casino entertainment status is the status wherein the casino renders the selling of food, refreshment, or merchandise subject to the tax, and said status commences either at the time entertainment starts or at the time when any charge such as admission, entertainment fee, minimum, cover, or similar charge attaches, whichever is earlier.

B. Restricted Gaming License

The taxes charged for a restricted gaming license as to slot machines is similar to the nonrestricted gaming license; however, the quarterly license fee is charged at a different rate than the nonrestricted gaming licensee.

Slot Machines

Again, an annual tax of \$250.00 per machine is payable in advance. This annual tax is likewise computed on a prorated basis. Additionally, a quarterly license fee is payable in advance. This license fee is not computed on a prorated basis and is payable as follows:

1 slot	\$ 61.50
2 slots	\$ 122.00
3 slots	\$ 183.00
4 slots	\$ 244.00
5 slots	\$ 305.00
6 slots	\$ 411.00
7 slots	\$ 517.00
8 slots	\$ 623.00
9 slots	\$ 729.00
10 slots	\$ 835.00
11 slots	\$ 941.00
12 slots	\$ 1,047.00
13 slots	\$ 1,153.00
14 slots	\$ 1,259.00
15 slots	\$ 1,365.00

Licensed Devices During the Quarter Ended June 30, 1998

Additional taxes include licensed devices and are computed as follows:

<u>Games</u>	<u>Number</u>
Twenty-One	3,467
Baccarat	93
Mini-Baccarat	105
Craps	456
Roulette	412
Keno	171
Caribbean Stud	119
Let It Ride	158
Race Books	103
Sports Pools	130
Balance	<u>406</u>
Total	5,620

<u>Tables</u>	<u>Number</u>
Poker	533
Pan & Others	<u>26</u>
Total	559
<u>Slots</u>	<u>Number</u>
<u>Restricted</u>	<u>17,922</u>
\$0.05	1,509
\$0.25	13,832
\$1.00	1,981
Other	600
<u>Non-Restricted</u>	<u>180,310</u>
\$0.05	40,582
\$0.25	95,714
\$1.00	35,287
Other	8,727
Total	198,232

The total number of licensed devices for all games, tables, and slots is 204,411. A State Gaming Control Board Information Sheet is attached in the Appendix and itemizes the total gaming wins and collections for the State of Nevada for Fiscal Year 1998. The gaming taxes collected for 1998 total \$457,236,554 for Clark County alone and total \$584,072,858 for the entire State of Nevada. From these figures it can be deduced that Clark County pays approximately 78% of the gaming taxes for the State of Nevada.

Taxes Paid By One Casino

To illustrate the amount of taxes paid by one large casino out of the 235 casinos currently licensed in the State of Nevada, I obtained the tax information from Ballys using the 13 categories of tax revenue sources previously discussed as the basis for the types of taxes that a casino pays. I interviewed Leon Flinders (personal communication, March 11, 1999), who is the Controller for Ballys and Paris Las Vegas. Mr. Flinders has been employed by Ballys for almost 13 years and went into casino work after a few years in public accounting.

Ballys utilizes a staff of 4,000 employees and expects to hire 4,000 employees for Paris Las Vegas. There are 2,813 rooms at Ballys and 2,913 rooms at Paris Las Vegas.

Ballys paid a gross gaming revenue tax of \$9,800,000 for the year 1998. This tax is paid monthly and is due by the 24th of the month following the month incurred. There is also a rolling quarterly tax, and the most recent quarter dictates what the future quarterly tax is. The quarterly tax is paid to the County and is calculated at the rate of .55% of the gross revenue. Ballys pays approximately \$150,000-\$200,000 per quarter for this tax, and for the year 1998 paid \$833,766.

The business tax paid on the employees is paid quarterly and is approximately \$100,000 per quarter.

Ballys does not have to pay State Industrial Insurance State tax as it is self-insured. However, Ballys must provide Workmans Compensation Insurance and pays approximately \$2,500,000 per year for this insurance. Ballys does not pay an insurance premium tax.

Unemployment insurance is calculated at the tax rate of .9% up to \$10,400, and Ballys pays approximately \$700,000 per year.

The liquor license tax is paid to the county on a quarterly basis. For each operation in the

casino, a tax rate of \$30 per unit is paid. The fee is based on revenue, and Ballys pays approximately \$50,000 per year for this tax.

There are only a few vehicles owned by Ballys, and these vehicles are linen trucks which are used to transport linen to Laughlin, Nevada. The licensing fees for these vehicles is estimated at \$2,000 per year. As to vehicles provided to the executives, the car rental agencies on Ballys' premises provide the vehicles for the executives, and Ballys does not own any airplanes. If a private airplane is needed, Ballys uses the airplanes owned by the Hilton Corporation and pays for the hours used.

The taxes paid by Ballys for the race and sports book and keno for more than 20 games is paid at the tax rate of \$50 per employee per year to the Federal Government and is estimated at \$200,000 per year.

The casino entertainment tax is collected from the customer upon the sale of the ticket, and the customer is charged 10% of the ticket price for the entertainment tax. At Ballys, the casino entertainment tax is charged on their showroom.

License taxes are paid quarterly for the privilege of having the games at the casino. There is a license fee of \$30 per game paid quarterly to the county, a convention authority tax paid on the slot machines only, and a general county tax. The Convention and Visitors Authority also collects a 7% room tax. Ballys pays approximately \$6,800,000 per year to the county for all gaming licenses and room tax, and additionally pays to the state approximately \$3,000,000 per year for entertainment tax and licenses and an annual gaming tax.

Ballys pays approximately \$2,900,000 per year in property tax, both real and personal. The sewer bill paid is approximately \$170,000 which is paid quarterly and is based on the number of fixtures on the property emptying into the sewer.

The state sales and use taxes paid by Ballys for the year 1998 was approximately \$4,800,000. Most of the state sales and use tax is collected from the guests of Ballys.

The final tax paid by Ballys includes payroll taxes. Ballys paid approximately \$9,400,000 for Social Security Tax (FICA) and Medicare (FMHA) in 1998 and approximately \$18,000,000-\$20,000,000 for withholding tax in 1998.

For the year 1998, Ballys paid approximately \$61,555,766 in taxes as enumerated above. Of the taxes paid by Ballys in 1998, only one area of taxes paid exceeded the gross gaming revenue tax, i.e., payroll tax. Because of the complexity of payment schedules for the different types of taxes noted above, Mr. Flinders created a form for use by the employees in the accounting department at Ballys. This form is used as an aid for payment of taxes in a timely manner, and a copy of the form is attached in the Appendix.

Comparison of Property Taxes

To illustrate the amount of taxes paid by a non-gaming business of similar size to a large casino located and licensed in Clark County, Nevada, I contacted the Meadows Mall, a local shopping mall, for information on the types of taxes paid by a non-gaming business. However, the administrative offices at the Meadows Mall were unwilling to give me any information or provide an interview to obtain said information for a comparison in taxes paid with the gaming industry. I further contacted the three other large shopping malls in the Clark County area and experienced the same difficulty. In order to provide a comparison of taxes paid between a gaming business and a non-gaming business, I resolved to a comparison of the property taxes paid by the gaming business and a non-gaming business.

A comparison of property taxes paid by a gaming establishment, Ballys, and a non-gaming establishment, Meadows Mall, was next researched in order to obtain a horizontal equity line paid by businesses in Clark County, Nevada.

Ballys paid \$2,688,777 in property taxes for the year 1998 for its 29.99 acres. Of the property taxes paid, the largest amount of tax revenue is contributed to the school district for bond debt and maintenance and operation followed by Clark County.

In contrast, the Meadows Mall covers approximately 66.57 acres of land and paid approximately \$800,779 in property taxes in 1998 which is approximately 29% of the property taxes paid by Ballys. The Meadows Mall tax rate for property taxes is a little different in distribution of the funds, but, again, the largest portion of tax revenue is distributed to the school bond and maintenance and operation followed by the City of Las Vegas. The following is an apportionment schedule table created to illustrate the comparison paid in property taxes by the two entities:

	<u>Ballys</u>	<u>Meadows Mall</u>
Clark County Library	.0643%	.0647%
State Indigent Trust	.0147%	.0148%
School District Bond Debt service	.5431%	.5469%
School District Maintenance & Operation	.7360%	.7412%
Las Vegas Artesian Basin	.0030%	.0031%
Las Vegas City Debt Service	.0000%	.0273%
Las Vegas City	.0000%	.6389%
State of Nevada	.1472%	.1482%
Clark County Library Debt Service	.0365%	.0368%
Clark County Debt Service	.0636%	.0640%
Clark County Fire Service	.1993%	.0000%
Clark County Flood Control	.0000%	.0000%
Paradise Town	.2025%	.0000%
State Indigent Trust	.0000%	.0000%
Emergency 911	.0049%	.0049%
Indigent Medical	.0981%	.0988%
Clark County Capital Projects	.0491%	.0494%
LVMPD Manpower Supplement	.1563%	.1574%
Clark County Coop Extension Service	.0098%	.0099%
Family Court	.0188%	.0190%
Clark County	.3988%	.4015%

The Meadows Mall tax revenues are distributed to the Las Vegas City Debt Service and

City of Las Vegas in the place of distribution to the Clark County Fire Service and Paradise Town from Ballys tax revenue payments. Although the percentage rates are exactly the same, or so very close as to be negligible in difference, i.e., .005% being the largest difference, Ballys pays more property tax than the Meadows Mall. As illustrated in the following table which compares the gross assessed value of the two properties, Ballys pays more property tax than the Meadows Mall. The Meadows Mall covers land over twice the size of Ballys, yet Ballys paid over three times the amount in property taxes compared to the Meadows Mall.

<u>Property</u>	<u>Land</u>	<u>Improvements</u>	<u>Personal</u>	<u>Gross Assessed</u>	<u>Land/Improve Taxable</u>
Meadows Mall	9,133,740	14,201,890	806,820	26,142,450	72,387,520
Ballys	12,040,690	74,080,580	11,743,580	97,864,850	246,060,770

According to the distribution of taxable land and improvements, the Meadows Mall pays 29% of the taxes that Ballys does for one-half the amount of land developed. This fact alone suggests that one can draw the conclusion that the gaming industry pays a larger percentage of property taxes than a non-gaming industry. Further research is needed to make this study complete.

Summary Overview

The conclusions drawn from the data can be supported by academic persons as well as industry persons. I interviewed Professor Shannon Bybee (personal communication, March 24, 1999), a Professor at the University of Nevada, Las Vegas, who had recently spoken before the Senate Committee on Taxation regarding Senate Bill 88. Senate Bill 88 was introduced by Senator Joe Neal this Legislative Session who proposed to increase the gross revenue gaming taxes on casinos paying over \$1,000,000 by 2%. Professor Bybee addressed the issue with important points for the Senate Committee to consider prior to increasing taxes on the largest industry in the State of Nevada.

Bybee addressed the Senate Committee on Taxation, "Hearing on SB 88" (1999), by stating that gaming is a high visibility industry and because of the high visibility of gaming, "it is always easy to look at the gaming industry as a tax source". He further stated that, "many other businesses in Nevada make their owners and executives as wealthy as many of those in the gaming industry, but their wealth is not as visible and they are not as easy a target when taxes are being considered." (Bybee, p.1).

Bybee (1999) added that although the gaming industry began as a private industry many years ago, the largest and most successful companies are the publicly traded companies. 75.5% of the total gaming revenue for the state is paid by 65 casinos that are publicly owned. If the publicly owned casinos who pay the largest share of gross gaming revenue tax are hit once again with more taxes, along with the remaining 170 casinos in the state, profits will decrease. If profits decrease, the investors will be disinclined to invest their monies in the gaming industry in Nevada and will be more inclined to invest their monies somewhere else. With the advent of the large resorts that have been built over the last 10 years from the help of investors, the small

casino owner is virtually unheard of. (Bybee, p.2).

The writer, therefore, concluded that visitors come to Las Vegas for more than gaming. Visitors also come to Las Vegas for the entertainment, shopping, and fine dining. If the taxes are increased, there is less profit to provide the incentive package to the visitors, less profit for advertising and marketing, less profit for expansion and reinvestment into the existing gaming establishments, and less profit for the investors.

Bybee (1999) further pointed out that the lower tax rate in Nevada can still cause casinos to “experience lower profit margins than casino operations in high tax rate states” because of the unlimited number of gaming licenses available to applicants in Nevada and competition from other casinos. Bybee compiled a table illustrating the comparison between the low tax rates in Nevada, and the high tax rates in other states with gaming. A copy of Table I is included in the Appendix. (Bybee, p.3).

Additionally, Bybee (1999) stated that there is a “direct inverse relationship between tax rates and gaming revenue, gaming taxes, and jobs”. The direct inverse relationship was compiled by Bybee in Table II which is included in the Appendix. It is noted that the high tax rate states produce a lower gaming revenue, lower gaming tax revenue, and fewer jobs. The lower tax rate states produce a higher gaming revenue, higher gaming tax revenue, and more jobs. (Bybee, p.4).

Bybee (1999) closed his testimony before the Senate with the statement that, “Much of Nevada’s economy is derived from the gaming industry. Anything that negatively impacts the gaming industry will have a negative impact throughout the state’s economy.” (Bybee, p.5).

In International Surveys of Casino Taxation (1994), Thompson, et al. compared the taxation policy for casinos in several jurisdictions, i.e., Nevada, Colorado, Iowa, Mississippi,

New Jersey, Bahamas, South America, England, Germany, Holland, and Australia. They also noted that the jurisdictions which have the lowest taxation rates, produce the largest gross gaming wins, produce the largest amount of tax revenues, hire the largest number of employees, and add the most capital investments to the community. (Thompson, et al., p.10).

It is the writer's opinion that Thompson and Bybee support each other in their analysis of casino taxation by relating that the lower taxation rates in jurisdictions with legalized gaming ultimately produce the largest amount of tax revenues. Thompson, et al. (1994) states that the costs of attracting tourists are high in that vacation spots are competitive with one another. A conclusion can then be drawn that one must consider advertising and marketing costs, entertainment packages, economic development, and reinvestment of capital into the existing casinos. Funding from investors to meet these costs is imperative to keep the economy of the state and local communities competitive and attractive. And, investors invest for profits. (Thompson, et al., p.10).

Thompson, et al. (1994) further states that, "A successful casino brings many benefits to local communities--direct and indirect employment and many secondary taxes." Not only are there the direct taxes from gaming, but there are also non-gaming taxes which include property taxes, sales and use taxes, and income taxes as discussed above. (Thompson, et al., p.12).

Economic Impact

As noted in the previous sections of the research provided above, gaming establishments do pay more in property taxes, sales and use tax, and payroll taxes than non-gaming establishments. A further investigation by the Nevada Resort Association confirms this fact.

The Nevada Resort Association made a presentation to the Senate and Assembly Judiciary Committees in February, 1999, entitled "Presentation to the Nevada Senate and Assembly Judiciary Committees". The report focused on the gaming industry's economic impact on the State of Nevada, the challenges facing Nevada's gaming industry, and response of the gaming industry to the challenges.

The following is a total of gaming taxes, fees and licenses paid by the gaming industry for fiscal year 1997 which the Nevada Resort Association (1999) obtained from UNLV International Gaming Institute and Nevada Gaming Control Board. (Nevada Resort Association, p.4).

<u>Tax/Fee</u>	<u>Amount Paid</u>
Total % Fees on Gaming Revenue	\$ 444,975,675
Total Annual Slot Tax	\$ 50,835,523
Casino Entertainment Tax	\$ 36,316,362
Quarterly Non-Restricted Slot Fees	\$ 14,227,841
Quarterly Game Fees	\$ 7,106,886
Advance License Fee Payment	\$ 6,361,555
Quarterly Restricted Slot Fees	\$ 5,719,052
Total Annual Fee on Games	\$ 2,725,858
Penalties/Fines/Interest	\$ 1,019,628

Race Wire License Fees	\$ 504,660
Manufacturer/Distributor License Fees	\$ 132,000
Slot Route Operator License Fees	\$ 34,500
Pari-Mutual Tax	\$ <u>2,145</u>
Total From All Sources	\$ 569,961,684

According to the report by the Nevada Resort Association (1999), \$36 million was collected in 1997 for county license fees, of which \$30 million was collected from Clark County. Additionally, there was a \$2.2 billion contribution to the federal, state, and local taxes. (Nevada Resort Association, p.5).

Attached in the Appendix is a pie chart produced by the Nevada Resort Association (1999) which illustrates the Nevada General Fund Revenue forecast for 1997-1999. Although sales taxes appear to contribute the largest share of taxes at 37.1%, gaming does surpass the sales tax contribution by combining gaming taxes at 35.1% and casino entertainment tax at 2.9% for a total of 38% tax contribution from gaming. Not only does the gaming industry pay a 38% tax contribution from gaming, it also pays a share of the 37.1% sales tax. (Nevada Resort Association, p.6).

Another table produced by the Nevada Resort Association (1999) attached in the Appendix entitled, "Hospitality Industry Payments to Nevada's General Fund by Source, FY 1997", confirms the large tax revenue contributed to the State of Nevada which is directly related to gaming. For 1997, gaming taxes and fees, sales and use taxes, excise taxes, and business license taxes contributed almost \$750 million to Nevada's General Fund. According to the pie chart attached in the Appendix and labeled, "Primary Source of Nevada's State Revenue Taxes: Gaming Industry/Employees", the taxes, licenses, fees, and permits contribute 61% of the

revenue to the Nevada State General Fund, and the gaming-related taxes contribute 55% of the revenue as opposed to 45% contributed by non-gaming related taxes. (Nevada Resort Association, pp.8-9).

The report by the Nevada Resort Association (1999) also points out that certain taxes are not levied in the State of Nevada, i.e., personal income tax, corporate income tax, sales tax on food, admissions tax, bank excise measured by income, special intangible tax, franchise tax on income, inventory tax, inheritance tax, and gift tax. Additionally, the Nevada Resort Association emphasizes that the gaming industry has impacted the community in a positive manner through its charitable contributions. Bill Boyd and the Boyd Corporation have contributed \$5 million for the UNLV Law School; provided funding for the Boyd Stadium, Boyd Dining Room, and \$0.5 million for a new residence hall at UNLV; contributed to the Lied Athletic Complex, and provided an endowment for the Hotel College of Administration grants. Harrah's has contributed \$5 million to UNLV for Harrah's College of Administration. Anchor Gaming has contributed \$5.2 million to establish the International Gaming Institute. IGT has contributed \$1 million for the Gaming Institute Library and scholarships for the UNR School of Engineering. The gaming industry employees also volunteer hundreds of hours to the community which is not necessarily measured in dollars and cents. (Nevada Resort Association, pp.11, 17, 18, 19).

The Nevada Resort Association (1999) stated that some of the challenges facing Nevada's gaming industry include competitive tourism trade, transportation and airline service issues, and Wall Street concerns. There are also Congressional issues that are a concern, i.e., IGRA revisions, NGISC recommendations, Internet gaming, tax increases, and withholding of taxes on jackpots. (Nevada Resort Association pp.29, 31).

The Nevada Resort Association (1999) has responded to the challenges of the gaming industry by marketing the diversification offered to the visitors of Las Vegas. The top three reasons to visit Las Vegas include a variety of things to do other than gaming, cost of the trip, and gambling. There were 3.3 million convention attendees in Las Vegas in 1998 which created a non-gaming impact on Southern Nevada of \$4.3 million. (Nevada Resort Association, pp.35-36).

Ed Vogel wrote an overview of the above report presented by the Nevada Resort Association in the Las Vegas Review Journal, "Gaming rips bid for more state tax", (February 20, 1999), commenting on the fact that the Gaming Control Board report does not include federal taxes paid by casinos or some of their expenses and further added that the gaming stocks have dropped as much as 70% in the past 18 months. Additionally, the casinos face competition for tourists who can go to casinos in many other states. He also added that gaming only receives an average of 3.3% return on its investment compared to a 25% investment return in telecommunications and 15% investment return in banking. (Vogel, pp.1B, 5B).

Conclusion

What does the gaming industry pay in taxes? For fiscal year 1997, the gaming industry paid \$569,961,684 in taxes for only gaming licenses, taxes, and fees. Additionally, \$36 million was collected in 1997 for county license fees, of which \$30 million was collected from Clark County. Overall tax revenues which would also include property taxes, sales taxes, payroll taxes, and lodging taxes were estimated at a \$2.2 billion contribution to the federal, state, and local taxes. Of the \$4.6 billion collected in taxes for fiscal year 1997, gaming paid approximately \$2.7 billion in taxes which is 58% of the share in taxes paid by gaming.

Does the gaming industry pay a proportionate share of the taxes paid into the State General Fund? The gaming industry paid a total 55% of the tax revenue while the non-gaming industry paid a total of 45% of the tax revenue. The gaming industry not only pays a proportionate share of the taxes collected throughout the city, county, and state, but it pays the larger portion when compared to the non-gaming industry. Clearly, additional research is needed to make this study complete.

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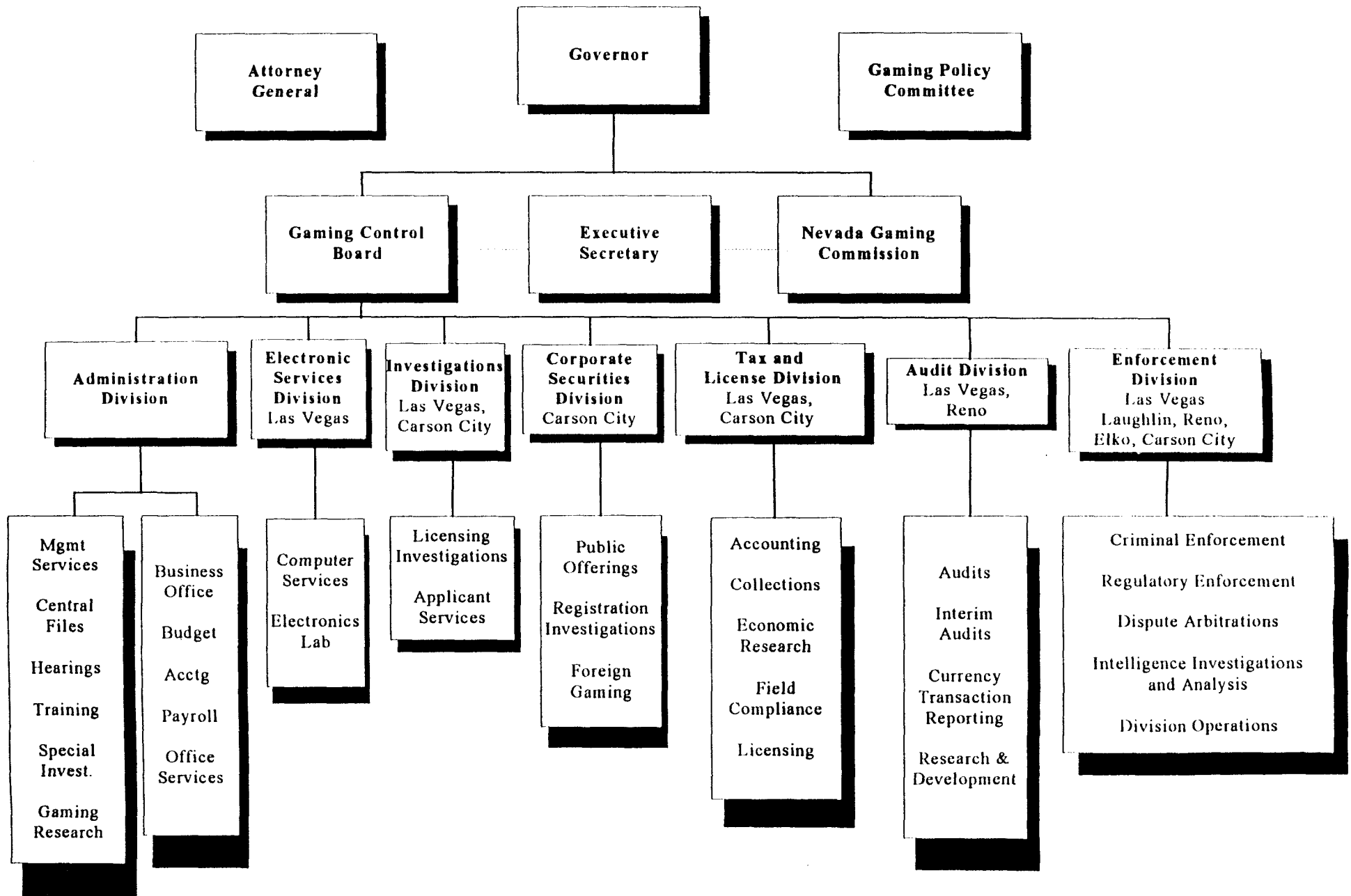
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Appendix

Nevada Gaming Regulatory Structure



STATE GAMING CONTROL BOARD INFORMATION SHEET

NGC/GCB BUDGET:

FY98 \$24,491,240

FY99 \$25,036,690

PERSONNEL (Reflects authorized full-time equivalent positions by Division including half-time positions for FY1999):

	Administration	Audit	Corporate Securities	Electronic Services	Enforcement	Investigations	Tax & License	Total
Classified	33.5	11	2	2	20	16	7	91.5
Unclassified	15.0	106	16	25	99	62	16	339.0
Total	48.5	117	18	27	119	78	23	430.5

LICENSES ISSUED AND ACTIVE DURING THE QUARTER ENDED JUNE 30, 1998:

(Source: Quarterly Statistical Report; Current As Of 9/11/98)

Restricted	Non-Restricted Group 1 & 2	Non-Restricted Group 3	Slot Route Operator	Manufacturer/Distributor	Wire Service & Simulcasts	Total
2,025	246	182	62	178	7	2,700

LICENSED DEVICES DURING THE QUARTER ENDED JUNE 30, 1998:

(Source: Quarterly Statistical Report; Current As Of 9/11/98)

Games		Tables		Slots		Total
Twenty-one	3,467			Restricted	17,922	
Baccarat	93			\$0.05	1,509	
Mini-Baccarat	105			\$0.25	13,832	
Craps	456			\$1.00	1,981	
Roulette	412			Other	600	
Keno	171					
Caribbean Stud	119			Non-restricted	180,310	
Let It Ride	158			\$0.05	40,582	
Race Books	103			\$0.25	95,714	
Sports Pools	130	Poker	533	\$1.00	35,287	
Balance	406	Pan & Others	26	Other	8,727	
Total	5,620	Total	559	Total	198,232	204,411

TOTAL GAMING WIN AND COLLECTIONS FOR FY1998:

(Source: Quarterly Statistical Report; Current As Of 9/11/98)

GAMING WIN

Area	Gaming Win	Percent of Statewide
Clark	\$6,207,219,323	78.8%
Washoe	\$1,009,353,314	12.8%
South Lake Tahoe	\$290,561,587	3.7%
Elko	\$197,986,540	2.5%
Carson Valley	\$76,431,608	1.0%
Balance	\$92,262,358	1.2%
Statewide	\$7,873,814,730	100.0%

COLLECTIONS (State Gaming Taxes and License Fees)

Area	State Gaming Taxes	Percent of Statewide
Clark	\$457,236,554	78.3%
Washoe	\$76,457,282	13.1%
South Lake Tahoe	\$21,146,642	3.6%
Elko	\$15,189,302	2.6%
Carson Valley	\$6,208,560	1.1%
Balance	\$7,834,519	1.3%
Statewide	\$584,072,858	100.0%

SLOT WIN AND GAME & TABLE WIN FOR FY1998:

(Source: Quarterly Statistical Report; Current As Of 9/11/98)

Slot Win	\$5,061,373,271
Game & Table Win	\$2,812,441,460
Total	\$7,873,814,730

GENERAL FUND AND DEDICATED FUND COLLECTIONS:

(Source: Revenue Summary Report; Current As Of 9/11/98)

General Fund	\$530,940,830
Dedicated Funds (Schools, Counties)	\$53,132,028
Total	\$584,072,858

RANKING OF SLOTS AND GAMES WIN TO TOTAL WIN:

(Source: Gaming Revenue Summary Report; Current As Of 9/11/98)

Slots:		Games:	
\$0.05	8.9%	Twenty-one	12.5%
\$0.25	30.1%	Baccarat	6.3%
\$1.00	18.1%	Craps	5.0%

COLLECTIONS BY CATEGORY

(Source: Quarterly Statistical Report; Current As Of 9/11/98)

		Percent
Percentage Fees	\$459,190,064	78.6%
Entertainment Tax	\$39,109,465	6.7%
Quarterly Nonrestricted Slot Tax	\$14,466,628	2.5%
Quarterly Games Tax	\$7,045,538	1.2%
Quarterly Restricted Slot Tax	\$5,957,164	1.0%
Annual Slot Tax	\$50,506,984	8.6%
Annual Games Tax	\$2,738,700	0.5%
Other Collections	\$5,058,316	0.9%
Total	\$584,072,858	100.0%

DESCRIPTION OF FORM	JAN	FEB	MA	APR	MA	JUN	JUL	AU	SEP	OCT	NO	DEC	
California Property Tax - Grand Reservation Svcs.				1									MIKE
California Employee Development Department (SDI,SIT & SUD)	31	✓		30			31			31			BRIGITTE
CORP. GAMING PERMITS & EQUIPMENT REPORT	11	✓	11	✓	11	11	11	11	11	11	11	11	MIKE
CORP. GAMING PERMITS & EQUIPMENT REPORT	18	✓	18	✓	18	18	18	18	18	18	18	18	MIKE
CORP. GAMING PERMITS & EQUIPMENT REPORT	21	✓	21	✓	21	21	21	21	21	21	21	21	MIKE
CY Business License - Hotel #013602-430-2		15	✓					15					MIKE
COUNTY Contractors Annual License #001123-240-8		15	✓										MIKE
COUNTY Convention Hall License #013450-245-9	15						15						MIKE
COUNTY Convention Authority #035766 (CON-O)	15	✓		31			30			30			VELINDA
COUNTY Gaming License #035766 (GAM-O)	15	✓		31			30			30			VELINDA
COUNTY Tobacco License 013775-920A				30						31			MIKE
COUNTY Health Club #013275-520-3			15	✓					15				MIKE
COUNTY Air Pollution Control (Hotel Linen)			1										LILLIAN
COUNTY Health Permits	20	✓					20						MIKE
COUNTY Key Employee Listing (Copy of GCB)	10			10			15			10			PERSONNEL
COUNTY Liquor #035758-LIQ-O	15	✓		15			15			15			MIKE
COUNTY Gift Shop #000531-405-2		15	✓				31						GITTY
COUNTY Personal Property Declaration							31						MIKE
COUNTY Quarterly Gross Win Tax #035766 (GEN-O)	31			30			31			31			VELINDA
COUNTY Property Taxes	**	✓	**	✓				3MN		**			SUSAN
COUNTY Restaurant #013775-700-4				15						15			GITTY
COUNTY Room Tax #013602-430-D	15	✓	15	✓	15	15	15	15	15	15	15	15	GITTY
COUNTY Strip Beautification Landscape&Maintenance Tax		1	✓					1					SUSAN
FEDERAL BUREAU OF ALCOHOL, TOBACCO & FIREARMS						30							MIKE
G.C.B. Dist/Manuf/Gaming Licenses												31	VELINDA
G.C.B. Quarterly 5-050 Landing Agencies	1			1			1			1			VELINDA
G.C.B. Annual Standard Financial Statements									15				MIKE
G.C.B. Changes to Internal Control System				30						31			VELINDA
G.C.B. Annual Drop Time							15						VELINDA
G.C.B. Entertainment Tax Form NGC-11	24	✓	24	✓	24	24	24	24	24	24	24	24	GITTY
G.C.B. Games & Slots in Operation Form NGC-15			31				30			30			VELINDA
G.C.B. Gross Win Tax Form NGC-1	24	✓	24	✓	24	24	24	24	24	24	24	24	VELINDA
G.C.B. Race Track handle Report (With NGC-1)	24	✓	24	✓	24	24	24	24	24	24	24	24	VELINDA
G.C.B. Race & Sports Unpaid & Futures Report	10	✓	10	✓	10	10	10	10	10	10	10	10	VELINDA
G.C.B. Key Employee Listing - Hard/Soft Count	10	✓			10			10		10			MARK
G.C.B. Number of Games in Operation Form NGC-2												31	VELINDA
G.C.B. Number of Slots in Operation Form NGC-4						20							VELINDA
I.R.S. Annual Unemployment Return Form 940	31	✓											BRIGITTE
I.R.S. Annual Wagering Tax Stamp Form 11C							1						VELINDA
I.R.S. Excise Tax on Wagering Form 730	31	✓	28	✓	31	30	31	30	31	30	31	30	VELINDA
I.R.S. Form 941-G's		28	✓										MIKE
I.R.S. Form 1042s			15										MIKE
I.R.S. Form 1099 Submitted to IRS		28	✓										MIKE
I.R.S. Form 1099 Submitted to Vendors	31	✓											A/P-Lil
I.R.S. Income Tax Return Form 1120 (***)			15										CORP.
I.R.S. Payroll Taxes (Deposited/B of A)	*	✓	* ✓ *	*	*	*	*	*	*	*	*	*	JOE
I.R.S. Tip Allocation Reporting #8027		28	✓										GITTY
I.R.S. Unemployment Tax depository F.U.T.A.	31	✓		30			31			31			BRIGITTE
I.R.S. W-2's and W-3's Submitted to IRS		28											BRIGITTE
I.R.S. W-2's to Employees	31	✓											BRIGITTE
I.R.S. Withholding and F.I.C.A. Form 941	31	✓		30			31			31			BRIGITTE
I.R.S. Form 945 Annual Federal Withholding Tax	31	✓											MIKE
NEVADA Petroleum Fund Registration Fee										1			MIKE
NEVADA D.I.R. Quarterly Worker's Compensation	1	✓		1				30		1			LILLIAN
NEVADA Quarterly Unemployment Return S.U.I.	31	✓		30			31			31			BRIGITTE
NEVADA Sales Use Tax Rtn (Hotel) 240458768	31	✓	28	✓	31	30	31	30	31	31	30	31	GITTY
NEVADA Sales Use Tax Rtn (Linen) 151000363	31	✓	28	✓	31	30	31	30	31	31	30	31	GEORGE
NEVADA Special Fuel Renewal Tax (Due Quarterly)	31	✓		30			31			31			MIKE
NEVADA State Dairy Commission	15	✓	15	✓	15	15	15	15	15	15	15	15	GEORGE
N.L.V. Gross Sales License #35066 (Linen)	31	✓					31						MIKE
NEVADA Business Tax # C-0035644 & 140046208	31	✓		30			31			31			MIKE
DMV REGISTRATIONS (LINEN TRUCKS)	1	✓											SUSAN
T Show/Convention Facility Tax #757073408							1						MIKE

15
 *The third business day following payment of bi-weekly payroll
 **First Monday of each month noted

EBITDA or EBDAR Margin Percentages by Company/Jurisdiction--1997

Company	Nevada	New Jersey	Mississippi	Missouri	Louisiana	Illinois	Indiana
Top Tax Rate:	6.25%	8%	8%	20%	18.5%*	35%	20%
Harrahs	23.4 22.7 24.0 22.4	26.8	22.5 10.0	23.7 5.3	34.9	31.0	
Hollywood Park	12.6		15.9		28.1		
AZTAR (EBDAR)	6.4 21.8	20.1		2.1			34.8
Boyd Gaming	18.9 21.5 10.4			33.7**			

Margins in Bold Typeface are over 25%. None are Nevada numbers.

*Jefferson Parish takes an additional 6%

**Boyd combines all riverboat gaming operations in these four states

Compiled by Shannon Bybee from company reports and investment bankers gaming industry analysis.

Table I

The Relationship Between Tax Rates, Gaming Revenue, Tax Revenue and Jobs

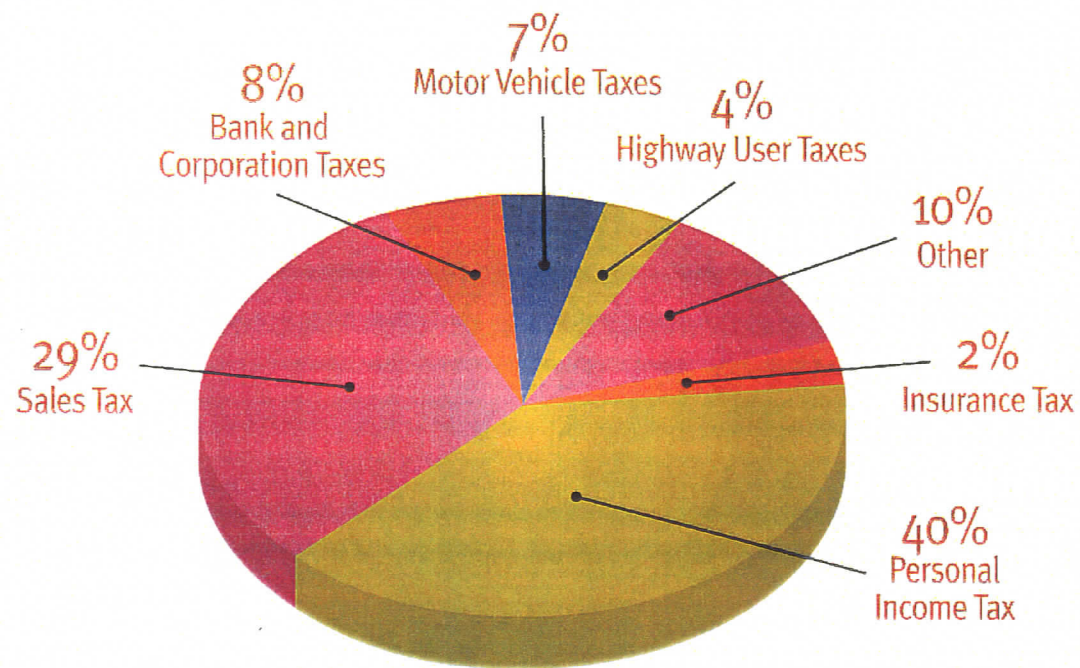
	Tax Rate	Gam Rev (Billions)	Taxes (Millions)	Jobs
Nevada	6.25%	7.8	570	180,572
New Jersey	8%	3.9	319.3	49,123
Mississippi	8%	2	233.7	32,403
Louisiana	18.5%*	1.2	173.8	14,578
Missouri	20%	0.7	107.5	12,896
Illinois	35%	1.1	226.3	10,219
Indiana	20%	0.9	192.5	10,862

* Jefferson Parish adds another 6%

Compiled by Shannon Bybee from various sources including International Gaming & Wagering Business Magazine & State Gaming Regulators

Table II

California General Fund Revenue Forecast 1999-2000



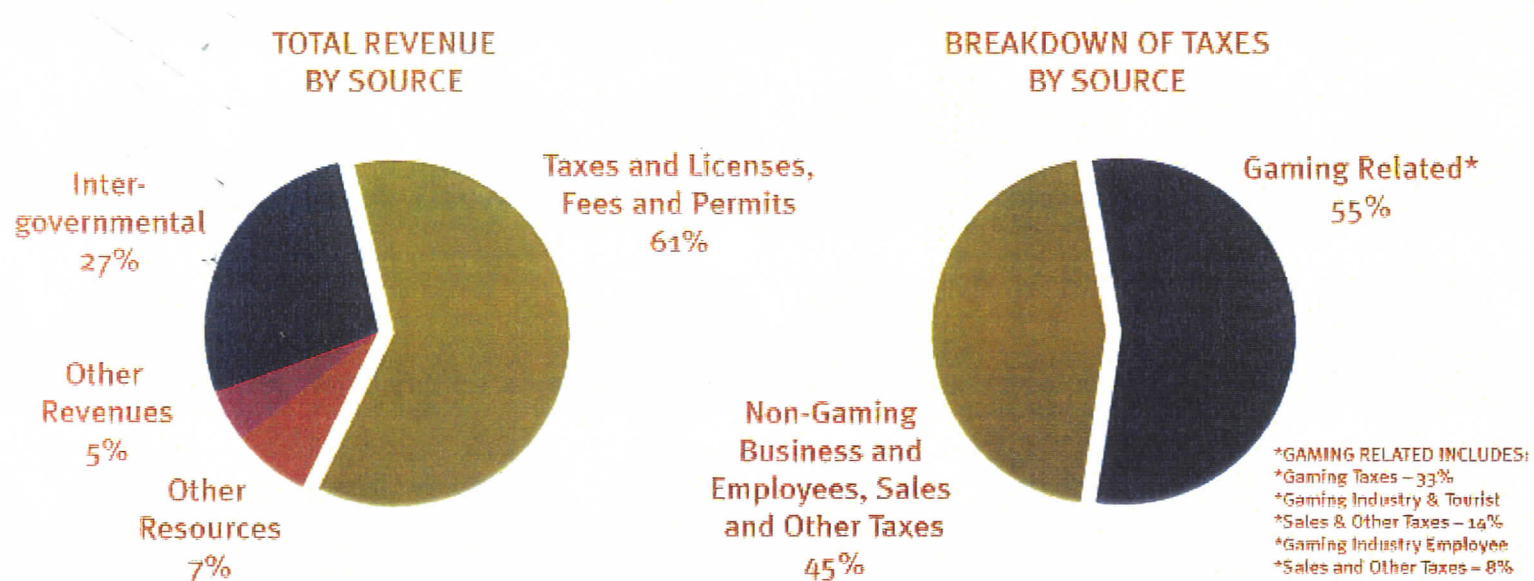
Source: Los Angeles Times, January 9, 1999

HOSPITALITY INDUSTRY PAYMENTS TO NEVADA'S GENERAL FUND BY SOURCE, FY 1997

Revenue Source	Hospitality Contribution
Gaming taxes and fees	\$516,505,800
Sales and use taxes	193,948,200
Excise taxes	21,516,900
Business license taxes	17,800,000
TOTAL DIRECTLY ATTRIBUTABLE CONTRIBUTION	\$749,770,900

*Source: "The Hospitality Industry's Impact on the State of Gaming,"
UNLV International Gaming Institute*

PRIMARY SOURCE OF NEVADA'S STATE REVENUE TAXES: GAMING INDUSTRY/EMPLOYEES



Source: Arthur Andersen and Center for Business and Economic Research, UNLV