

Analysis of Kentucky Historical Horse Racing Tax Rates



Agenda:



The purpose of this presentation is to:

- I. Describe how Historical Horse Racing (“HHR”) machines are currently taxed and fund purses/breeders funds
- II. An analysis of how the Kentucky HHR Tax Rate compares to other states with HHRs and neighboring states with casino gaming

HHRs are “taxed” through two methods: one statutory, one regulatory/contractual

1. **Excise Tax**: 1.5% of handle paid to the State of Kentucky, which funds:
 - ✓ Thoroughbred Breed Development Fund (“KTDF” – 0.75% of TB)
 - ✓ Standardbred Breed Development Fund (“KSBDP” – 1.0% of SB)
 - ✓ Equine Drug Research (0.1% of TB, capped at \$320,000)
 - ✓ Equine Industry Program (0.2% of TB, capped at \$650,000)
 - ✓ Higher Education Equine Trust and Revolving Fund (0.1% of TB, capped at \$320,000)
 - ✓ General Fund (receives the remaining balance)
2. **Purse Money**: A contractual requirement from regulation 810 KAR 6:010 Section 6 (2) requires associations to enter an agreement with horsemen to allocate a portion of the take-out to Purse Money to benefit Kentucky racing
 - ✓ In most states this is a statutory payment, rather than a contractual one and needs to be included to fairly compare effective tax rates
 - ✓ Contractual Purses paid to Kentucky Horsemen are 15% of net revenue, after free play and taxes (includes 14% to association purses, 1% to Breeders Incentive Fund)
 - ✓ Contracts typically run for 10 years

❑ The sum of these two is the **Effective Tax Rate** and is used to compare the Kentucky HHR against other gaming facilities with which we compete, and racing facilities in other states.

The statutory excise tax rate on Kentucky HHRs is 20.4% of takeout

Statutory taxes fund breed development, industry programs and the general fund

- Example of \$100 wagered through a KY HHR and how it effects taxes

	1.50%
	<u>Excise Tax</u>
Handle	\$100.00
Takeout	\$8.66
Takeout Rate	8.66%
Free Play at 15% of Takeout	(\$1.30)
Cash Takeout After Free Play	\$7.36
Cash Takeout Rate after Free Play	7.36%
1.5% Excise Tax on Handle	\$1.50
Effective Excise Tax Rate on Cash Takeout	20.4%

- The statutory excise tax portion, 1.5% of handle, results in an effective tax on revenue of 20.4% (cash takeout) and funds breed development, drug research, equine programs and the general fund

Notes:

- Hold rate of 8.66% is based on Total Kentucky HHRs June 2021 Fiscal YTD numbers on KHRC website
- Free play based on industry estimate; DCG was >17% for 2019. It was lower during 2020 due to Covid capacity restrictions

The regulatory / contractual tax rate on Kentucky HHRs adds 11.9%

Purse contributions are statutory in most states while Ky regulations require horsemen agreement

- Example of \$100 wagered through a KY HHR and how it effects taxes

	<u>Contractual Purse Money</u>
Handle	\$100.00
Takeout	\$8.66
Takeout Rate	8.66%
Free Play at 15% of Takeout	(\$1.30)
Cash Takeout After Free Play	\$7.36
1.5% Excise Tax on Handle	\$1.50
Net Takeout after Free Play and Excise Tax	\$5.86
Contractual Purses \$ at 15% of Net Takeout	\$0.88
Effective Purse % of Takeout after Free Play	11.9%

- The regulatory/contractual tax portion, 15% of take-out after free play & 1.5% handle tax, funds purses and adds an additional tax on cash revenue (cash takeout) of 11.9%

Notes:

- Hold rate of 8.66% is based on Total Kentucky HHRs June 2021 Fiscal YTD numbers on KHRC website
- Free play based on industry estimate; DCG was >17% for 2019. It was lower during 2020 due to Covid capacity restrictions

The real effective tax rate on Kentucky HHRs is 32.3% of takeout

Majority of taxes are invested back into the industry through purses and breed development funds

- Example of \$100 wagered through a KY HHR and how it effects taxes

	1.50% <u>Excise Tax</u>	Contractual <u>Purse Money</u>	Total Effective <u>Tax Rate</u>
Handle	\$100.00	\$100.00	\$100.00
Takeout	\$8.66	\$8.66	\$8.66
Takeout Rate	8.66%	8.66%	8.66%
Free Play at 15% of Takeout	(\$1.30)	(\$1.30)	(\$1.30)
Cash Takeout After Free Play	\$7.36	\$7.36	\$7.36
1.5% Excise Tax on Handle	\$1.50	\$1.50	\$1.50
Effective Excise Tax Rate on Cash Takeout	20.4%		20.4%
Net Takeout after Free Play and Excise Tax		\$5.86	\$5.86
Contractual Purses - 15% of Net Takeout		15%	
Contractual Purses \$ at 15% of Net Takeout		\$0.88	\$0.88
Effective Purse % of Takeout after Free Play		11.9%	11.9%
Total Excise Taxes & Purses			\$2.38
Total Effective Tax Rate as % of Takeout			32.3%

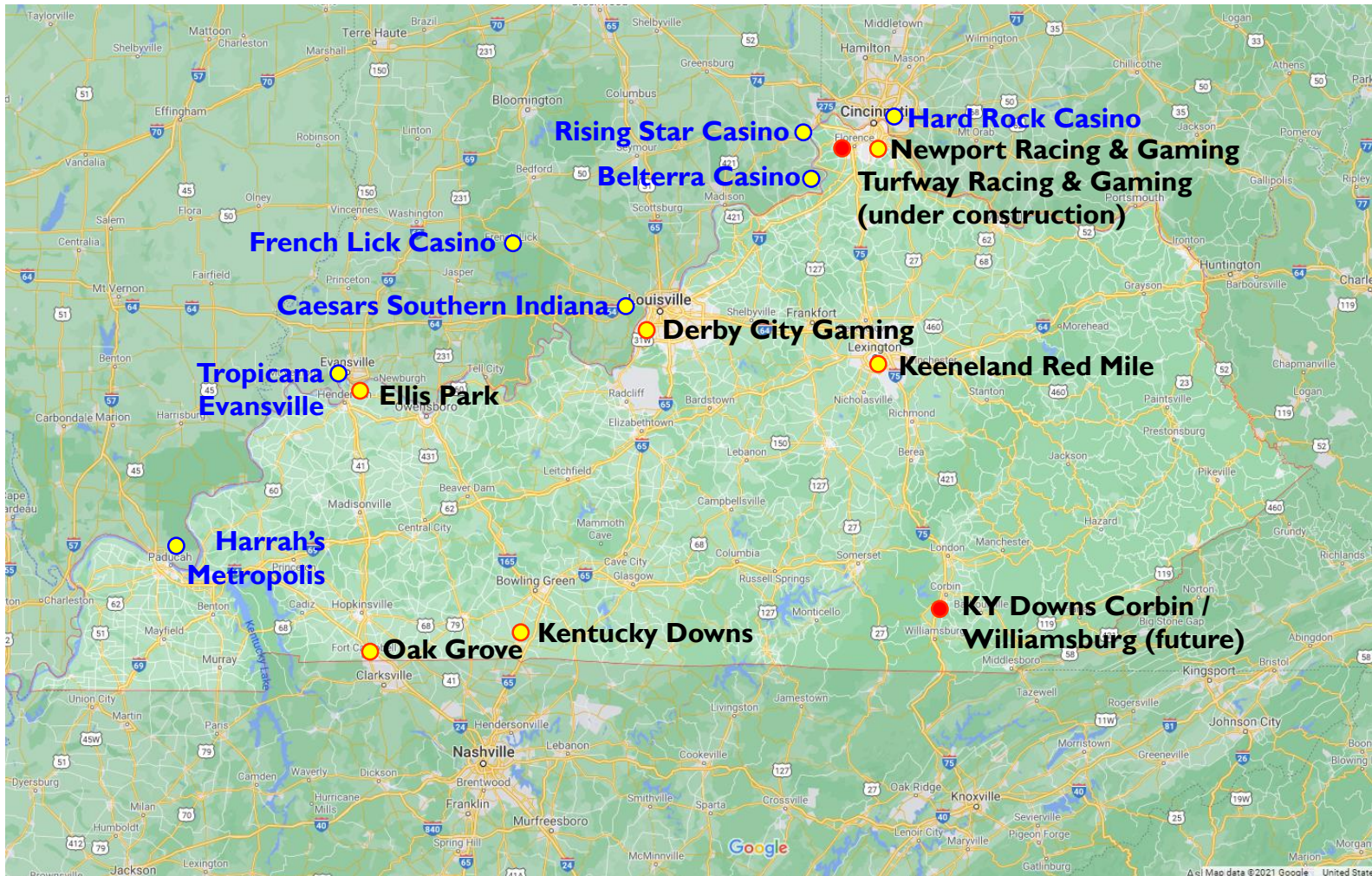
- The combined effective tax rate, for apples-to-apples comparison purposes, is 32.3% of revenue (cash takeout)

Notes:

- Hold rate of 8.66% is based on Total Kentucky HHRs June 2021 Fiscal YTD numbers on KHRC website
- Free play based on industry estimate; DCG was >17% for 2019. It was lower during 2020 due to Covid capacity restrictions

HHR has significant casino competition along its borders

Keep Kentucky dollars in Kentucky



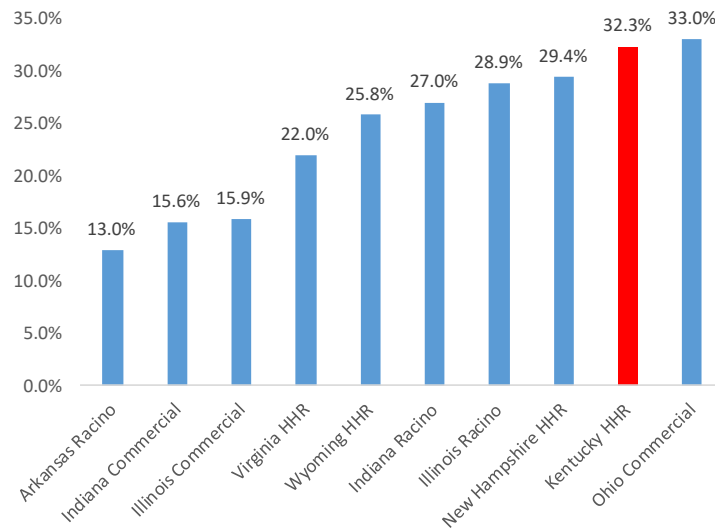
How KY's tax rate compares to competing locations & other HHR operators

Kentucky's current combined effective tax rate is higher than neighboring states & HHR jurisdictions

Effective Tax Rates (applying KY HHR Handle, Revenue & Free Play figures)

	Small (~\$10M Annual Rev)	Medium (~\$35M Annual Revenue)	Large (~\$100M Annual Revenue)	Free Play Deduction	Graduated Tax or Flat Tax Structure
Kentucky - HHR (Current)	32.3%	32.3%	32.3%	Yes (Purses Only; not on handle tax)	Flat (includes handle tax)
Casinos					
Indiana - Casinos	15.0%	15.6%	23.4%	Up to \$9 million	Graduated Tax
Indiana - Racinos	27.0%	27.0%	27.0%	Up to \$9 million	Graduated Tax , but after \$100 million
Ohio - Casinos	33.0%	33.0%	33.0%	Yes	Flat Tax
Illinois - Casinos	15.0%	15.9%	23.1%	Yes	Graduated Tax
Illinois Racinos	28.1%	28.9%	35.1%	Yes	Graduated Tax and Purses
Arkansas - Racinos	13.0%	13.0%	13.0%	Yes	Graduated Tax , but after \$150 million
HHR					
Virginia - HHR	22.0%	22.0%	22.1%	Yes	Flat Handle Excise Tax & Graduated Purse
Wyoming - HHR	25.8%	25.8%	25.8%	No	Flat Tax (includes handle tax)
New Hampshire HHR	29.4%	29.4%	29.4%	No	Flat Tax

Mid Level Revenue Effective Tax Rate by State
Applying Mid Sized KY HHR Handle, Revenue and Free
Play Rates



Kentucky's Tax Rate is already higher than states that we are competing against

Note: Only slot/HHR tax rate & purses considered. Admission, table taxes and other taxes are not factored into the effective tax rate



Thank you!

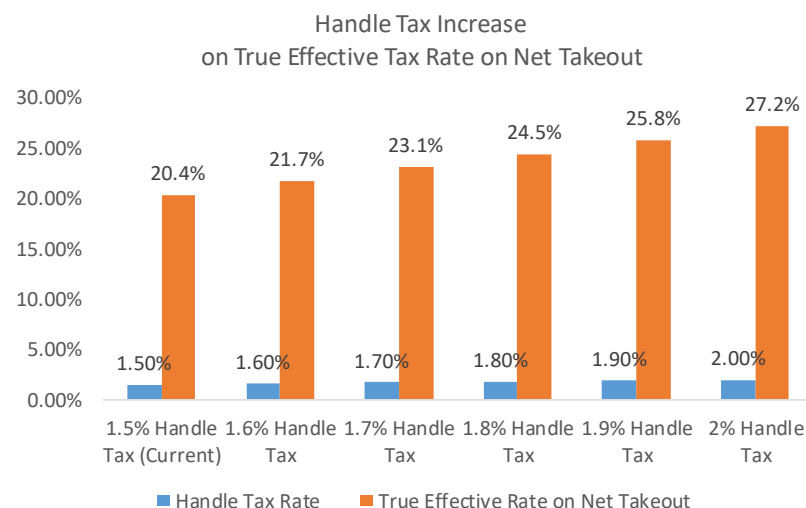


Appendix

Kentucky is at a disadvantage with tax on handle and free play as part of the excise tax calculation

Handle Tax Impact

- Paying tax on handle results in the HHR operator paying tax on 91.3% of volume that is returned to the customer (8.66% take out for HHR operator)
- Free play also included in the handle total which is non-cash (see to right)
- Every 10 basis point increase in the handle tax results in a true effective tax rate increase on net takeout of 140 basis points



Details of “Free Play” and how it is used

- This is non-cash handle (~1.3% of total handle) and represents approximately 15% of takeout
- Promotional tool used to drive traffic into the casino and an opportunity for guests to play for “free”
- It is the main marketing tool in casino gaming and is expected to remain competitive (similar to a rebate)
- It is used to market to new players to build the database
- Much like other reward programs (i.e. airlines), it is used to build customer loyalty

Tax Rate Detail: Competing states and other HHR operations (Part I)

	Kentucky	Indiana Casinos		Indiana Racinos		Ohio Casinos	Illinois Casinos		Illinois Racinos	
Slot Tax Rates (On GGR unless specified)	1.5% Tax on Handle	0 - 25M	15% ¹	0 - 100M	15.0%	33.0% State	0 - 25M	15.0%	0 - 25M	15.0%
		25M - 50M	20.0%	100M - 200M	22.5%		25M - 50M	22.5%	25M - 50M	22.5%
		50M - 75M	25.0%	200M +	27.5%		50M - 75M	27.5%	50M - 75M	27.5%
		75M - 150M	30.0%				75M - 100M	32.5%	75M - 100M	32.5%
		150M - 600M	35.0%				100M - 150M	37.5%	100M - 150M	37.5%
		600M+	40.0%				150M - 200M	45.0%	150M - 200M	45.0%
							200M +	50.0%	200M +	50.0%
Free Play Deduction	No free play deduction on handle tax	up to \$7M	Ending June 30th 2021	up to \$7M	Ending June 30th 2021	All Free Play Deductible from GGR	All Free Play Deductible from GGR		All Free Play Deductible from GGR	
	Free play is deducted, along with handle tax, for purse calculation	up to \$9M	After July 1st 2021	up to \$9M	After July 1st 2021					
Purse Contributions	15% of net commission after free play and handle tax			12%, less \$75K Annual Integrity Fee					0 - 93M	12.75%
									93M - 100M	20.0%
									100M - 125M	26.5%
									125M+	20.5%
									Applied to GGR After Taxes	

¹ If less than \$75M of adjusted gross receipts during the preceding state fiscal year, this percentage drops to 5%

References:

Kentucky: KHRC

Indiana Casinos: <http://iga.in.gov/legislative/laws/2018/ic/titles/4/#4-33>

Indiana Racinos: <http://iga.in.gov/legislative/laws/2018/ic/titles/4/#4-35-8-1>

Ohio Casinos: https://www.americangaming.org/wp-content/uploads/2019/07/AGAGamingRegulatoryFactSheet_Ohio.pdf

Illinois Casinos: https://www.americangaming.org/wp-content/uploads/2019/07/AGAGamingRegulatoryFactSheet_Illinois-1.pdf

Illinois Racinos: <https://taftlawpr.blob.core.windows.net/taft/files/fileuploads/5cf808376baf40002a22e82b/Summary%20of%20Illinois%20Casino%20Expansion%20Bill2.pdf>

Tax Rate Detail: Competing states and other HHR operations (Part 2)

	Kentucky	Arkansas Casinos	Virginia HHR	Wyoming HHR	New Hampshire HHR
Slot Tax Rates (On GGR unless specified)	1.5% Tax on Handle	on Net Gaming Revenue: 13% up to \$150M 20% after \$150M 55% of Tax to State 19.5% of Tax to Local 17.5% of Tax to Racing Purses and Awards 8% to Host County	On Handle: 0.75% State 0.5% Local	On Handle: 0.40% Breeders Award Fund 0.41% State 0.09% LSRA 1.00% City/County	On GGR: 25.0% 8.75% to Charity, 16.25% to State)
Free Play Deduction	No free play deduction on handle tax Free play is deducted, along with handle tax, for purse calculation	All Free Play Deductible	Free Play and Handle Tax Deductible from Net Revenue for Purse Tax	Free Play NOT Deductible from GGR	Free Play NOT Deductible from GGR
Purse Contributions	15% of net commission after free play and handle tax	A portion of the revenue tax noted above (17.5%) goes to purses	6% of Net Rev. up to \$60M 7% of Net Rev. in excess of \$60M	Included in handle tax above	

References:

Arkansas Casinos: <https://www.americangaming.org/state/arkansas/>

Virginia HHR: https://www.vrc.virginia.gov/hhr_reports.shtml

Wyoming HHR: <https://gaming.wyo.gov/resources/annual-report>

New Hampshire HHR: http://www.gencourt.state.nh.us/lsr_search/billText.aspx?id=514&type=4