

UNIVERSITY OF
LOUISVILLE

COLLEGE OF BUSINESS

EQUINE INDUSTRY PROGRAM

HHR Taxation Issues

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Elasticity Concept

Changes in prices or income do not usually lead to proportional changes in quantities demanded by consumers due mostly to substitution effects.

Many substitutes for HHR—lotteries, out of state casinos, sports wagering, online poker, etc. This makes the demand for any form of gambling highly elastic a certain percentage price increase is followed by a greater percentage drop in sales.

Research shows that as taxes go up, usually payouts to patrons go down. This in turn causes a downturn in customers.

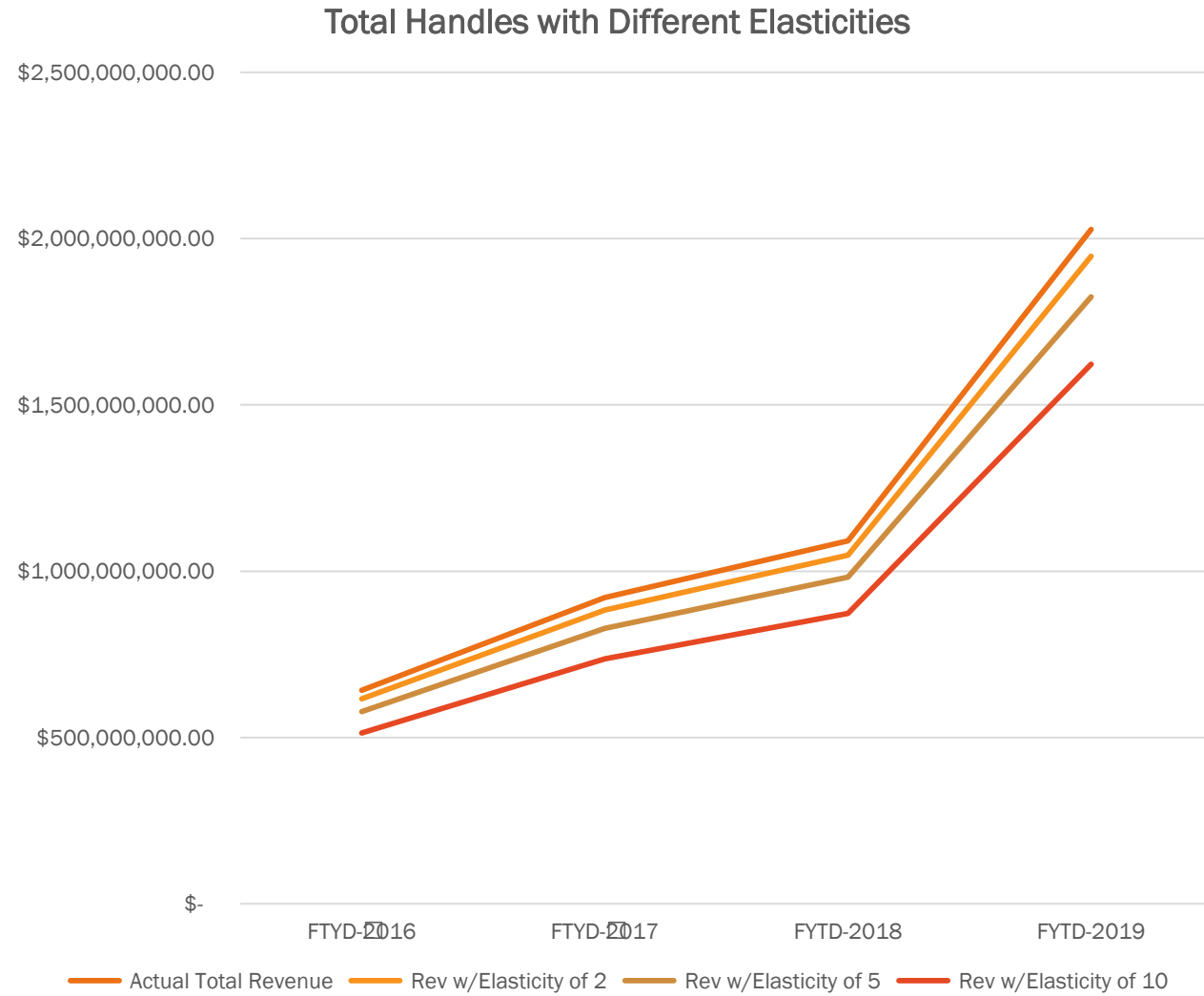
Elasticity Concept

Increasing taxes or decreasing subsidies increase prices.

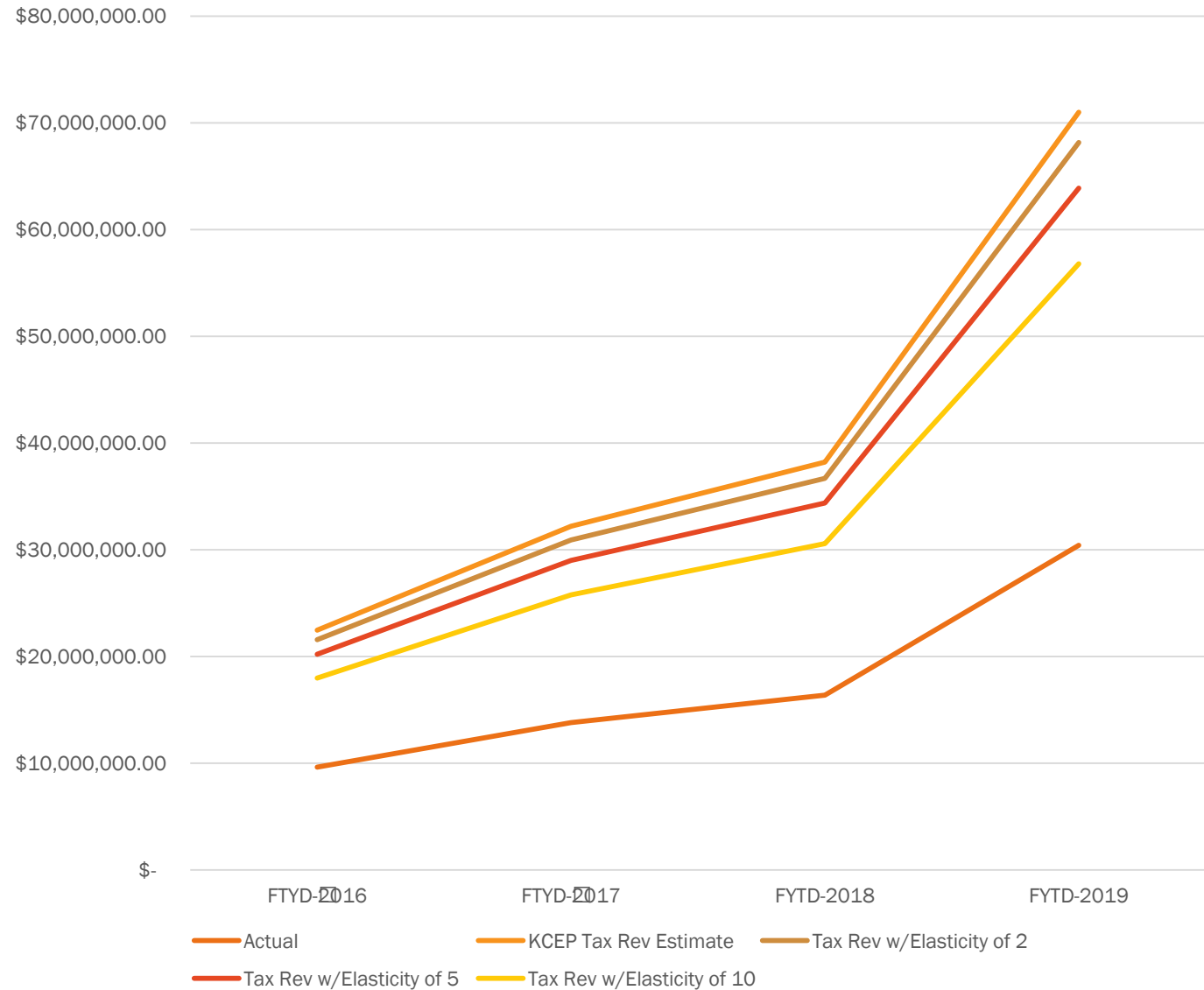
Any increase in the HHR tax rate would not yield a proportional increase in revenues.

A 10% increase would increase tax revenues but not by 10%. The increase would be a lesser amount.

Forecasts

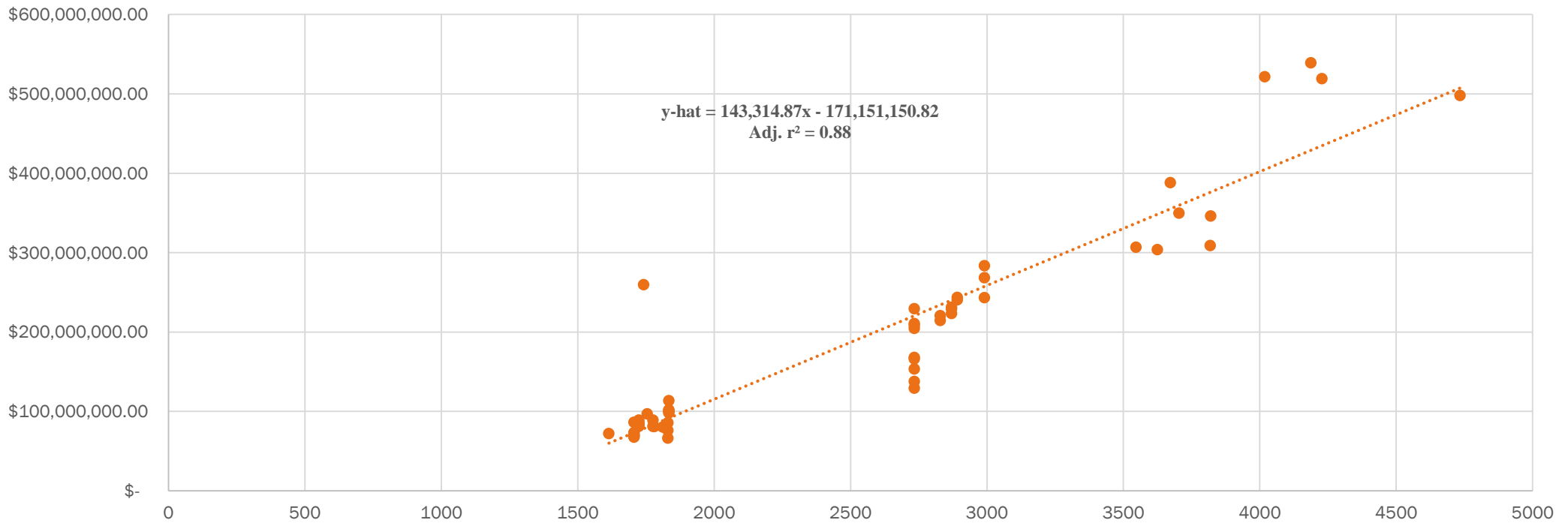


Tax Revenues with Different Elasticities



Gross revenues due to adding more machines.....holding all else constant

Handle or Gross Revenues All Machines per Month (y) by Total Number of Machines Per Month (x)



Growth trend forecasts

According to recent press reports, Turfway Park in Florence and Derby City Gaming in Louisville plan to add around 2000 machines combined over the next several years. Given the statistical trends, and all else held constant, such a number of machines could earn around \$286 million more per month, or \$3.4 billion per year, and should increase state tax revenues by approximately \$51 million per year.

This assumes that gambling competitors do not change their practices or payout rates.