

# Tax changes rock Russia's gambling sector

Russia has passed a bill that doubles tax rates for both land-based casinos and bookmakers, with even more hikes in the pipeline, raising concern the ever shifting sands of regulation are changing the outlook for the industry and threatening foreign investment.

**Steve Gallaway, managing partner at Global Market Advisors, says the “changes to the tax regime are devastating for the IEZ (Integrated Entertainment Zone) in Primorye,” referring to the most developed of Russia's gaming zones.**

In late November, Russian President Vladimir Putin signed a bill into law that doubles the gambling tax rates local governments are allowed to levy. The Finance Ministry also recently reiterated there is more to come, saying it plans to boost gambling taxes tenfold by 2020. The tax increase plans were initially leaked in 2016 and caused an uproar among bookmakers in particular, with even big firms saying that they will be driven out of business if they are enacted.

In addition, the latest bill includes a clause that has raised even more concern, effectively turning operators into tax collectors.

Independent expert Samoil Binder supports the two-fold-increase but predicts that **“a ten-fold increase will kill the entire business.”**

The tax proposals from the federal government, which is seeking to close a widening budget gap, have cast further uncertainty onto the stability of the regulatory framework in Russia. In 2009, President **Vladimir Putin announced he was shutting down the country's** casinos and setting up a series of five gambling zones in remote locations around the country. Since then, new zones have been proposed and some existing ones, such as Azov City, told to close.

“Low tax base was one of the dangling carrots for investors-to-be, but the constantly changing legislation - often rather unreasonably - has become a turnoff for foreign investors, along with ever-changing rules,” **said Binder, who believes Putin is personally “categorically against the gambling business.”**

Unlike in Macau and most other jurisdictions, **Russia doesn't levy tax on a percentage of gaming revenue,** but charges a fee on each gaming table and machine in operation. Local governments can set their own tax rate based on a range stipulated by the Russian Federation's **tax code.**

Under the new proposals the range doubles from a minimum of RUB50,000 to RUB250,000 (\$4,300) for a gaming table or a processing centre run by a tote or bookmaker; to RUB3,000 to RUB15,000 for a slot machine.

It also introduces a monthly RUB2.5 to 3 million tax on an online bet processing centre (TSUPIS), which would be split between bookmaker members. Currently, there are two TSUPISes operating in Russia, run by rival self-regulating organisations.

The law also stipulates that bookmakers and casinos will have to deduct a flat tax of 13 percent per every win above RUB15,000, which will come into effect in early 2018. Amounts below this level will still be paid **by the individual gambler. It's still unclear exactly how the system will work.**

Summit Ascent Holdings, which runs the only casino currently operating in the Primorye gambling zone near Vladivostok, did not respond to requests for comment. However, it did express its concern to local authorities about the changes, saying they could have a potential negative impact on the bottom line.

In a voluntary statement to the Hong Kong Stock Exchange, the company said it had contacted the local government and been told that the authority intends to propose to the local Duma that taxes be maintained at current levels as they already fall within the stated range.

Primorye charges RUB125,000 per table and RUB7,500 per slot machine. However, it said there is no guarantee that the Primorsky Duma would approve such a proposal. In September, Summit Ascent paid total gaming tax of RUB9.02 million, based on the 55 gaming tables and 286 gaming machines in operation at Tigre de Cristal during that period.

The company estimated that, if the draft bill becomes law and the Primorsky authorities opt to levy gaming tax **at the highest possible rate permitted, there would be “a negative impact of approximately RUB9.02 million on the monthly gaming tax payable by Tigre de Cristal, equivalent to an annual negative impact of approximately RUB108.24 million (approximately \$1.86 million** The estimate was made assuming that the number of gaming tables and gaming machines in operation would remain the same as in September.

But tax collection is seen as an even greater concern to Tigre de Cristal executives. The interim vice governor of Primorye Territory, Tatyana Kazantseva, told the Duma that Tigre may suspend its operations in Russia over the proposal to require the operator to collect taxes from its clients.

“Recently, our only casino turned to us, to the governor, saying that they may suspend their activities altogether... not because of the recent increase in gambling tax rates... They are alarmed by the unsettled **issue of taxation on wins,” Kazantseva in early December.**

“**The fact is that they are not a tax agent for charging taxes,** but recently they have been obliged to collect it. This is unrealistic and they are even ready to suspend their activities,” she said.

**Gallaway said he doesn’t believe Tigre de Cristal would cease operations, but he warned the policy will have knock on effects.**

“**I would expect that this sudden increase would result in other potential developers deciding not to move forward with their plans in eastern Russia. With such an unstable regulatory environment, an operator would be remiss to place fresh capital into the Vladivostok region,” he said.**

“**The IEZ had the potential to increase tourism to Vladivostok and be a showcase to the world. Unfortunately, the lack of stability in Russian public policy has killed this opportunity.”**

Primorye has been seen as **the most promising of Russia’s gambling zones due to its proximity to the huge population centres in Northern China, Korea and Japan.** It has by far attracted the most foreign investment, though actual progress on properties has been slow. Tigre de Cristal has seen an improvement in its overseas VIP business after visa requirements with China were relaxed, though it has been struggling to attract the local mass market due to rampant illegal gambling.

Union Gaming analyst Grant Govertsen in November downgraded his rating on the stock to hold and slashed his price target by more than half to \$1.50. He notes that the company reported mass table and slots GGR of HK\$108 million in 1H17. **Given the city itself has a population of 600,000, this is “too low,”** illustrating that the vast majority of local play is still being captured by illegal venues.

“**Should no further enforcement occur this could effectively flatline mass/slots GGR on a go-forward basis,** and, when combined with a potential doubling of taxes, is likely to delay future phases and the **developments of the other licensees,” the note says.**

Russia's Deputy Prime Minister Yuri Trutnev recently paid a visit to the zone to inspect the progress of two in-development projects: **Russian Diamond Fortune Holdings' Selena resort, and NagaCorp's Naga Vladivostok**. While the former is still preparing the ground to lay its foundation, the Naga project is underway.

Responding to a question from Trutnev, Naga's vice-president for project and property management, Dennis Chan, said the resort is expected to open in "mid-2019", **but promised to "work without interruption all winter" to accelerate that timeframe.**

Both Naga and Selena declined to comment, while Primorye executives were unavailable.

However, when it comes to state **coffers, it's the bookies totes and lotteries that make the biggest** contribution. Earlier this year Deputy Finance Minister Alexei Moiseyev said that the total tax revenues from gambling activities amounted to RUB15 billion. To put this sum into perspective, all the five gambling zones bring about RUB600 million.

Darina Denisova, head of the Bookmakers Self Regulatory Organisation, predicts that the two-fold tax increase will force Russian bookmakers to reconsider their strategic aims, saying online operators will benefit. Land-based bookies will find it hard to continue development, while online bookmakers will find it easier to comply with new tax requirements due to their lower cost base.

**"Our industry got used to surviving and developing despite circumstances. And land-based bookmakers, who focused on developing their networks of betting shops, as opposed to online ones, will be primarily affected and they are likely to already be drafting new plans to diversify client services," she said.**

According to Denisova, it will be difficult even for big bookmakers working on land to develop their **business. "In this case we may further count on increased development of the online betting segment. But what doesn't cheer me up is that this will happen not because of natural progress of the business landscape but because of tax pressure," she concludes.**

She also expressed surprise that the government is increasing the taxation pressure on bookmaking precisely before the 2018 FIFA World Cup in Russia.

"On the eve of such a landmark event for all world sports, it would be more logical for officials to hear months-long reasoned requests from bookmakers. After all, many of our bookmakers cannot develop their business, including the acceptance of e-bets, because of existing legislative barriers, sometimes completely illogical."

An advisor to bookmaker BaltBet CEO, Alexander Malyshev, also said the move will "have a negative impact on the offline part of the business. Some betting shops – **"especially those in small towns** - will find themselves below the level of profitability, and they will have to be closed," which will in effect lead to the abundance of illegal gambling facilities.