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Small venues win big from new poker machine tax *1100 NSW hotels to receive tax cut*

- **Greater certainty for all industry participants and financiers**
- **New \$200,000 tax free threshold**
- **485 gaming venues will pay no tax**
- **Small venues will pay less tax, large venues will pay more**

Overview

Small venues will benefit most from changes to poker machine tax announced in the recent NSW State budget. But larger venues will trade-off greater certainty with higher tax rates e.g. \$76,500 extra tax on gaming profits of \$5m. The decision has been welcomed by operators and the Australian Hotels Association (AHA) who had been expecting a rate increase. The policy turnaround will particularly assist struggling rural pubs that face declining populations and the ongoing impact of the GFC.

Key elements of the reform:

- The changes provide five years of tax certainty, a policy reform recommended by the Productivity Commission.¹
- Tax free threshold for poker machine profits set at \$200,000.
- Approximately 485 gaming venues will pay no tax²
- Tax savings of approximately \$27,500 per year will accrue to venues making a gaming machine profit of \$200,000³
- It is estimated that these changes will positively affect approximately 65% of venues in NSW, which is around 1100 venues⁴
- A gaming venue with operations generating in excess of \$5m per year in gaming machine profits will pay approximately 2.5% more tax, making the tax reforms revenue neutral to the State Government
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¹http://www.pc.gov.au/__data/assets/pdf_file/0003/95682/gambling-report-volume2.pdf

² "AHA NSW Member Alert – NSW Budget 2010/2011 – AHA(NSW) success"

³ [http://www.parliament.nsw.gov.au/Prod/parlment/nswbills.nsf/0/15d53f32fe6eec0dca25773c0010551a/\\$FILE/b2010-045-d21-House.pdf](http://www.parliament.nsw.gov.au/Prod/parlment/nswbills.nsf/0/15d53f32fe6eec0dca25773c0010551a/$FILE/b2010-045-d21-House.pdf)http://www.olgr.nsw.gov.au/gaming_info/taxrates_hotel.asp

⁴ "AHA NSW Member Alert – NSW Budget 2010/2011 – AHA(NSW) success"



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Changes to tax rates⁵

The table below summarises the old and new tax regimes. In addition to a minimum threshold being set at \$200,000, other tax brackets have risen consistent with the Government’s intent to keep the net effect of the changes to their tax income to be revenue neutral.

Gaming Profit \$	Old Tax Rate*	New Tax Rate*
0-25,000	5.1%	0%
25,000-200,000	15.1%	
200,000-400,000	23.7%	33%
400,000-1,000,000	29.4%	
1,000,000-5,000,000	34.4%	36%
> 5,000,000	47.3%	50%

*Annual Rates

Worked example

The table below sets out the actual dollar changes in tax payments across several strata of gaming venues, clearly demonstrating the benefit to smaller operators:

Gaming Profit \$	Previous Tax Paid	New Tax Paid	\$ Change	% Change due to new tax
200,000	27,700	0	(27,700)	(100%)
400,000	75,100	66,000	(9,100)	(12.1%)
600,000	133,900	132,000	(1,900)	(1.4%)
750,000	178,000	181,500	3,500	2.0%
850,000	207,400	214,500	7,100	3.4%
1,000,000	251,500	264,000	12,500	5.0%
5,000,000	1,627,500	1,704,000	76,500	4.7%
7,500,000	2,487,500	2,604,000	116,500	4.7%

⁵ http://www.olgr.nsw.gov.au/gaming_info_taxrates_hotel.asp



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Taylor Woodings' View

The changes to the NSW gaming tax regime form part of a five year agreement between industry and the NSW government⁶ as suggested by the Productivity Commission. This will provide operators and financiers the certainty they need to strategically plan their operations for the future, confident that there will be no further significant changes in the gaming tax regime. Additionally:

- The changes will improve profitability and cash flow for small operators, particularly for regional and rural venues which have been hit hard in recent years by adverse economic, regulatory and social changes.
- The amendment to the poker machine tax regime may also improve yields generated by smaller venues and consequently the overall value of these venues. The inverse is true for those venues with substantial gaming profits.
- Anecdotal evidence suggests that experienced publicans and owner operators are looking to re-enter the pub market in increasing numbers after several turbulent years in the industry⁷. The reforms are likely to continue this trend and stimulate further interest from experienced publicans.

How Taylor Woodings Can Help?

Taylor Woodings provides the below services to hoteliers and financiers across Australia:

- Valuations
- Work-outs
- Restructuring
- Pre-lending reviews
- Voluntary Administration
- Investigating Account reports

We have significant experience advising operators and financiers in the Hotel industry. A sample of Taylor Woodings industry experience is presented below:

Large Multi-site Hospitality Group	Taylor Woodings undertook a detailed assessment of a business and its assets, including 10 licensed venues. The largest of these venues was valued at \$40m+ with revenues in excess of \$100m. The report was used by the group to provide objective information in their considerations of the future strategic directions of the companies.
Liquidators of a large Hotel Group	The insolvent group consisted of 15+ venues that were acquired in a 'buying spree' at the peak of the last economic cycle. Venues were purchased at uncharacteristically high EBITR, some venues in excess of five times.
Several Hotel Receiverships	Taylor Woodings has acted as Receivers & Managers for several pubs of various sizes and locations. Most recently an inner city hotel in Sydney. The business was traded for 7 months concluding in a successful 6 week sales campaign which set a benchmark for Sydney pub sales at that time.

⁶ http://www.pc.gov.au/_data/assets/pdf_file/0003/95682/gambling-report-volume2.

⁷ "Changes Sweeten Pub Deals" The Australian Financial Review 21 June 2010