



Property Tax for Gaming Establishments

An Accountant's
Perspective

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According to the American Gaming Association, legal gambling revenues for 2007 were as follows:

- ◆ Card Rooms - \$1.18 billion
- ◆ Commercial Casinos - \$34.41 billion
- ◆ Charitable Games and Bingo - \$2.22 billion
- ◆ Indian Casinos - \$26.02 billion
- ◆ Legal Bookmaking - \$168.8 million
- ◆ Lotteries - \$24.78 billion
- ◆ Pari-mutuel Wagering - \$3.50 billion
- ◆ Grand Total - \$92.27 billion
- ◆ Some form of legal wager can be placed in 48 of 50 states, only Hawaii and Utah being exempt



Food for Thought



The average taxpayer:

- ◆ Does not understand the relationship between the declaration and the tax bill
- ◆ Does not have a person trained to report the property taxes
- ◆ Does not want to deal with the filing
- ◆ Usually delegates completion of the rendition to the lowest person in the food chain

Calculations of Value

	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
INCOME PER NGC-17	(871,575)	(232,180)	(1,734,700)
INTEREST EXPENSE	267,372	(64,947)	140,700
DEPRECIATION	962,642	1,201,981	1,280,023
RENT ON PREMISES	676,080	(606,960)	
EXTRAORDINARY ITEM			
TAXES			
INCOME BEFORE INTEREST, DEPRECIATION, TAXES & EXTRAORDINARY ITEMS	1,034,519	297,894	(313,977)
AVERAGE INCOME	339,479		
CAPITALIZATION RATE (divided by)	20%		
TARGET APPRAISED VALUE	1,786,730		
Building - Parcel 003-333-33	7,111,257		
Land - Parcel 003-333-33	3,465,000		
Personal Property	4,567,640		
Total	15,143,897		

Abstract Comparison

	<u>SUNKEN TREASURE</u>		<u>ABSTRACT</u>		<u>VARIANCE</u>	
	<u>AMOUNT</u>	<u>PERCENT</u>	<u>AMOUNT</u>	<u>PERCENT</u>	<u>PERCENT</u>	<u>AMOUNT</u>
GAMING REVENUE	10,563,298	59.5%	99,191,602	53.3%	6.2%	1,093,939
ROOM REVENUE	4,039,062	22.7%	12,986,982	7.0%	15.8%	2,799,255
FOOD SALES	2,377,986	13.4%	20,815,858	11.2%	2.2%	390,793
BEVERAGE SALES	429,604	2.4%	8,748,714	4.7%	-2.3%	(405,595)
OTHER INCOME	350,679	2.0%	44,299,548	23.8%	-21.8%	(3,878,392)
TOTAL REVENUE	17,760,629	100%	186,042,704	100%	0.0%	-
COST OF SALES	1,537,416	8.7%	47,392,385	25.5%	16.8%	2,986,914
GROSS MARGIN	16,223,213	91.3%	138,650,319	74.5%	16.8%	(2,986,914)
DEPARTMENTAL EXPENSES	12,098,137	68.1%	81,563,246	43.8%	-24.3%	(4,311,674)
DEPARTMENTAL INCOME	4,125,076	23.2%	57,087,073	30.7%	-7.5%	1,324,761

Abstract Comparison

	SUNKEN TREASURE		ABSTRACT		VARIANCE	
AD & PROM	308,949	1.7%	5,654,558	3.0%	1.3%	230,865
BAD DEBT EXPENSE	-	0.0%	125,177	0.1%	0.1%	11,950
COMPS	157,062	0.9%	2,246,624	1.2%	0.3%	57,413
DEPRECIATION-BUILDING	-	0.0%	1,489,008	0.8%	0.8%	142,149
DEPRECIATION & AMORTIZATION	962,642	5.4%	7,007,431	3.8%	-1.7%	(293,675)
ENERGY	825,018	4.6%	3,540,301	1.9%	-2.7%	(487,042)
EQUIPMENT RENTAL	10,734	0.1%	387,121	0.2%	0.1%	26,223
INTEREST EXPENSE	267,372	1.5%	4,450,400	2.4%	0.9%	157,487
MUSIC & ENTERTAINMENT	0	0.0%	340,739	0.2%	0.2%	32,529
PAYROLL TAXES	33,360	0.2%	1,308,645	0.7%	0.5%	91,570
PAYROLL-EMPLOYEE BENEFITS	19,500	0.1%	1,271,465	0.7%	0.6%	101,881
PAYROLL-OFFICERS	0	0.0%	1,247,253	0.7%	0.7%	119,069
PAYROLL-OTHER EMPLOYEES	284,033	1.6%	13,241,629	7.1%	5.5%	980,084
RENT ON PREMISES	676,080	3.8%	1,115,542	0.6%	-3.2%	(569,584)
TAXES-REAL ESTATE	323,264	1.8%	1,282,570	0.7%	-1.1%	(200,823)
TAXES AND LICENSES-OTHER	140,851	0.8%	704,665	0.4%	-0.4%	(73,580)
UTILITIES	60,410	0.3%	1,146,819	0.6%	0.3%	49,071
OTHER GENERAL & ADMINISTRATIVE	927,376	5.2%	9,085,644	4.9%	-0.3%	(60,012)
	4,996,651	28.1%	55,645,591	29.9%	1.8%	315,574
	(871,575)	-4.9%	1,441,482	0.8%	-5.7%	1,009,187



The Process

- ◆ First, read financial records to determine EBITDA(r) adjustments and related calculation
- ◆ Determine stabilized cash flow (EBITDA(r))
- ◆ Arrive at appropriate capitalization rate (18-30%)
- ◆ Identify personal property and intangible assets



Property Taxes

A Tax Rep's Perspective

- ❖ Duplicated assets in the real property and personal property rolls
- ❖ Classification of equipment to shorter lives
- ❖ Exclusion of exempt assets from the property tax base
- ❖ Removal of “Ghost assets” from declaration



Duplicated Assets

- ◆ On both roles
- ◆ Cost segregation studies
- ◆ Review appraisal record
- ◆ Review of Marshall & Swift definitions
- ◆ Additives
- ◆ Identification of duplicated assets



Do Assets Have 9 Lives?

What life is it

- ◆ Personal Property Tax Manual
- ◆ Most owners stay with federal lives for return grouping
- ◆ Short life category applies to many surprising assets




Food for Thought



- ◆ Prove that property has functional or economic obsolescence
- ◆ Compare subject property with other like property
- ◆ Make sure you have a case before you approach the assessor
- ◆ Be prepared to defend position
- ◆ Make sure information provided to assessor is “solid”
- ◆ What you say this year may be used against you next year.

Tax Planning First Cost Study

- ◆ We are aware of ramifications of a cost segregation study.
- ◆ These studies may include:
 - Review of Marshall & Swift methodology
 - Reclassification of equipment to shorter lives 
 - Exclusion of intangibles from the property tax base

II



- Deletion of duplicated assets in the real property and personal property rolls
- Identification of capitalized items in the tax base that are not subject to tax



- Removal of “Ghost assets” from declaration

- Identification of exemption opportunities



The End

Questions