



U.S. casino revenue taxes and short-run labor outcomes

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Abstract

This study examines the effect of casino tax rate levels on short-run labor decisions by casino firms. Using a panel data set consisting of all states with legal commercial casino gambling from 1998 to 2009, a 2SLS fixed-effect model that also uses aggregate and sin-based excise taxes as instruments is estimated. We find that maximum casino tax rates negatively affect casino employment with an inelastic average effect of -0.6 . We estimate state tax revenue changes per employee from a 1% increase in the gross gaming revenue tax, finding that states with comparatively low tax rates could increase public revenue with relatively small losses in employment. Nevada, New Jersey, and South Dakota – each with maximum tax rates currently below 10% – could increase tax revenue by more than \$430,000 per estimated employee lost from the tax change. Results from this study should be included in future analysis of casino tax impacts on economic efficiency. © 2015 Published by Elsevier Inc. on behalf of Society for Policy Modeling.

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1. Introduction

Throughout the World and even within a given country, casino gaming markets neither exhibit uniform tax structures nor do they appear to follow any consistent economic guidelines.

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Jurisdictional markets vary from monopolies (typically subject to heavy government taxes) to near perfectly competitive markets (generally taxed at much lower rates). The public revenue that is generated from gaming taxes is often highlighted by politicians and other stakeholders as the most important indicator of the economic impact of casino gaming (Chapman et al., 1997; Eadington, 1996, 1998; National Gambling Impact Study Commission, 1998; Paldam, 2008; Smith, 1998); while firms often highlight the importance of job creation that may result from a low tax environment (e.g. Christiansen, 2005).

Two neighboring states, Pennsylvania and New Jersey, are particularly illustrative examples. In 2010, Pennsylvania (with a 55% gaming tax rate) generated close to four times the tax revenue of New Jersey's gaming industry (with a 9.25% gaming tax rate) but employed roughly three times less people (American Gaming Association, 2011). While there are many different factors that affect tax revenue and employment in these two states, clearly, there are differing policy approaches that may not be fully informed about counterfactual outcomes. Even policy decisions that strictly focus on revenue maximization (as opposed to efficiency) will benefit from considering employment based tax effects from gaming tax policy. Large variation in gaming tax rates is not limited to the U.S. Gross tax rates on EU lotteries vary from a low of 12% in Estonia to a high of 50% in Poland (Forrest, 2008), while Albon (1997) has described similar themes of tax rate variation in the Australian market.¹

The welfare implications of developing a better understood gaming tax system are sizeable. The total worldwide gaming industry is estimated to generate over \$110 billion in annual revenue (PwC, 2011), while the U.S. commercial casino industry alone contributes \$7.59 billion in gaming tax revenue to state and local governments in the U.S. (American Gaming Association, 2011). Secondary effects that gaming taxation can have are similarly important for maximizing economic welfare and market performance. The U.S. commercial casino industry employs 340,564 workers per year totaling \$13.1 billion in wages, benefits and tips (American Gaming Association, 2011). Given the large variation in rates applied across jurisdictions, many regions would likely benefit if there are obvious changes to taxation rates that would improve efficiency.

Using a partial equilibrium framework, this study estimates an empirical model of the effect of gross gaming revenue (GGR) excise taxes on short-run labor outcomes in the commercial casino market. To provide a more complete understanding of this public policy trade-off, and to provide decision makers with a useful set of estimates for policy decisions, a statistically consistent empirical model using both panel and instrumental modeling techniques is used. We estimate state tax revenue changes per employee from a 1% increase in the gross gaming revenue tax, finding that states with comparatively low tax rates could increase public revenue with relatively small losses in employment. Nevada, New Jersey, and South Dakota – each with maximum tax rates currently below 10% – could increase tax revenue by more than \$430,000 per estimated employee lost from the tax change.

2. Review of literature

Gambling markets are typically taxed different than the rest of the economy. Walker and Jackson (2008) have suggested that governments set gaming tax policy to maximize revenue

¹ It should be noted that since gaming taxes are all applied in different manners by each jurisdiction, comparisons can sometimes be misleading. For example, 12% of the Pennsylvania tax is a transfer to the horse racing industry and their table games are also taxed at a lower rate; in addition to their ad valorem tax, Nevada also levies fees on gaming devices, though these are a small portion of the overall revenue generated from the various levies.

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