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Sinful Taxes

Casino Revenues Should Not Be Regarded As Community Slush Funds

In March a presidential commission recommended a 50% increase in federal cigarette taxes. The $3.4 billion raised would be used to buy out tobacco farmers and help fund smoking prevention programs.

In Illinois the state House of Representatives is considering an 80% tax on all casino profits. That money would fund public education and more than cover a looming $400 million gap in the state budget.

Both of these proposals have been called "sin taxes." But there are differences between the two.

In the case of cigarettes, the goal is to make enough money to mend the damages of smoking or to ease the industry out of business. In the view of policymakers, either outcome would be a step in the right direction.

In the case of casinos, the goal is to bail out the state budget and pay for programs that are totally unrelated to gambling. And unless we've missed a memo, a bunch of bankrupt casinos is not the desired result.

Why then, do states continue to drive gambling taxes higher and higher without considering that they might push their cash cow off a cliff? And why is it that casinos are singled out among other businesses to pay these bail-out taxes?

The Illinois proposal is a perfect example of this sort of shortsighted, presumptuous thinking.

If enacted, House Bill 291 would amend Illinois' Riverboat Gambling Act to allow licensees to "retain exactly 20% of adjusted gross receipts after the payment of all taxes imposed under the act." The tax money would be paid into the State Gaming Fund, the bulk of which goes into the Education Assistance Fund.

According to media reports, Sponsor Tom Johnson (R) reasons that the state's nine boats can afford to pay more than the current tax rate of 15-35% - and therefore they should. He says the casinos could still turn a profit under an 80% tax rate. That may be true, but the difference would be tremendous. According to one report by The Associated Press, the casinos would split $320 million compared to the $1.6 billion they keep now.

Assuming that the casinos actually could afford to pay out 80% of their profits in taxes (a point they would likely dispute), what does that have to do with anything? Does the government levy taxes on auto manufacturers or food franchises simply because they can afford to cough up the cash? Do state officials scrutinize the financial records of retailers in order to figure out where they can squeeze a few more pennies? It's far more common to find governments luring corporations with tax breaks than springing surprise taxes on them.

Even if the casinos did survive such an extreme levy, why would they choose to stay in Illinois, let alone seek a new license there? In markets like Las Vegas and Mississippi, history has proven that gaming businesses are more likely to thrive – and provide the most stable flow of tax revenue – in jurisdictions where the taxes are reasonable.

Instead of foisting an absurd duty on the state's nine riverboats – an amount far more than necessary to cover the budget gap – why not spread the burden more equitably among all of the state's corporate (or private) citizens?

The Illinois example illustrates an extreme. The sponsors of HB 291 recognize that they face a tough battle against lobbyists and gaming proponents in the legislature. Realistically, it would be rather astounding if the bill passed, considering Illinois' reasonably amicable relationship with the Industry.

Nonetheless, that example is indicative of a general attitude that casinos are somehow a more legitimate target for taxes than other industries.

Something similar is happening in Indiana, where the House may consider a raise in riverboat taxes to surmount a $923 million budget gap and increase funding to public schools and universities. As part of the bill (which was facing rather grim prospects at the time of this writing) the state's ban on dockside gambling might also be lifted. Ironically, the measure was resurrected after the governor's proposed 50-cent cigarette tax ran out of steam.

Meanwhile, the Louisiana House has passed a bill to allow casinos that are not already offering dockside gambling to do so, in exchange for a tax hike. An additional increase would allow them to stop sailing altogether and switch to permanent barges. At least in that scenario, the casinos would have a choice. At the time of this writing, the Senate had yet to vote on the bill.

(The riverboat tax would supplement revenue guaranteed by Harrah's promise to pay a minimum annual tax on the floundering New Orleans land casino.)

In all of these examples, casinos are expected to become the de facto funders of budget shortfalls and education programs.

Opponents might argue that the industry has put itself in this position by campaigning on promises to fill state and local coffers. That's sort of like saying that if I lend you five dollars, you have the right to empty my wallet.

Of course there are circumstances in which casinos agree – even offer – to pay higher taxes than other businesses. Most often, this happens during the legalization process, when casino advocates write legislation that sets a predetermined tax rate with dedicated beneficiaries.

There's nothing wrong with that sort of negotiation; it has nudged the legalization process in many instances and has resulted in mutually beneficial agreements. Visible contributions to visible causes can win community support and create long-lasting security.

But that's different then forcing additional taxes on casinos after the fact, without negotiation or warning; when lawmakers behave as though casino revenues are no more than slush funds for state and local programs. (Ironically, these are often the same individuals who fight gambling because they claim it's an unstable revenue source.)

Casinos are private businesses that exist to make a profit; surely the readers of this column don't need to be reminded of that. Because gambling is still socially controversial and sometimes subject to corruption, casinos submit to legalization and licensing rules that other businesses do not. That doesn't mean that they need to submit to unfair and unnecessary taxes as well.

The tax hikes and restrictions might be understandable if casinos were enemies in their communities, or if there were a social mandate to vanquish gambling. But there is not. When gambling is legalized in a state or a community, operators reasonably assume that they will be treated fairly as members of that community, like any other business. If they are not welcome then they should be asked to leave, not strung along.

Unfortunately there's little the casinos can do to fend off this kind of aggressive tax, except to plead their case in the legislature and hope that common sense prevails. In the longer term, we can spread the message that deals made during legalization campaigns don't translate into an open invitation to future exploitation.

While the debate over whether gambling is a "sin" may drag into eternity, policymakers should think twice before trying to tax this stable source of revenue into oblivion.

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