The Taxation and Regulation of Casino's and Games of Chance in the Dominican Republic

Glenn P. Jenkins
Eastern Mediterranean University, North Cyprus
Queen's University, Canada

Chun-Yan Kuo
Queen's University, Canada

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Abstract

Gaming represents a relatively easy source of taxation revenue. As a result, gambling is taxed more highly than most other service or entertainment activities because the demand for wagering is relatively insensitive to its price and the excess burden of such taxes on recreational gamblers may not be particularly high.

On the other hand, one of the negative aspects of this sector is money laundering and is common in the activities surrounding the casinos of the Dominican Republic as well. At the present time there is not much that the government is capable of doing at to prevent it from happening. One solution to control this problem is to keep a detailed record of all forms of cash transactions carried out within the casino and scrutinize them by the authorities to detect patterns that are indicative of money laundering activities.

At the present time in the Dominican Republic the lotteries and casino sectors are operating largely without a regulatory or taxation system that can be enforced by the government. The existence of such a regulations and enforcements would enhance the overall economic wellbeing and growth of the sector.

Our suggestion is to reduce the number of lotteries and their control by the public sector in order to use them as public revenue devises rather than private businesses. In the case of casinos the tax system should be kept simple, but made institutionally robust. This would bring the taxation of casinos and games of chance in line with the levels of taxation imposed on this sector in other countries.

Keywords: Taxation, casino, game of chance, money laundry, Dominican Republic

JEL Classification: H71

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I. Background

The Government of Dominican Republic has allowed the private sector to own and operate casinos since the 1970s and lotteries since the in mid-1980s. In the beginning, these activities were restricted in the area of hotels and aimed mainly at tourists. However, in late 1980s the activities expanded to include other gambling, especially sport betting beginning in early 1990s.

At that time, the government was quite concerned about how this growing sector should be taxed. Prior to 1996, casinos had a presumptive income tax levied on them in which the amount of tax was based on the gross amount of spent by gamblers in the casino. However, it was almost impossible to administer it. Although this tax provision also covered sport betting, this sector also paid no income tax.

Beginning in 1997, the casino would pay taxes based on the number of tables and the number of machines they have in the casino. As the number of machines and tables is an indicator of the profitability of the casino the provision for taxing the income of the casino was dropped. In year 2000, the government tried to impose the value added tax (ITBIS) on gambling. The tax base for the ITIBIS was set at 30 to 40% of the taxes collected on the basis of the numbers of tables and machines in the casino. This was presumed that the 30% to 40% figure represented the value added in their activities (as a proportion of the gross spending). Nevertheless, the ITBIS had never worked.

II. The Present Scheme

At present, when a hotel owner wants to build casinos, he should first apply for a license. Once granted, he has to pay DR$5 million to the Department of Casino at the Ministry of Finance. In order to operate the casino, the operator has to pay another DR$600,000 to the Department of Casino.

After the operation was granted, the operator has to make monthly payments to the tax administration (DGII) based on the number of tables and the number of machines. The

amount of tax paid on each table is based on the locations of operation. For those casinos located in Santo Domingo and Santiago, the monthly tax schedules are shown below:

DR$12,000 per table for those who own 1 to 15 tables;
DR$14,000 per table for those who own 16 to 30 tables; and
DR$16,000 per table for those who own more than 30 tables.

For casinos which are located in the east, the monthly payment is DR$8,000 per table regardless of the number of tables. For those located in the north, the monthly payment is lower at DR$6,000 per table.

In the case of machines, the monthly taxes per machine are based on the types of machines. They are shown below:

DR$1,000 per machine for the 5 cents (US currency) machine;
DR$2,000 per machine for the 10 cents (US currency) machine;
DR$4,000 per machine for the 25 cents (US currency) machine;
DR$6,000 per machine for the 50 cents (US currency) machine; and
DR$10,000 per machine for the 1 dollar (US currency) machine.

The payment has to be made to the tax administration by the 5th day of the following month.

Until 2004 there was in addition to the above fixed monthly payments, three further types of payments based on the sum of the above monthly payments. The first is ITBIS which was about 30% to 40% of the above monthly payments. The second was a withholding tax on winnings that was set at 15% of the winning amounts in excess of DR$50,000. The third was a temporary measure, a kind of export tax, which is also based on 10% of the above monthly payment. In sum, the additional total monthly payments could well be 50% of the amount based on the numbers of tables and machines in each casino. However, in 2004 these measures have simplified so that at the present time all the above

three taxes have been amalgamated into a single additional tax equal to 30 percent of the monthly taxes that are paid on the machines and tables in operation at a casino.

Furthermore, if machine is changed (e.g., the 5 cents machine converted to 10 cents machine) or is relocated, DR$5,000 must be paid to the Ministry of Finance per machine that is altered. In the year 2003, DGII collected the total of DR$163,862,169. Details can be found in Table 1.

In addition to Casinos, there are four other main gambling activities in the Dominican Republic. The biggest one is sport betting. Although there were proposals before 2001to levy the income tax, the ITBIS and the withholding tax on winnings on this activity none of them were implemented. Beginning in 2001, all taxes have been rolled in one annual tax, the amount of tax is based on the establishment where this activity takes place. For those establishments located in the National Capital and two other big cities, the amount of tax (or payment) is DR$250,000 per annum. For the rest of the country, the payment is lowered to DR$150,000 per year.

The second group is the lotteries. There is one general administration under the authority of the National Lottery, which is a state corporation, which has the monopoly for the state lottery as well as supervises numerous private lotteries spread across the country. The private lotteries make payments based on their profits at 24% -- equivalent to license fees -- to the National Lottery. For winners of the lottery, they are supposed to pay 15% of their winning to the tax administration. The National Lottery is supposed to contribute its surplus to a variety of social programs, including hospitals, disabled people. At the moment the National Lottery does not receive any contributions from the private lotteries.

Table 1 Total Tax Collections by Casino, 2003 (DR$)

	Tables	Machines	ITBIS	Withholding Taxes	Total
Riu Palace	1,224,000	2,480,000	1,111,200	157,600	4,972,800
Hispaniola	6,768,000	4,717,620	3,445,686	2,570,856	17,502,162
Matum	3,780,000	2,314,139	1,828,242	470,768	8,393,149
Paradisus	960,000	2,040,000	900,000	6,178,857	10,078,857
Puerto Plata B. Res	360,000	272,000	189,600	43,762	865,362
Napolitano	2,288,645	985,096	982,122	195,349	4,451,212
Lina	2,828,000	1,730,266	1,367,480	466,570	6,392,316
Paradise Tropical	792,968	1,535,613	698,574	71,125	3,098,280
Embajador	1,872,000	1,009,833	864,550	253,160	3,999,543
Bahia Principe	318,000	468,000	235,800	35,138	1,056,938
Playa Dorada	720,000	1,423,667	643,100	81,173	2,867,940
Naco	1,728,000	720,000	734,400	131,013	3,313,413
Jaragua	4,942,000	5,335,406	3,083,222	464,615	13,825,243
Diamante	7,104,000	3,432,000	3,160,800	807,097	14,503,897
San Geronimo	1,728,000	-	518,400	137,488	2,383,888
Maunaloa	1,812,000	-	543,600	199,379	2,554,979
Hamaca	1,544,000	2,544,000	1,226,400	293,782	5,608,182
Jack Tar	846,000	1,251,839	629,352	289,332	3,016,523
Vcentenario	144,000	332,000	142,800	4,304	623,104
Decameron	779,355	240,000	305,807	57,984	1,383,146
Gran` Almirante	3,360,000	3,053,406	1,924,022	846,215	9,183,643
Playa Chiquita	648,000	1,536,000	655,200	109,200	2,948,400
Coral Costa Caribe	1,296,000	2,132,000	1,028,400	182,031	4,638,431
Bavaro	1,664,000	5,200,000	2,059,200	843,062	9,766,262
Palma Real	1,152,000	2,040,000	957,600	940,225	5,089,825
Iberostal	576,000	1,631,200	662,160	83,126	2,952,486
Catalonia	864,000	2,391,484	976,645	167,668	4,399,797
Casino Santana	832,000	968,000	540,000	241,673	2,581,673
Sol de Plata	768,000	2,293,677	918,503	133,528	4,113,708
Riu Bachata	480,000	972,000	435,600	57,408	1,945,008
San Francisco	463,642	264,000	218,293	57,149	1,003,084
Uvero Alto	703,045	682,542	415,676	86,746	1,888,009
Dominican Fiesta	420,000	162,030	174,,609	57,514	814,153
Amber Coast	307,151	809,935	335,126	107,993	1,560,205
Sirenis	-	-	-	0	-
Fiesta Palace	35,155	27,165	18,696	5,536	86,552
Carabela Bavaro	-	-	-	0	-
Total	56,107,961	56,994,918	33,930,864	16,828,426	163,862,169

Sources: DGII.

The third one is gambling on horse racing. In light of not paying anything by private lotteries, those who own the gambling activities on horse have resisted taxation and not paid anything to the government. The last category is bingo which is not taxed.

III. <u>What makes up this sector around the world</u>?

A Harvard study synthesized information from 120 different studies and found that approximately 1.29 percent of the adult general population could be classified as pathological gamblers (Howard, 1998). This represented an increase from 0.84 percent from the position in the 1970's. The study indicated that the increase was due to a number of reasons other than the increase in gaming activity. These included an increased social acceptance of gambling as well as an increasing desire to participate in risk-taking activities.

Gambling Sector-Demographic Profile-March 2002

Gender	**Gambling Sector (%)**
Men	61.0
Women	39.0
Age	**Gambling Sector (%)**
14 and under	4.5
15-24	31.3
25-34	22.2
35-49	25.1
50-64	14.5
65+	2.4
Occupation	**Gambling Sector (%)**
Professional	8.9
Business Owner	4.9
Farmers/Fishermen	0.4
General Management	3.7
Middle Management	9.3
Other Non-Manual	18.0
Manual	12.0
Unemployed	5.4
Retired	4.5
Student	26.0
Income	**Gambling Sector (%)**
Very Low Income	25.9
Low Income	14.8
Medium Income	24.0
High Income	9.5
Very High Income	4.5
No Income	12.6
No Answer	8.6

Source: www.netvalue.com

IV. Public Finance Experience of the Countries with Respect to This Sector

a. Taxation of Gambling

Gaming represents a relatively easy source of taxation revenue. Like tobacco and alcoholic beverages it is not considered a necessity of life, but for many people gambling is a very desirable form of expenditure. Although such taxation represents a distortion to consumer choice, the relatively low price elasticity of demand exhibited by those who gamble, and the absence of any lobby group promoting the virtues arising from this sector, has meant that governments have had little difficulty raising revenues from this activity.

Gambling is taxed more highly than most other service or entertainment activities because the demand for wagering is relatively insensitive to its price and the excess burden of such taxes on recreational gamblers may not be particularly high. High taxes can impact adversely on the net income, and perhaps the wealth, of problem gamblers. Gambling taxes, on the other hand, are generally highly regressive, particularly for small lotteries and gaming machines.

b. Gambling Trends in Australia:

In 1999-2000, total gambling expenditure within Australia was $13.34 billion which was more that Tasmanian 1999-2000 GDP of $11.6 billion, the national fuel excise collected ($12.7 billion in 2000-01). Since 1990-91, real per capita expenditure on gambling has increased from $470.60 to $931.64 in 1999-2000, representing a real average annual increase of 10%. Poker machines were the main source of revenue supplying nearly half of the national $74 billion turned over on the machines. In 1999-2000, state governments reaped $4.39 billion from all forms of gambling, or 3.5% of the disposable income of households. The 13 casinos operating in Australia during the year recorded an operating profit of $452 million, which represented an operating profit margin of 15.1%. According to a productivity commission report (1999), Australia had nearly 180,000 poker machines; 21% of all gambling machines in the world. The social cost of betting was between $1 billion and $5 billion a year, but it found that the overall economic benefit to society was between $150 million and $52 billion. 7,000 businesses employed 150,000 people and tax collections from gambling had doubled over the past decade.

c. Participation, Spending and Revenue in Canada:

In Canada during 1996, 82% of households spent money on at least one of the following legal gambling activities: government and non-government lotteries, casinos, slot machines and bingo. In 1997, Canadians wagered $6.8 billion on some form of government-run gambling activity with casinos and video lottery terminals accounting for almost 60% of all government gambling revenue. By 1997, all provinces were receiving at least 3% of total government revenue from gambling. Revenues obtained from gambling rose from $ 2.7 billion in 1992 to $7.4 billion in 1998, a 170% increase. In 2000, there were more than 50 permanent casinos (in 7 provinces), 21,000 slot machines, 38,000 video lottery terminals, 20,000 annual bingo events and 44 horse race tracks in Canada (Azmir, 2000). Azmir has also calculated that at least one person was involved in gambling, those with incomes of less than $20 000 spent an annual average of $296 on gambling pursuits, which represented 2.2% of total household income, whereas those with an income of $80 000 or more spent $536, only 0.5% of total income.

d. Gambling Expenditure in USA

In 1999, a number of researchers from University of Chicago reported that casinos are "more popular" than other forms of gambling. People who live within 10 miles of a casino typically spend $400-600 per year on casino gambling, $50-100 per year on state lotteries and $10-30 per year on horse racing.

V. Taxation of Games of Chance and Casinos in Selected Countries

a. Australia

The taxation of gambling in Australia is complex. They apply different forms of taxes on different gambling types.

Forms of Taxes

Turnover Tax	Bookmakers (racing)

(by taking a share of amount wagered, the	Bookmakers (sports betting)
Government limits the amount that can be	Totalisator* wagering on racing
returned on those playing)	Lottery subscriptions
	Draw card machines
	Keno

Tax On Player Loss	Totalisator wagering on racing
	Sports betting
	Poker machines in hotels, clubs and casinos
	Casinos
	TAB** sports betting
	Keno

Net Profits Tax	Poker machines
	Off-course totalisator investment

License Fees	Casinos
	Poker machines
	Lotteries
	Racing
	Bookmakers
	Sports betting
	Minor gambling such as bingo

* Totalisator: Device showing number and amount of bets staked on race with a view to dividing the total among those betting. *Source: NSW Treasury, 1999*

***Tax Rates** (NSW Treasury 1999)*

Pari-Mutuel Betting:

The state tax on pari-mutuel betting is 6% on the "takeout"-the percentage deducted by the race track from each pari-mutuel pool before payouts on winning tickets. At Canterbury Park in Shakopee the takeout averages about 20% of total betting. The first $12 million takeout is exempt from tax. Total pari-mutuel tax revenue for the 2001 racing season was about $ 168,000.

State Lottery:

A payment by the lottery of 6.5% of gross receipts is made in lieu of the sales tax. This in lieu tax generated about $24.5 million in fiscal year 2002. This is in addition to the approximately $50 million in lottery net profits that are dedicated to the general fund and environmental trust fund. Another $7.5 million in unclaimed prizes went to the general fund in order to provide compulsive gambling programs.

Indian Gaming:

Federal Law prohibits states from taxing the proceeds of gaming on Indian Land.

Totalisator Racing:

Taxes on totalisator racing are usually imposed on the value of bets placed at TABs and are around 5% to 10% of gross wagers. When the proportion of revenue that is earmarked for the racing industry is included, gross deductions average 14% to 20% of the amount wagered.

Bookmaker's Turnover Tax:

The tax on bookmaker's turnover on racing varies between states-ranging from 1% in New South Wales and Queensland to 2% in Victoria for most types of bets. However, tax rates vary depending on whether the bet is placed on a metropolitan or country race, local or interstate race and within or outside Australia.

Taxes on Sports Betting:

Gross deductions ranging from 17% in Tasmania to 25% in Queensland are applied. The amount net of these deductions is paid out as winnings. The net percentage received by governments' ranges from 4.5% in Tasmania to 10% in Queensland. Gross deductions less government taxes are usually divided among the TAB, the controlling sporting body and the sport and recreation funds.

Tax on Keno:

In New South Wales, the tax is based on a two-tier structure: 18% on player loss less than $86.5 million and thereafter taxed at 24%. In South Australia, tax averages 14 % of sales. In Queensland, keno held in casinos is taxed at the individual casino's rate and ranges

from 11% to 21% of gross gaming revenue. 33.33% of tax is levied on player loss in Victoria.

Taxes on Poker Machines:

Taxes on poker machines are based on player losses (poker machine revenue less amounts paid out in prize money). In most states, hotels pay higher taxes on poker machine revenue than clubs. For example, taxes of around 22% of gross profit are imposed on clubs. Higher rates of around 30%-50% are applied to hotel gaming machine profits. Community support levies are collected on all gaming machine operations in Tasmania, Queensland and Victoria, but are applied only to clubs in Queensland and Tasmania.

Taxes on Casinos:

Taxes are levied on gross gaming revenue of casinos derived from all gaming. In addition to these tax revenues, casinos have to pay license fees as well. Different rates of tax are typically levied on gaming machines at casino revenues. The general casino tax for regular players ranges from 8% of player loss in the Northern Territory to 20% in New South Wales, Queensland, and 21.5% in Victoria.

Net Profit Taxes

Taxes are not commonly levied on net profits of gambling activities. Casinos pay an annual 30% percent tax on net profit from poker machines in Victoria when its net profit exceeds $117 million. In both South Australia and the Northern Territory the TABS pay 45% to 50%, respectively, of net profit on totalisator racing expenditure.

License Fees

Casinos pay the fees as a once only lump-sum or periodically. For example in Queensland, each casino pay $137,500 quarterly while in South Australia ($5,000) and Tasmania ($60,800) license fees are paid monthly by each casino. The license fees are 30% of net profits when the amount exceeds $35 million.

b. Taxation of Casinos in USA, 2002-2003

State	State Casino Revenue Tax Rates
Illinois	15.00% on first $ 25 million of gambling revenue 22.50% on next $ 25-$ 50 million of gambling revenue 27.50% on next $ 50-$ 75 million of gambling revenue 32.50% on next $ 75-$100 million of gambling revenue 37.50% on next $100-$150 million of gambling revenue 45.00% on next $150-$200 million of gambling revenue 50.00% on gambling revenue in excess of $200 million
Indiana	15.00% on $25 million of gambling revenue 20.00% on next $25 - $50 million of gambling revenue 25.00% on next $50-$75 million of gambling revenue 30.00% on next $75- $150 million of gambling revenue 35.00% on gambling revenue in excess of $150 million
Nevada	Paid monthly 3.00% on first $50,000 of gross revenue 4.00% on next $84,000 of gross revenue 6.25% on gross revenue over $134,000
Iowa	5.00% on first $1 million of gambling revenue 10.00% on next $1-$3 million of gambling revenue 32.00% on all gambling revenue over $ 3 million (increasing each year up to 36% maximum)
Missouri	20.00% on all gambling revenue (2% for local governments)
New Jersey	8.00% tax on all gambling revenue 1.25% tax paid quarterly to casino reinvestment and development authority

Source: Bear Stearns (2002-2003) North American Gaming Almanac

The U.K. Government has thought to impose optimal levels of taxation for different types of gambling in 1996 as a result of the introduction of the National Lottery and the rise of off-shore internet bookmakers, who are not subject to the betting taxes. Similar issues have arisen in the U.S. because states were using specially lottery revenues to fund educational programs (Clotfelter and Cook, 1989). Paton, Siegel and Vaughan Williams (2001; 2002b) pointed out that a gross profits tax is more efficient than a turnover tax because gross profits tax is levied on price, whereas a turnover tax is levied on quantity. However, gambling tax rates have fallen in recent decades, while revenues have increased dramatically (Smith, 2000). It has been found in the US that monopolistic public provision of lottery gambling had better control on fraud and corruption (Clotfelter and Cook, 1989). Chapman, Beard et al. (1997) came out with the finding that the

approach of limiting competition among games of chance facilitated control in Victoria. It is argued that existing regulatory policy of casinos in Australia, namely limit casino ownership and management, has the effect on industry protection rather than consumer (McMillan, 1996a; Chapman, Beard et al., 1997). McMillan (1985) has claimed that there is a need for a large capital base for the casinos since they are mostly designed to attract international visitors.

Unlike normal consumer goods, the price of gambling is not readily apparent. It can be suggested that consumers will not be particularly responsive to price changes since they don't know the price, i.e. the odds of losing. It is reasonable to mention the difficulty of price determination where there are infrequent or highly variable payouts. Weinstein and Deitch (1974) contended 'gamblers will be more concerned about the odds and hence more responsive to tax/price changes, when there is a good chance of winning any particular bet'. Clotfelter et al. (1999) claimed that high implicit tax on lotteries would limit participation and reduce the widespread accessibility. Paton, Siegel and Vaughon (2002) have studied the impact of taxation on the demand for gambling and resulted that the demand for bookmaker gambling is highly sensitive to taxation rates.

c. The rules for tax reports and withholdings on gambling winnings from Indian casinos and U.S. casinos:

1. Slot machines and bingo - payouts of $1,200 or more are reported to the IRS, but there is no withholding imposed on winnings.

2. Keno - similar to slots, but the amount won must be at least $1,500 (25% withholding if over $5,000).

3. State lotteries and sweepstakes - withholding is taken out of all winnings of more that $5,000.

4. Pari-mutual pools, including horse and dog races - subject to withholding, but only if the winnings are both more than $5,000 and at least 300 times as large as the amount

bet. Tax-payers may deduct gambling losses from their gambling winnings during the tax period not to exceed the total of the winnings. http://www.irs.gov/pub/irs-pdf/p3908.pdf.

d. Taxation of the gambling in UK

Duty	Type of Duty	Current Rate of Duty
National Lottery	% of amount staked	12%
General Betting*	% of amount staked	6.75%
Bingo	% of weekly stake and added prize money	10% of the price of the bingo card plus 1/9th of added prize money
Pool Betting	% of amount staked	17.50%
Gaming Duty**	A premises based tax on banded profits	2.5% of first US $673,413 12.5% of next $ 1,496,068 20% of next $ 1,496,069 30% of next $ 2,618,666 40% of remainder
Amusement Machine License	License for each machine or for premises based on machines in use	License value $ 364, $939 or £2,643 pa dependent on machine type and cost per play

Source: Customs & Excise and NAO (2000)
Note: *In March 2001, Customs & Excise announced their intention to replace the transaction based tax with a 15 per cent tax on bookmakers' gross profits (the difference between the stakes and the winnings) (3% on financial spread bets and 10% for all other spread betting). Change anticipated from Jan 2002.
**Rate up to 31 March 2001

VI, Money Laundering

Money laundering through casinos is a significant and growing phenomenon around the world. [1]In the past casino money laundering in the US was as simple as walking into a

[1] **Criminal networks launder an estimated $1 trillion a year, and the casino industry is a growing target. The rise of legalized gambling and the high cash volume associated with gaming have increased the casino industry's vulnerability to this type of criminal activity.** *"Anti-Money Laundering"/Ernst & Young/ www.ey.com/global/content.nsf/US/AABS*

casino with cash, buying casino chips, doing little or no gaming, and then turning in the chips for larger bills or a cashier's check. But now such cash purchases of chips in amounts larger than $10,000 are subject to the various reporting requirements if done all at once. Smaller amounts are also aggregated under certain circumstances. Purchases in the same gaming area of less than $10,000 in Nevada casinos are aggregated if they take place within the same 24 hour period ("gaming day"), and are reported to the IRS if the aggregate total exceeds $10,000.

Tribal casinos under IRS regulations have to aggregate chip purchases over a year's time. (A $6,000 purchase in January and a $5,000 purchase in August are supposed to result in the $11,000 total being reported to the IRS. The degree of casino compliance with the reporting requirements is not always clear. Cash in amounts smaller than $10,000 may still be conveniently laundered through any of the casinos. Larger amounts may also be laundered, but will have to be spread across different gaming areas (in Nevada casinos), or different gaming days (Nevada casinos), or divided up and laundered across several, Nevada, or tribal casinos. The future will see a growth in virtual casinos and, logically, also virtual money laundering.

Money Laundering in the Dominican Republic

Money laundering is common in the activities surrounding the casinos of the Dominican Republic. At the present time there is not much that the government is capable of doing at to prevent it from happening. From the experience of the US, Canada, UK and Australia, it is clear that the way to control money laundering is to keep detailed records of all

forms of cash transactions carried out within the casino. These records then must be scrutinized by the authorities to detect patterns that are indicative of money laundering activities. Where such activities appear to be happening then the authorities must investigate and follow up with prosecutions. It appears that the authorities in the Dominican Republic are unlikely to be able to place a very high priority on monitoring such transactions for some time to come in the future.

The main taxation problem caused by money laundering is the evasion of the income tax. People can claim that the source of their wealth is their winnings in a casino, hence, hiding the true source of their income. While this no doubt happens frequently, it is questionable if significant additional income tax revenues would arise if the authorities put a large amount of resources into the monitoring and investigation of money laundering activities. It would seem prudent to put any additional resources the tax authorities have into the administration and enforcement into such taxes as the ITBIS or company income taxation where the return in revenues from auditing is likely to be significantly larger.

VII. Proposals related to the taxation and regulation of casinos and lotteries in the Dominican Republic

a. Lotteries

The lotteries in the Dominican Republic are largely not under the control of the Ministry of Finance. The National Lottery is supposed to control the private lotteries, but in fact it collects little or no money from them. At the same time the National Lottery's distribution of its surplus does not appear to be done according to any conventional

public policy criterion. Apart from their entertainment value, lotteries are basically a form of taxation. The revenues received in excess of the prize money and administration costs are usually appropriated by the State. In the Dominican Republic this sector is fragmented and largely operating for private gain rather than for the public good.

From the research done on the lottery sector of other countries, it is clear that a set of small fragmented lotteries is not a desirable organization for the sector in terms of either revenue collection or operational efficiency. Small lotteries and games of chance tend to collect their revenues mainly from the poor grow relatively slowly over time. Larger lotteries with bigger prizes consistently attract proportionally more revenues. Furthermore, those who participate when the prize money is large tend to be from the higher income groups. In the USA the evidence indicates that once the price money of a lottery exceeds US$5 million, the revenues collected by the lottery are progressive with respect to the income of the individuals playing in the lottery.

As a consequence it is common for lotteries to be a state monopoly. Often a number of smaller states (for example Vermont, New Hampshire and Maine) combine their individual state lotteries to form a larger common lottery. The large lottery is more efficient in its advertising and administration while at the same time attracting a much larger clientele.

In the Dominican Republic, the small private lotteries are essentially legalizing what would otherwise be illegal numbers games and such games of chance. While it would be economically efficient and socially desirable to amalgamate these small lotteries into a larger single lottery, it will not be easy to bring that about in the current environment of

the Dominican Republic. Given the low capability of the government to enforce any complex laws concerning the taxation of lotteries, it is unlikely that they would be able to prevent the illegal betting that would develop if the small lotteries were eliminated.

Given the ineffectiveness of the National Lottery to regulate and collect revenue from the private lotteries, it would appear to be desirable if an excise tax of approximately 15 percent were imposed on the gross revenues of all lotteries. This revenue should be part of the direct revenue of the Ministry of Finance and not part of the funds to be distributed by the National Lottery. Over time when the level of regulation of lotteries can be improved, an effort should be make to consolidate all the lotteries in the country into a few large state owned ones. In this way the government would benefit by obtaining a larger volume of revenue and at the same time the economic resource cost of running the lottery system could potentially be reduced.

b. **Casinos**

The casino industry in most countries is heavily regulated, and taxed. Typically casino activities are taxed on the basis of some combination of the number and type of machines, gross revenue, player losses, net profits of the casinos and player winnings. Which combination of taxes that are applied by a specific country is usually determined by the ability of the tax authorities to administer the taxes and the degree in which casinos are believed by the local authorities to be an agent for regional development.

There is a serious economic problem that arises with casinos because there is seldom any competition between casinos within a country in setting the ratios of the value of the winnings to the amount of money gambled using the various types of machines and

games found in casinos. A casino can earn a competitive rate of return with a volume of gambling that is far below the volume that would cause the casino to be operating at its minimum average cost.

This is similar to the famous taxi cab problem where the government sets the price of taxi cab fares, but allows fee entry into the taxi cab business. The result is that there will be many taxicabs running around empty searching for passengers. In this case the marginal cost of transporting an additional customer is believed to be well below what the taxicab operator perceives to be his marginal revenue from an additional passenger. An efficiency loss arises because of the over investment in taxicabs, given the total market demand for taxicab services.

The same situation applies to casinos. If the number of casinos is not limited in some way, the economic rents that should be accruing to the existing casinos will attract additional investment in the sector. Excess capacity will result across all the casinos. Furthermore, it is observed that large casinos tend to attract customers, particularly to tourist destinations. A few large casinos will attract more international tourist-gamblers than if the same gambling capacity, as measured by the same number of machines and tables, are spread over a large number of small casinos.

There are two kinds of taxes that would assist in bring about a realignment of the marginal revenue with the marginal costs of casino gambling. The first would be a percentage tax on the amounts gambled. This would reduce the amount of money earned in excess of marginal costs and hence would reduce the incentive for additional casinos to enter the sector. The second form of taxation is a tax levied on each machine and each

table operated by a casino per month. This form of tax increases the capital cost of additional capacity, but imposes no wedge between marginal cost and the marginal revenue of increasing the intensity of gambling using a given number of casinos. It is this system of taxation that the Dominican Republic now imposes on casinos.

The tax authorities have in the recent past tried to tax the casinos on the bases of the total amount of gambling carried out, and also on the basis of the amount of winnings. Both of these efforts ended in failure. It is our recommendation that the present basic form of taxation of casinos in the Dominican Republic be continued, but greatly reformed in its application and administration.

The first recommendation would be automatically index all the one time, annual and monthly fees to the change in the consumer price index. When the rate of inflation is uncertain, it is very bad policy to have the taxes levied on the machines and tables to be specified in fixed amounts of pesos. They should automatically be adjusted for the amount of cumulated inflation in the previous three month period. Second, the monthly fees should be raised substantially, even if some of the casinos now in existence go out of business. In that way the ones remaining will have more clients, will be able to operate more efficiently, and will be able to afford to pay the higher monthly fees.

The present set of restrictions on the movement of slot machines, the conversion of one denomination of slot machine to another, and ability to take slot machines and tables temporarily out of use seems to be unduly restrictive. These rules should be examined carefully to see if they can be brought more in line with the needs of the casinos to be

able to operate in a way that they can address the needs of their customers with some flexibility at a particular point in time.

VIII. Conclusions

At the present time in the Dominican Republic the lotteries and casino sectors are operating largely without a regulatory or taxation system that can be enforced by the government. In the case of these two sectors, such regulation and enforcement would enhance the overall economic wellbeing and growth of the sector. Basically what is needed is a reduction in the number of lotteries and their control by the public sector in order to use them as public revenue devises rather than private businesses. While the regulatory structure for lotteries is being strengthened the Ministry of Finance an excise tax should be imposed by the Ministry of Finance on all lottery revenues at rates of approximately 15 percent.

In the case of casinos the tax system should be kept simple, but made institutionally robust. This can be done by maintaining the system of taxing slot machines and tables on a monthly basis but setting the monthly rates high enough so that they represent a significant tax burden on the operation of the casinos. The rates should be set so that overall the taxes represent approximately 20 to 25 percent of the gross revenue of the casinos. This would bring the taxation of casinos and games of chance in line with the levels of taxation imposed on this sector in other countries.

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