

2005

**THE LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY**

**GAMING MACHINE AMENDMENT BILL 2005 (NO 2)
EXPLANATORY STATEMENT**

Circulated by the authority of
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Background

As part of a range of initiatives arising from the 2005-06 Budget, the *Gaming Machine Amendment Bill 2005 (No 2)* (the Bill) proposes to remove the GST credit scheme that currently applies to clubs in the ACT. This means that GST payments will no longer be deducted from the gaming machine tax liability payable by clubs to the Territory.

In order to simplify the calculation and collection of gaming machine taxation revenue, this Bill proposes that taxation rates on gross gaming machine revenue be reduced to eliminate the GST credit from 2005-06 and beyond. The threshold from which taxation is paid has also been raised from \$8,000 to \$15,000. The new gaming machine taxation rates will become effective from 1 July 2005.

This initiative realises a long-standing commitment to the club industry and, by having gaming machine tax rates that are independent of GST paid to the Commonwealth, will make the ACT consistent with all other jurisdictions in this regard.

Also, as part of the 2005-06 Budget, the Bill proposes that some of the gaming machine tax rates will increase from 1 July 2007. This will be achieved by an increase in the top two marginal gaming machine tax rates only. This increase has been included in this amendment Bill to ensure transparency in the Government's intentions and to enable the industry to plan accordingly.

The future tax increases are from 16.0% to 17.0% for those clubs with annual gross gaming machine revenue in excess of \$300,000 and from 18.0% to 21.0% for those clubs with annual gross gaming machine revenue in excess of \$600,000.

Revenue/Cost Implications

The removal of the GST credit scheme has minimal overall financial implications for the ACT. The proposed change in the gaming machine tax rates will be as close as is practical to revenue neutral for the Territory.

The impact on different sized clubs is outlined in the specific comments provided in this Explanatory Statement regarding section 5 of the Bill.

The Gambling and Racing Commission and the clubs will benefit from increases in efficiencies in simplified calculations in determining the licensees' monthly gaming machine tax liabilities.

The Commission will absorb any costs associated with the introduction and implementation of the proposed amendments and for providing any education programs and information sessions required for licensees.

The increase in the gaming machine tax rates from 2007-08 will raise additional revenue of an estimated \$5.3 million per annum. As only the top two marginal tax rates will be increased, the additional taxes will be paid by the larger clubs.

Notes on Specific Provisions

1 Name of Act

This clause provides that the name of this Act is the *Gaming Machine Amendment Act 2005 (No 2)*.

2 Commencement

This clause provides that this Act (other than section 6) commences on 1 July 2005 and that section 6 commences on 1 July 2007.

Section 6 of the Act relates to the increases in taxes that commence at the beginning of the 2007-08 financial year.

3 Legislation amended

This clause provides that this Act amends the *Gaming Machine Act 2004*.

4 Section 146(d)(ii)

This clause provides for a minor technical amendment by omitting the reference to Part 9 of the Act mentioned in section 146(d)(ii) and replacing it with the correct reference to Part 3 of the Act.

5 Gaming machine tax - Section 159(2) and (3)

This clause substitutes a new section 159(2) and (3) to provide that the rate at which gaming machine tax is payable in relation to a month is the prescribed percentage for the month; and that '*prescribed percentage*', for a month, means—

- (a) in relation to a licensee that is a club:
 - (i) in relation to that part of the gross revenue for the relevant month that is less than \$15,000 – nil; and
 - (ii) in relation to that part of the gross revenue for the relevant month that is equal to or greater than \$15,000 but is less than \$25,000 – 15%; and
 - (iii) in relation to that part of the gross revenue for the relevant month that is equal to or greater than \$25,000 but is less than \$50,000 – 16%; and
 - (iv) in relation to that part of the gross revenue for the relevant month that is equal to or greater than \$50,000 – 18%; or
- (b) if the licensee is not a club – 25.9%; or
- (c) in any other case – 100%.

In relation to club licensees, the threshold levels of gross revenue for the different tax increments have remained the same as the old levels other than the initial threshold amount.

Under the new scheme, all licensees have the first \$15,000 of gross revenue as tax-free.

The previous tax rates involved an initial tax-free threshold of \$8,000 gross revenue per month (compared to the new threshold of \$15,000) and tax rates of 1% for the first \$8,000 if this amount was exceeded; 23.5% for the next threshold level; 24.5% for the next threshold level; and 27% if the monthly gross revenue exceeded \$50,000. A credit was allowed for GST payments made to the Commonwealth in that month.

The new tax rates eliminate the need for club licensees to claim a credit for their GST paid to the Commonwealth.

The new scheme will allow clubs to pay their GST quarterly (instead of monthly) if they wish without the prospect of missing out on an amount of credit if their quarterly GST payment exceeded their gaming machine tax liability for that month.

Overall, the new rates are revenue neutral for the Territory.

Small and medium sized clubs (ie. those licensees that earn less than \$220,000 gaming machine profit per month) will be slightly better off under the new arrangements, except for those very small clubs that will not benefit as they were below the tax-free threshold previously (ie. below \$8,000 profit per month) and will continue to remain below the tax-free threshold under the new scheme.

Larger clubs (ie. those licensees that earn over \$220,000 gaming machine profit per month) will be very slightly worse off compared to the previous tax scheme.

The gaming machine tax rate for licensees that are not clubs (ie. hotels and taverns) is not impacted by these changes. These tax rates are already free of the GST credit calculations.

The 100% tax rate referred to “in any other case” deals with gaming machines that are operated unlawfully (ie. without a gaming machine licence).

6 Section 159(3), definition of ‘prescribed percentage’, paragraph (a)(iii) and (iv) (as amended)

This clause provides that from 1 July 2007 onwards, paragraphs (a)(iii) and (a)(iv) of the definition of ‘*prescribed percentage*’, as amended by clause 5, will be substituted with the following-

- (iii) in relation to that part of the gross revenue for the relevant month that is equal to or greater than \$25,000 but is less than \$50,000 – 17%; and
- (iv) in relation to that part of the gross revenue for the relevant month that is equal to or greater than \$50,000 – 21%; or

This amendment will increase, from 1 July 2007, the new tax rates that commenced on 1 July 2005 with the introduction of the new tax scheme that eliminated the GST credit arrangements.

7 Tax adjustment in relation to GST for clubs – new Section 160(5) and (6)

This clause provides for transitional arrangements in relation to the GST paid by clubs by inserting the following –

- (5) This section applies in relation to a licensee’s liability for a global GST amount only if the liability was incurred before 1 July 2005.
- (6) This section expires on 1 February 2006.

New section 160(5) provides that a club licensee may still claim a credit for GST paid after 1 July 2005 (the commencement of the new tax rates) as long as the GST paid was in relation to a GST liability earned prior to 1 July 2005. This transitional arrangement is necessary to allow for the time lag where licensees can only claim a GST credit for the GST paid (rather than when the GST liability was actually incurred).

Since this provision is for transitional arrangements, an expiry date has been included.

8 Dictionary – definition of commission

This clause provides for a minor technical amendment to correct the Act's definition of *commission*.

