

# THE FUTURE OF THE MACAO GAMBLING INDUSTRY



Considering the neighboring regions, the gambling tax in Macao is relatively high. Under the new Gambling Law, which came into force in June, the special tax rate is 35% on gross revenue and 5% for the Macao Foundation, Social Security Fund, urban development and tourism. Excluding winnings, the activity is taxed at 40%.

Under the Singapore tax regime, which came into effect in March, the tax rate for the gross revenue of VIP salons is 8% up to \$2.4 billion dollars and 12% if it exceeds that amount. **For the mass market, the rate is 18% up to \$3.1 billion and 22% if it exceeds that amount.** In Japan, a country that is preparing to open this industry, the tax on gross revenue will be 30%.

In the “Study on the issues facing the Macao gambling industry and the countermeasures that should be implemented”, developed by Yuan Jieping and Yang Jichao, neighboring markets have lower tax rates than Macao to be more attractive to investors and VIP customers.

The study was able to prove a correlation between high taxation on gambling and a decrease in invested capital, employment supply and hotel services. For example, the two US states with the lowest tax rates attract 67% of investment in the country’s industry.

In other words, the lower the tax, the greater the volume of corporate reinvestment funds. “These funds are not only reinvested in casinos, but also in hotels, restaurants, showrooms and entertainment services,” we can read. Other studies say that the US states with the lowest tax rates require \$18 million to open a new restaurant; in the rest, it takes \$41 million.

Singapore: there are two types of gambling taxation in this country. In addition to the tax burden on dealers, a 7% sales tax is added for sales of goods and services. Since March 1, the tax has increased to 8% for VIP customers and 18% for regular customers. Based on 2019 revenue levels, the tax burden for Singapore casinos is around 21%.

## Improving Competitiveness

The gambling tax is a crucial factor in ensuring competitiveness, but it is not the only one. The liberalization of gambling operation rights has attracted several foreign companies to bid for a gambling license in Macao. This is recalled by Ji Chunli, assistant professor at the Pedagogical and Scientific Centre in the Fields of Gaming and Tourism at Macao Polytechnic University.

The liberalization of gambling in neighboring regions will have an impact on the city. However, Macao’s great advantage is its proximity to mainland China; in other words, it is a cheaper trip for these visitors. Considering the size of the Chinese market, the scholar says that, if the pandemic is controlled and border restrictions are relaxed, the number of visitors will not be a problem for the Macao gambling industry. However, he warns that Macao will struggle to expand the sources of its customers in the short term.

To be more competitive, he says the city must do more thinking about the tourism experience. “Why do so many people consider building integrated resorts in Japan a threat to Macau’s

competitiveness? We know that services in Japan have high quality, so we fear that some customers will give up Macao and opt for Japan. This situation shows the need for us to rethink Macao's future competitiveness, including better services," he explains.

South Korea: it does not yet have a specific tax for casinos. These venues are taxed under the corporate income tax, with different rates for Korean residents and foreign citizens, calculated on a scale according to different income levels. The casino is also required to contribute to a fund. Casinos exclusive to foreign citizens contribute approximately 10% of their gross revenue to the "Tourism Promotion Fund". Between 2015 and 2019, the tax burden on casinos for Korean residents was around 40% of gross revenue over five years. Already over an average five-year period, the tax burden on foreign-exclusive casinos stood at only 18%.

Ji Chunli also believes that innovation is important to ensure competitiveness.

"Can we offer more entertainment and leisure features for our customers through innovation? We must think further and look for innovative business models. We should not look to the present, but to the future. For the Macao gambling industry, and for the entire tourism and entertainment sector, innovation is decisive in redefining Macao," he emphasized.

### **Gambling Add-ons**

The new Gambling Law allows, "for reasons of public interest, in particular, the expansion of customer markets from foreign countries", to reduce the contributions from concessionaires. The main question is how to attract this clientele.

For Yuan Jiuping and Yang Jichao, the average length of stay of visitors in Macao experienced a "general decline" in 2018, even before the pandemic, proving the "challenge of internationalizing future visitors to Macao".

Deputy Leong Sun Iok says the current maximum commission rate of 1.25% imposed on various gambling promoters, and lower than neighboring regions, may be insufficient to attract foreign promoters and customers to Macao. This may affect the development of these markets.

There are three types of gambling taxes. The first is a 25% tax on gross revenue for the general public. The second is a 17% tax on gross revenue applied only to VIP lounges. The third is a 15% tax on the gross revenue of VIP salons for foreign customers.

There are also several regions that have or will have integrated resorts, such as Singapore, Japan, or even Thailand, which is exploring liberalization of gambling. All have vast tourism resources. Others have attractive projects underway, such as a casino-hotel in the Philippines, which includes a luxury golf course and resort. It is the country's first course affiliated to the Professional Golfers' Association of America (PGA).

For Ji Chunli, if the quality of integrated resorts can be improved, they will attract more customers and compete with other regions. Leong Sun Iok also said that foreign tourists in Macao not only want to gamble but also to experience a quality tourism environment. Therefore, the government should actively develop the city as a World Tourism and Leisure Centre, in 'hardware' and 'software'.

In Malaysia, the gambling tax is 35% of gross revenue for the general public and 20% for VIP lounges. However, casinos are also required to pay an annual license fee of \$36 million dollars.

Before the pandemic, the per capita expenditure of tourists attending conventions and exhibitions in Macao was the highest (excluding gambling expenditure). However, the percentage of these visitors was the lowest, according to the Statistics and Census Service (DSEC). For Leong Sun Iok, the MICE industry is one of Macao's most important sectors. And, therefore, the government should seek support from the mainland to organize major events in the city, capable of stimulating local consumption.

**The deputy added that the community and government entities should work together so that Macao has several attractive elements for several types of tourists, 365 days a year, so as to sustain the economy.**

The pandemic will be over soon. Macao must be prepared beforehand for the future market, which will be different from the past, where all tourists rushed to Macao as soon as the borders opened. Now, these visitors will first see what the city has to offer. Improving Macao's level as a tourist destination will cement its overall competitiveness.

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