



# PROMOTIONAL PLAY PRESENTATION

MASSACHUSETTS GAMING COMMISSION

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# What is promotional play or free play?

## **Promotional Play or Free Play –**

Is a way a casino or online operator can invite a known player to return or a new player to sign-up or create an account. It takes one of many forms of credits toward playing a slot machine, table game, or sports wager. In order to use it a player must wager it and if won it turns into real money from cashing out or it is placed into their account.

# Why is it used by operators?

An operator uses promotions to ensure customers are aware of the operator's existence in a competitive market place as well as to achieve the following:

- Increase brand awareness
- Provide appropriate information
- Increase Customer Traffic
- Build sales and profits

Promotions also help operators to introduce products easily in the ever-so-competitive market.

# Recent offers found in the Sports Wagering realm

USE PROMO CODE  
WIN AND RECEIVE A  
\$1,000 DEPOSIT  
BONUS.

Bet \$5 get \$200

**\$1,500  
bonus for  
World Cup**



## A & K Presentation

States that allow and don't allow promotional bets to be deducted from the taxable win.

MONTH AND YEAR	NUMBER OF STATES WITH COMMERCIAL SPORTS BETTING	NUMBER OF STATES THAT ALLOW UNTAXED PROMOTIONAL CREDITS	GAMING GROSS REVENUE (GGR)	ADJUSTED GROSS REVENUE (AGR)	DIFFERENCE IN DOLLARS (GGR-AGR)
Feb-22	26	9	\$387,507,164	\$262,989,268	\$124,517,896
Dec-21	26	8	\$375,176,988	\$259,156,688	\$116,020,300
Oct-21	24	8	\$446,890,754	\$334,338,789	\$112,551,965

34.6%

July 2021 - Colorado, Pennsylvania, Michigan, and Virginia stood out as the few that allowed licensees to adjust their revenue by deducting unlimited free play and promotional bets from their taxable base. This has since changed in Colorado and Virginia.



State	Tax Rate		Allow Promo deduction or %
	Retail	Online	
<b>Arizona</b>	8.0%	10.0%	Are allowed to deduct up to 20% of their revenue for promotions such as "free bets" in the first two years they are open.
<b>Colorado</b>	10.0%	10.0%	At first allow total deduction. Now they are tiering it down to eventually 1.75% of their monthly handle
<b>Michigan</b>	8.4%	8.4%	Can deduct all
<b>New Jersey</b>	8.5%	13.0%	A4002 specifies that promotional credits for land-based sportsbooks can only be deducted for betting credits in excess of \$8 million each year. For online books, the tax break kicks in after \$12 million in gaming credits are issued.
<b>New York</b>	Falls under casino's tax rate	51%	No deduction allowed
<b>Pennsylvania</b>	36%	36%	Can deduct all promotional play and bonuses
<b>Virginia</b>	15%	15%	Started with full deduction of promo. Passed law in July 2022 to stop all deductions from the tax responsibilities.



# A Change for Colorado

Sports Betting

## Colorado Ending Tax Breaks For Sports Betting Promo Spend

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<https://www.legalsportsreport.com/70580/no-more-tax-breaks-colorado-sports-betting-promos/#:~:text=Per%20the%20bill%2C%20tax%20write,be%20deducted%20as%20free%20bets.>

Colorado collected just \$6.6 million in its first full year of legal sports betting, equivalent to a 4% net tax rate. (From the previous slide Colorado's tax rate is 10%)

For comparison, New York generated more than \$216 million in tax revenue from sports betting in just four months.

An operator said this equals a more than 100% net tax rate.



# The new policy licensees in Colorado must follow

Per the bill, tax write-offs for promo spend will be phased out gradually:

- From January 1, 2023 through June 30 2024, up to 2.5% of an operator's monthly sports betting handle can be deducted as free bets.
- Declines to 2.25% from July 1, 2024 through June 30, 2025.
- Declines to 2% from July 1, 2025 through June 30, 2026.
- Finally, from July 1, 2026 onward, 1.75% of an operator's monthly handle can be deducted as free bets.



# Options for Regulating Promotional Play

Included in Gross Sports Wagering Receipts and Not Deducted for Taxation:

- Maximizes Tax Revenue
- Minimizes Profit of Operators
- Not Consistent with Treatment of Promotional Play with Other Tax Applications

Excluded from the Gross Sports Wagering Receipts, and Deduction for Taxation:

- Maximizes Operator Profits
- Potential to Create a Perverse Incentive to Minimize Taxes
- Closer Treatment to Corporate Tax Structure

Partial Exclusion From the Gross Sports Wagering Receipts and Partially Deducted for Taxation:

- A Tool Other Jurisdictions are Utilizing
- Attempts to Balance Operator Profits with Tax Receipts
- Eliminates any Potential Perverse Incentive to Minimize Taxes



## c. 23N Statutorily Defined Terms

### **Adjusted Gross Fantasy Wagering Receipts:**

The total gross receipts from fantasy contests as defined in section 11M1/2 of chapter 12, less only the total of all cash prizes paid to participants in the fantasy contests; provided, however, that the total of all cash prizes paid to participants shall not include the cash equivalent of any merchandise or thing of value awarded as a prize.

### **Adjusted Gross Sports Wagering Receipts:**

The total gross receipts from sports wagering less the sum of: (i) the total of all winnings paid to participants; and (ii) all excise taxes paid pursuant to federal law; provided, however, that the total of all winnings paid to participants shall not include the cash equivalent of any merchandise or thing of value awarded as a prize.

### **Promotional Gaming Credit:**

A sports wagering credit or other item issued by an operator to a patron to enable the placement of a sports wager.



# Taxation Formulas of Options for Promotional Play

Adjusted Gross Sports Wagering Receipts:

$(\text{Gross Sports Wagering Receipts}) - (\text{Payouts to Players}) - (\text{Federal Excise Tax})$

Included in Gross Sports Wagering Receipts and Not Deducted for Taxation:

- **Gross Sports Wagering Receipts** = (Player Funded Bets) + (Promotional Funded Bets)
- $\text{AGSWR} = ((\text{Player Funded Bets}) + (\text{Promotional Funded Bets})) - (\text{Payouts to Players}) - (\text{Federal Excise Tax})$

Excluded from the Gross Sports Wagering Receipts, and Deduction for Taxation:

- **Gross Sports Wagering Receipts** = (Player Funded Bets) + (Promotional Funded Bets) – (Promotional Funded Bets)
- $\text{AGSWR} = ((\text{Player Funded Bets}) + (\text{Promotional Funded Bets}) - (\text{Promotional Funded Bets})) - (\text{Payouts to Players}) - (\text{Federal Excise Tax})$

Partial Exclusion From the Gross Sports Wagering Receipts and Partially Deducted for Taxation:

- **Gross Sports Wagering Receipts** = (Player Funded Bets) + (Promotional Funded Bets) – (% of Handle)
- $\text{AGSWR} = ((\text{Player Funded Bets}) + (\text{Promotional Funded Bets}) - (\% \text{ of Handle})) - (\text{Payouts to Players}) - (\text{Federal Excise Tax})$

# Promotional Play Scenarios (For Discussion Only)

## Assumptions for Scenarios of How Treatment of Promotional Play Impacts Taxes

- Handle = \$1,000,000,000
- Player Bets = \$960,000,000
- Promotional Bets = \$40,000,000 (4% of Handle)
- Hold = \$60,000,000 (6% of Handle)
- Partial Deduction for Promotional Play for Taxation Scenario is up to 2.5% of Handle
- Tax Rate of 20% (equal to mobile and digital operators)



# Promotional Play Scenarios (For Discussion Only)

## Scenario 1: Promo Not Deducted

Revenue	Coupons/ Promotional	Handle (player + promo)	Payouts	Hold	Without Promotional Play Deducted (Total Bet-Player Win)	
Player Bet	Promo Bet	Total Bet	Player Win	Hold	Taxable Base	Taxes
960,000,000.00	40,000,000.00	1,000,000,000.00	940,000,000.00	60,000,000.00	60,000,000.00	12,000,000.00
96.000%	4.000%		94.000%	6.000%		

## Scenario 2: Promo Fully Deducted

Revenue	Coupons/ Promotional	Handle (player + promo)	Payouts	Hold	With Promotional Play Deducted (Total Bet-Promo-Player Win)	
Player Bet	Promo Bet	Total Bet	Player Win	Hold	Taxable Base	Taxes
960,000,000.00	40,000,000.00	1,000,000,000.00	940,000,000.00	60,000,000.00	20,000,000.00	4,000,000.00
96.000%	4.000%		94.000%	6.000%		

## Scenario 3: Promo Deducted up to 2.5% of Handle

Revenue	Coupons/ Promotional	Handle (player + promo)	Payouts	Hold	With Partial Promotional Play Deducted (Total Bet-2.5% of Handle-Player Win)	
Player Bet	Promo Bet	Total Bet	Player Win	Hold	Taxable Base	Taxes
960,000,000.00	40,000,000.00	1,000,000,000.00	940,000,000.00	60,000,000.00	35,000,000.00	7,000,000.00
96.000%	4.000%		94.000%	6.000%		



# Interactive Promotional Play Demonstration

- Demonstrate the Discussion Around Promotional Play Minimizing or Eliminating Taxes.
- Demonstrate the Impact of a Theoretical Multiplier for Use of Promotional Play to the Tax Base.



# Carry Forward of Negative AGSWR

c. 23N Section 14b (4) allows an operator to carry negative amounts of Adjusted Gross Sports Wagering Receipts to subsequent months for purposes of calculating taxes:

(4) When an operator's adjusted gross sports wagering receipts for a month is a negative number because the winnings paid to wagerers and excise taxes paid pursuant to federal law exceed the operator's total gross receipts from sports wagering, the commission shall allow the operator to carry over the negative amount to returns filed for subsequent months. The negative amount of adjusted gross sports wagering receipts shall not be carried back to an earlier month and taxes previously received by the commission shall not be refunded unless the operator surrenders its license and the operator's last return reported negative adjusted gross sports wagering receipts.

