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April 10, 2015

The Honorable Orrin Hatch
Chairman, Senate Committee on Finance
SD-219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Ron Wyden
Ranking Member, Senate Committee on Finance
SD-219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Hatch and Ranking Member Wyden:

On behalf of the American Gaming Association (AGA) and its members, I write to thank you for your efforts to pursue bipartisan tax reform, and this opportunity to share our views related to the current tax reform discussions.

The AGA is the premier national trade group representing the $240 billion U.S casino industry, which supports 1.7 million jobs in 40 states. AGA members include commercial and tribal casino operators, suppliers and other entities affiliated with the gaming industry who contribute billions of dollars in tax revenue. It is the mission of the AGA to support the interests of our members in paving a pathway for growth, innovation and reinvestment.

The Casino Gaming is an Economic Powerhouse

The U.S. casino gaming industry supports 1.7 million jobs – more than twice the size of D.C.'s employment base, and provides nearly $74 billion in income for these workers and their families. The industry is also highly capital-intensive, building hotel casinos costing hundreds of millions to billions of dollars and a variety of other gaming facilities, filled with expensive technology equipment. To raise the significant amounts of capital necessary to make these investments, the industry relies heavily on debt financing.

- The U.S. casino gaming industry directly employs more than 730,000 workers who earn a total of nearly $33 billion in wages, benefits, and tips. Average employee salary and benefits total more than $43,000 annually.

- U.S. casinos, including those owned by Native American tribes, generate total revenues of more than $81 billion. Casino gaming revenues – $67 billion – are now at an historic peak.

- Gaming generates more than $38 billion in federal, state and local tax revenues which support public budgets for a range of services including public safety, hospitals and schools, just to name a few.

- American gaming equipment manufacturers, which build the table games, slot machines, and other products and services on the casino floor, produce nearly $6 billion in total revenues.

- The gaming industry generates more than $14 billion in additional consumer spending at restaurants, retail stores, hotels and other businesses.

- Gaming stimulates demand among many other industries across the national supply chain. Considering these added impacts, the gaming industry also creates approximately $60 billion in payments to suppliers, including many local, and $78 billion from gaming employees' spending.

- All together, the casino gaming industry contributes a total of $240 billion to the national economy – roughly equivalent to the total state budgets of New York and Texas combined.

- The casino gaming industry is highly capital-intensive. The cost of constructing a new casino can range from $300 million to several billion dollars, depending on the size of the facility. Ongoing capital spending by ten major gaming companies to maintain their casino facilities is approximately $1.2 billion annually.

- As a highly capital-intensive industry, the gaming industry relies heavily on debt financing to create and support more than 200 different types of jobs. The total outstanding debt of ten major gaming companies is in the range of $47 billion. Interest on that debt is in the range of $3.7 billion annually.[1]

Potential Benefits of Tax Reform

The U.S. casino gaming industry has a high-effective Federal tax rate in comparison to some other industries, because the casino business is essentially a cash-in/cash-out business that does not rely on industry-specific tax preferences. The casino gaming industry also has a very high combined Federal-State tax rate, as States often impose substantial tax – ranging as high as 55 percent -- on gross revenues.

According to a nationwide poll conducted by bipartisan pollsters Mark Mellman and Glen Bolger, voters across the political spectrum view casino gaming more favorably than ever because they recognize that casinos create jobs, strengthens local businesses and benefits communities. Moreover, a majority of American voters believe casinos shouldn't pay more taxes than other businesses.

Accordingly, a reduction in the corporate tax rate financed by a broadening of the tax base through elimination of industry-specific and other tax preferences could be beneficial. However, the casino industry is concerned that the benefits of rate relief could be undermined if a cap on the full deductibility of business interest expense were to be used as one of the revenue offsets.

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1 Deutsche Bank Global Markets Research, 2012 Gaming Almanac.

Business Interest Expense Should Remain Fully Deductible

In the course of the ongoing debate over tax reform, various ideas have been raised for possible new limits on the deductibility of business interest expense. For example, last year the House Ways and Means Chairman's tax reform discussion draft had proposed new limitations on the deductibility of business interest expense of a U.S.-based multinational group. That proposal would limit the business interest expense deductibility where the U.S. parent of a U.S.-based multinational group has a higher debt leverage ratio relative to the foreign members of the group and interest expense is a sizable portion of cash earnings.[2] The Wyden-Coats Bipartisan Tax Fairness and Simplification Act of 2011 takes a different approach, which according to its summary would "index the interest deduction for corporate debt to disallow the part of the deduction that reflects inflation."

AGA strongly urges that business interest expense should remain fully deductible under tax reform for the following reasons:

- Interest is an ordinary cost of running a business, and its deductibility has been a longstanding basic tenant of Federal tax law.

- The casino gaming industry relies on significant debt financing and deploys this capital to generate hundreds of thousands of direct and indirect jobs -- raising the cost of capital by means of an interest deduction cap could undermine that growth objective.

- The casino gaming industry, like other sectors of the hospitality industry, relies on discretionary consumer spending, which is strongly affected by the shifts in the overall economy. An interest deduction cap that is geared to the company's adjusted taxable income could have serious detrimental effects on the company by limiting the interest deduction at a time when the company is experiencing weak earnings or losses during an economic downturn.

- Sound business reasons exist for concentrating the U.S. multinational's borrowing in the U.S.:

    - It is a common practice of U.S.-based multinational groups for the U.S. parent to borrow on behalf of the entire group in order to have "one face" to the capital markets and to draw upon the capacity of the U.S. capital markets;
    - The U.S. has deep, liquid, and regulated financial markets; and
    - The proposed interest deduction cap could come into play even where the bulk of the U.S. parent's borrowing is to finance expansion of the U.S. business operations of the multinational group.

- An interest rate cap could similarly hinder the capital raising necessary for job creation in a broad range of other capital-intensive industries, from manufacturing to energy, which have both domestic operations and operations overseas.

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2 More specifically, U.S. interest expense exceeds 40 percent of the U.S. parent's adjusted taxable income (adding back interest, depreciation and amortization, net operating losses, and the section 199 deduction).

R&D Rules Should Encourage Technological Innovation

The technology in the casino gaming industry is rapidly evolving and becoming increasingly complex. For that reason, our industry – and particularly the gaming equipment manufacturers and suppliers – has a strong interest in the tax rules governing these costly investments in research and development (R&D) activity as it continues to invest millions of dollars in product innovation.

The R&D tax credit is a key tax incentive for gaming equipment manufacturers and suppliers to enable them to continue to invest in the costly development of cutting-edge technologies.

We strongly urge that, as part of fundamental tax reform, the R&D credit be made permanent, to permit long-term R&D planning and investment in reliance upon that incentive. The R&D credit also should continue to apply to R&D related to computer software. Software is one of the most promising areas of American technological innovation, and every effort should be made to encourage development of new and innovative software.

We also are concerned that possible tax reform proposals would eliminate the full current deductibility of R&D expenses as incurred, and instead suggest to amortize R&D expenses over a five-year period.

While we recognize that there can be a theoretical academic discussion over whether R&D spending has some element that is capital in nature and benefits future tax periods, the practical reality is that if the goal is to spur R&D investments that are necessary to achieve a rapid pace of technological innovation, both the deduction and the credit should be aligned to promote such innovation.

Once again, the American Gaming Association appreciates the opportunity to submit comments on these tax reform issues. We look forward to working with you and the Committee on these issues as the tax reform effort proceeds.

Sincerely,

G. Free

Geoff Freeman
President and CEO

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