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Germany - taxes and monetisation

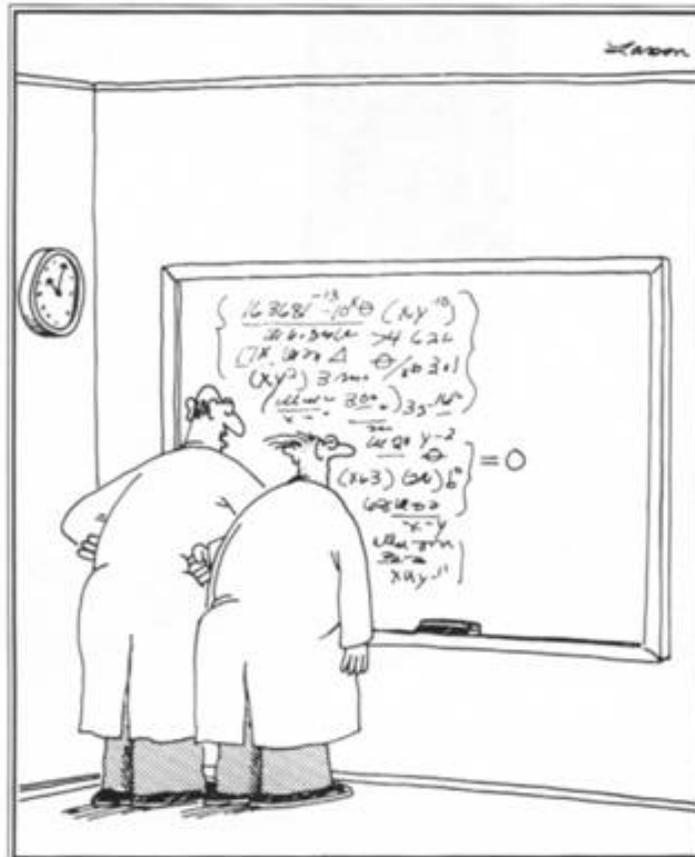
Claus Hambach, LL.M.
Hambach & Hambach Law Firm

Germany - taxes and monetisation panel

- 1) Current gaming taxation in Germany
 - a) Terrestrial Offers
 - b) Online Offers
 - aa) Schleswig-Holstein
 - bb) Other German States
 - c) VAT
 - 2) Remote Gaming in Germany - The (im)possible Future
(Market figures)
 - 3) Recent EU-regulation/taxation
 - a) “French-model”
 - b) “Denmark-model”
- Who will profit from either model?
Impact for Customers, Operators and the State - is there a best practice?

Referee in this contest will be provided by Italy

1) Current gaming taxation in Germany



"No doubt about it, Ellington—we've mathematically expressed the purpose of the universe. God, how I love the thrill of scientific discovery!"

1) Current gaming taxation in Germany

Great variety re tax base and tax-rate

a) Terrestrial Offers

- aa) Casinos: Tax/levy varies between 40-90% of GGR
- bb) Sportsbets + horse racing: 5% on stakes
- cc) Lotteries (state monopoly!): 16.66% on stakes
- dd) Slots outside casinos: 10-22% on GGR or GR + VAT (disputed)

1) Current gaming taxation in Germany

b) Online Offers (excluding online distribution of state lottery)

- aa) Schleswig-Holstein: 20% on GGR on Casino Games incl. Poker
 - parafiscal levy (not a tax)
 - since 8 February 2013 only SH-licence holders
- bb) All German states: 5% on stakes on sportsbetting + horse racing $\geq 50\%$ GGR, if applied in a standard scenario of winnings $\geq 90\%$ of stakes
 - since 1 July 2012: applies for all sportsbetting operators (also unlicensed)
 - between July 2012 and April 2013 approx. 165 Million EUR of tax payments (note: no licenses issued yet!)
 - No relief for eventual international double taxation

1) Current gaming taxation in Germany

b) Online Offers (excluding online distribution of state lottery)

State Aid Dispute:

Different tax rates between online and offline = breach of EU law?

September 2011 landmark decision by European Commission:

- Confirms that Member States are entitled under EU state aid rules to apply lower tax rates to online compared to land-based gambling activities
 - Appeal to the Court of Justice of the European Union (CJEU) by *Dansk Automat Brancheforening* (pending case T-601/11) and *Royal Scandinavian Casino* (pending case T-615/11)
- CJEU might set the scene for a complete overhaul of gaming taxes in Europe

1) Current gaming taxation in Germany

c) VAT

- VAT-Directive: gambling is exempted from VAT
However, EU-States can exercise discretion in this regard
 - Germany charges VAT 19 %
Dispute on tax base re online: Stakes or GGR
GGR is backed up by practice re terrestrial casinos -> GGR
- Operators with a fixed establishment in Germany:
 - Subject to VAT in Germany
 - But: A server does not constitute a fixed establishment in this regard

1) Current gaming taxation in Germany

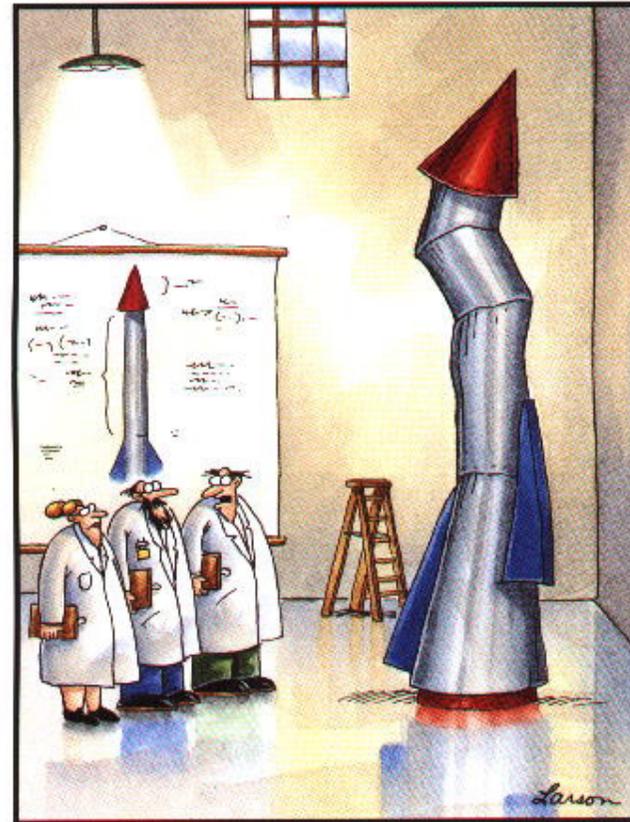
c) VAT

- Licensed and unlicensed operators established within the EU, but outside Germany:
Currently: place of supply = origin principle
From 2015 on: destination principle = place of consumption

→ 2015 VAT will apply in general
 - it will replace the Schleswig-Holstein Gaming duty
 - exemption from VAT for licensed sportsbetting operators according to VAT-Act
- Suppliers operating from a third country (outside EU + Gibraltar) establishment:
Customer location matters (destination principle, Art. 58 VAT-D)
→ liable to VAT in Germany

2) Remote Gaming in Germany – The (im)possible Future

Will the tax model of the
Interstate Treaty on Gambling
(ITG) fly with this tax burden +
without considering casino and
poker?



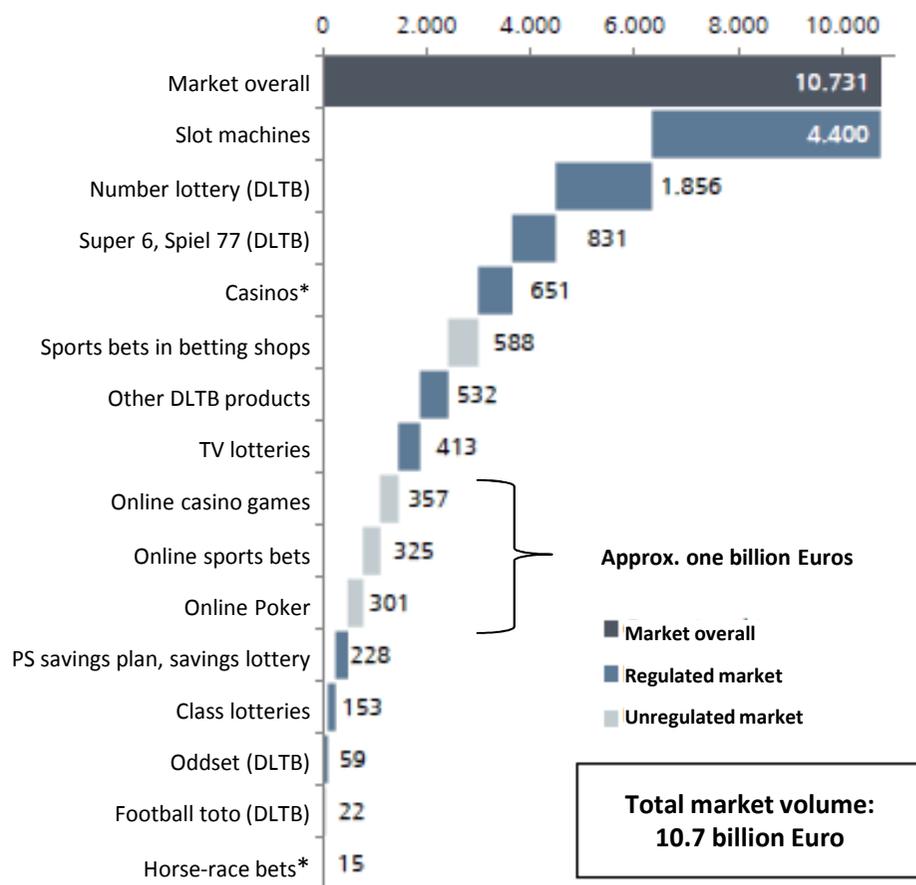
"It's time we face reality, my friends. ...
We're not exactly rocket scientists."

2) Remote Gaming in Germany – The (im)possible Future

July 2013: Publication of extensive Study by Goldmedia:

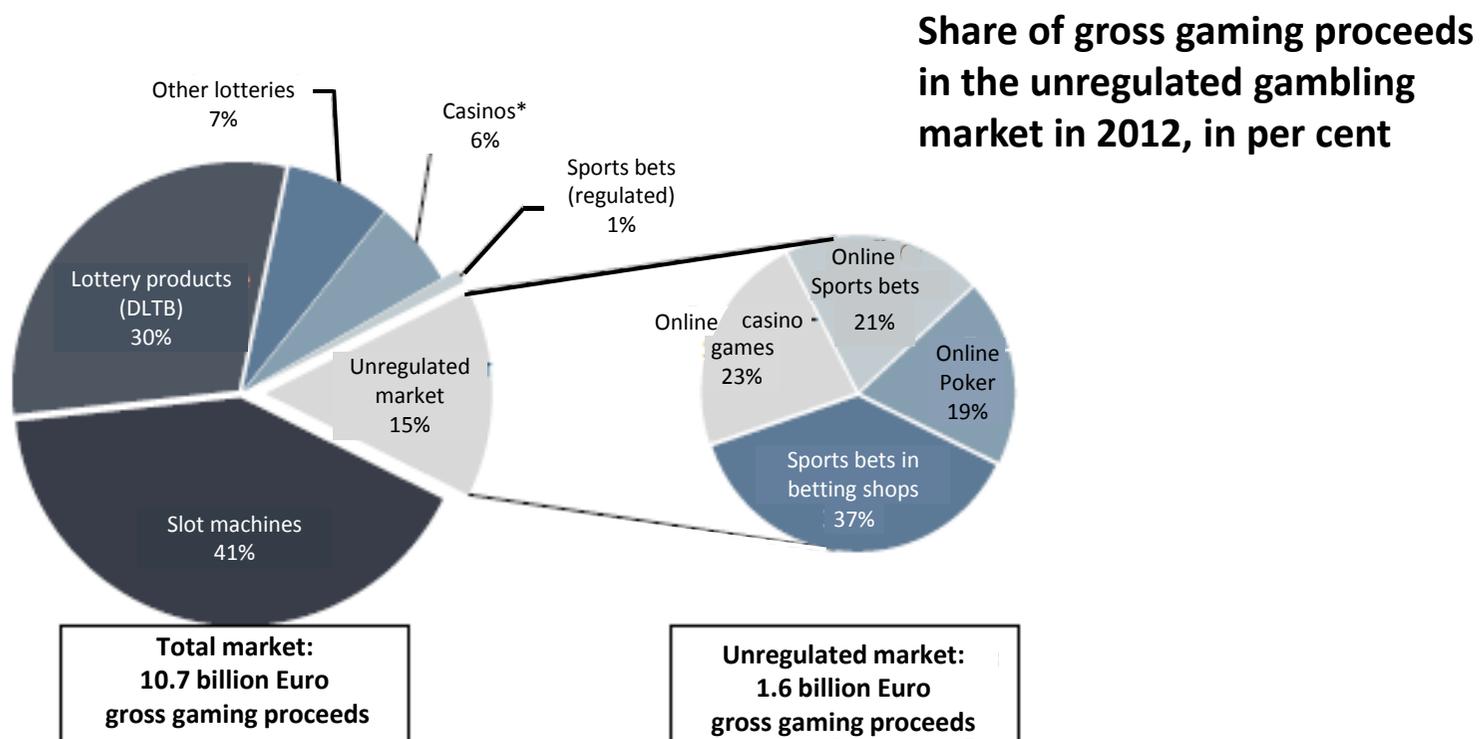
- Likely development of the remote gambling market in Germany
- Considering also the assumption in case the Schleswig-Holstein regulation would be adopted in the rest of Germany
- Study considers the following simple truth: Online grey/black markets can never be suppressed completely by state enforcements!
Therefore, licensed operators will always compete with the grey and black markets

2) Remote Gaming in Germany – The (im)possible Future

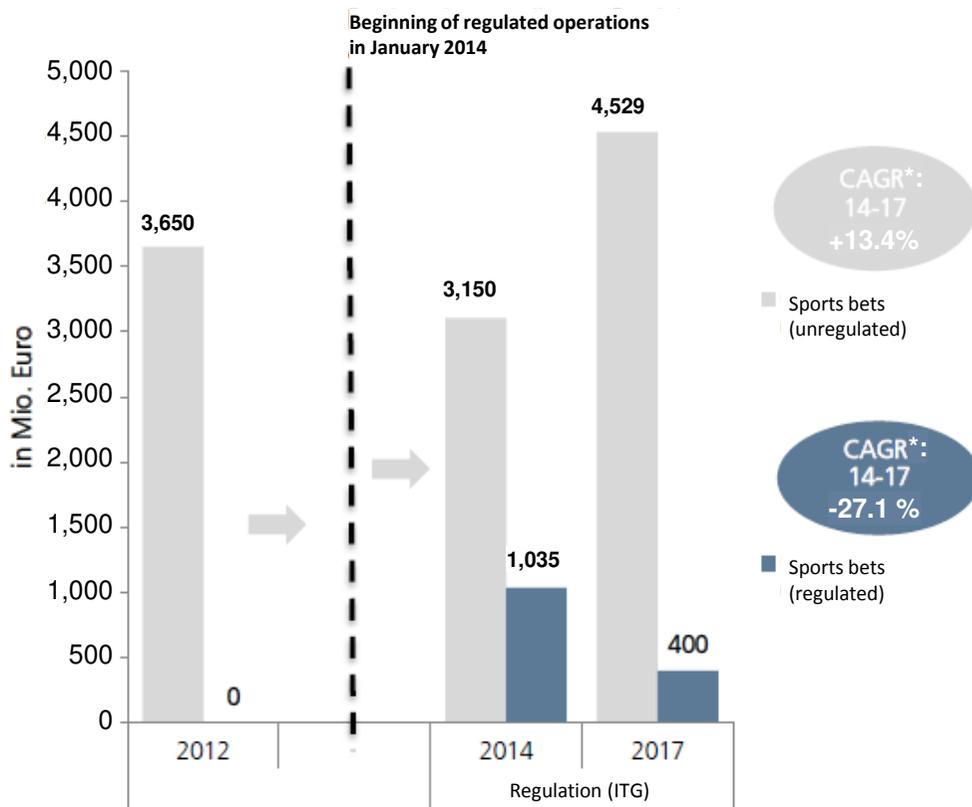


Gross gaming proceeds in the German gambling market in 2012, in million Euro

2) Remote Gaming in Germany – The (im)possible Future



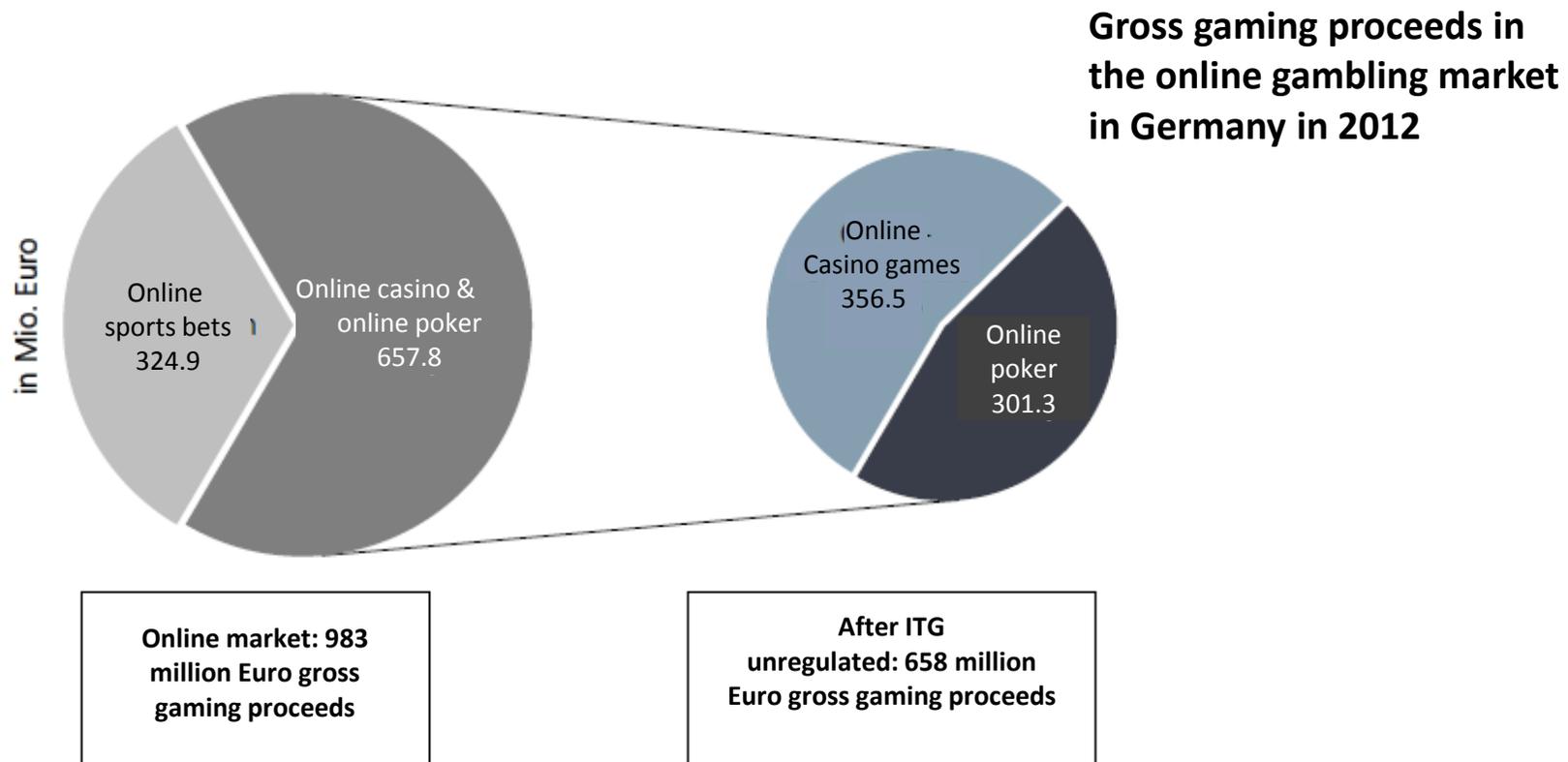
2) Remote Gaming in Germany – The (im)possible Future



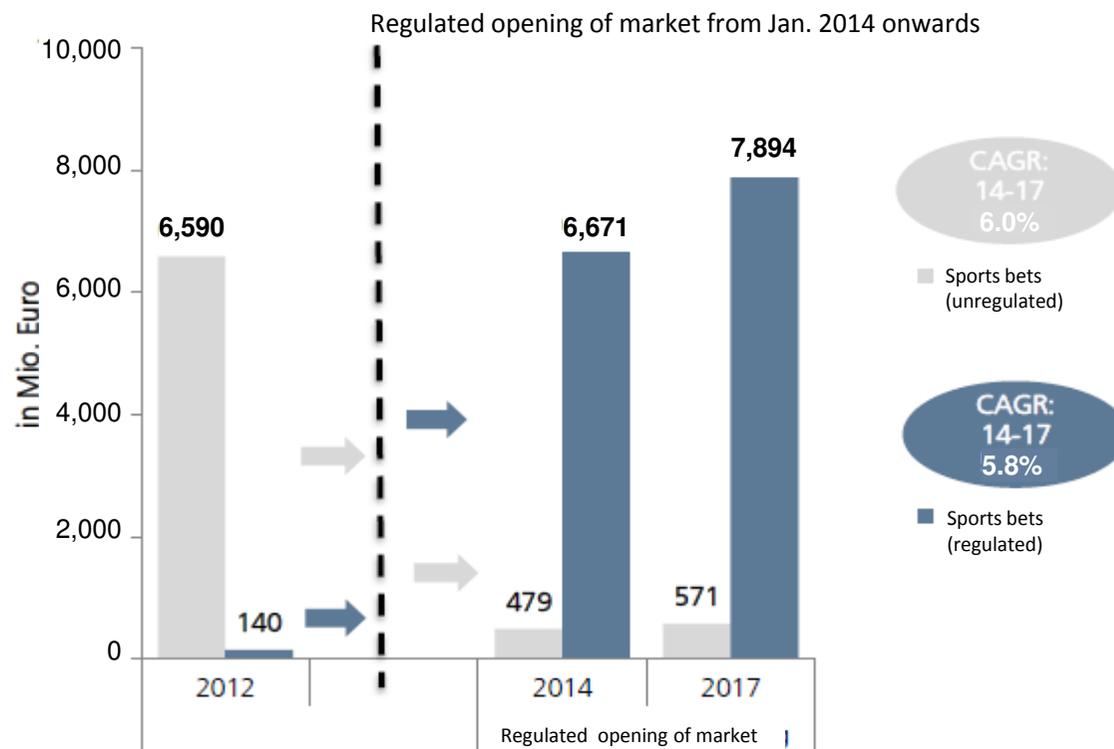
Betting stakes in the online sports betting market under the ITG (Internet Treaty on Gambling) 2012-2017, in million Euro

* Compound Annual Growth Rate

2) Remote Gaming in Germany – The (im)possible Future



2) Remote Gaming in Germany – The (im)possible Future

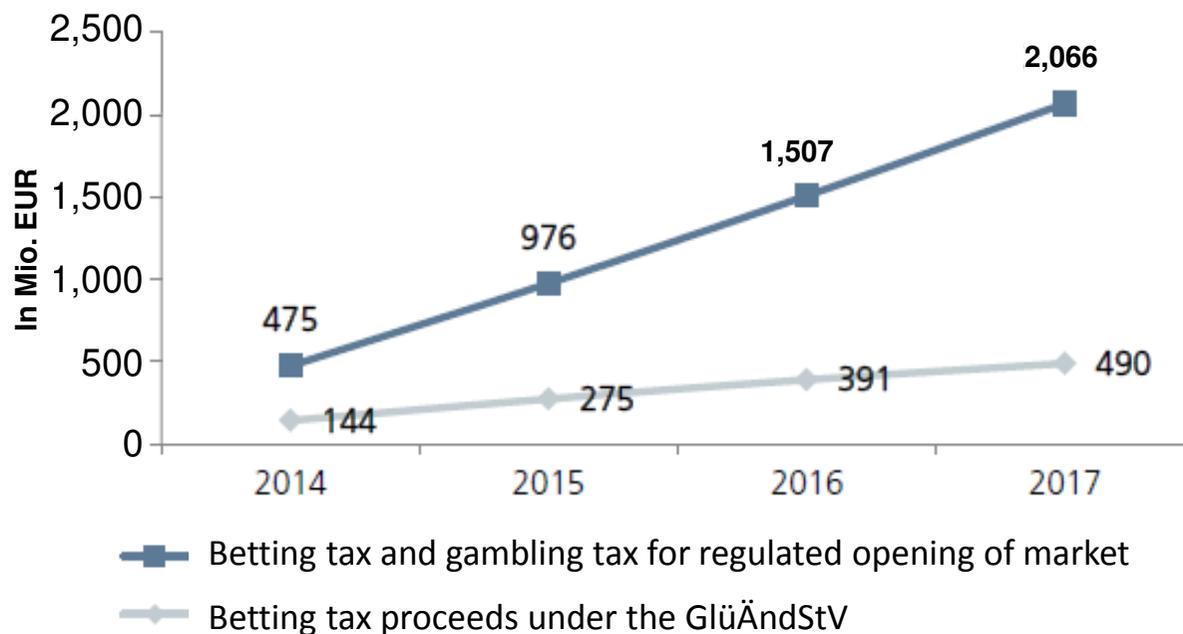


Betting stakes in the sports betting market with regulated opening of market 2012 - 2017, in million Euro

* 2012: Only Oddset (DLTB) turnover. CAGR: Compound Annual Growth Rate. Source: Goldmedia-Prognose, 2013.

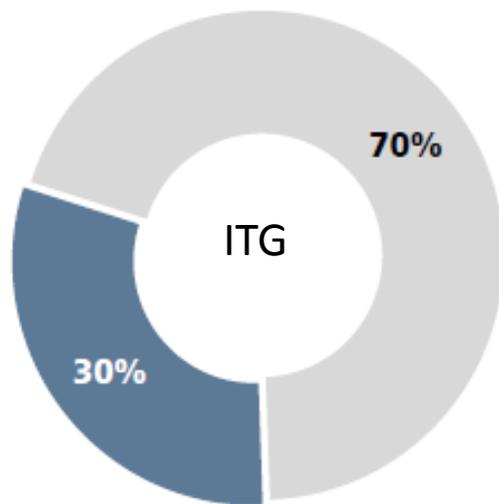
2) Remote Gaming in Germany – The (im)possible Future

Accumulated tax proceeds under the RennwLottG of regulated providers (scenarios A and B) from 2014 onwards, in million Euro

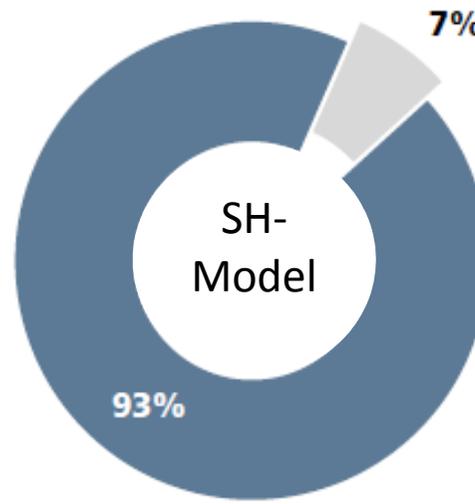


2) Remote Gaming in Germany – The (im)possible Future

Comparison of scenarios (A and B) of the share of regulated offers in the sports betting market in 2017



■ regulated ■ unregulated



■ regulated ■ unregulated

2) Remote Gaming in Germany – The (im)possible Future

→ Is this fate? - Could Germany still get control on the situation?

The answer is....

3) Recent EU-regulation

*...YES, with the correct formula! -
in other words a viable tax system*

- Recent EU regulations = provide laboratory for countries interested in a viable taxation and regulation
- Best practise can still be considered - it is never too late for a change



3) Recent EU-regulation

- General development in remote gaming regulation during past 5 years in EU:
 - Shift from ".com" to ".country"
 - higher remote gaming taxes than the industry had been used to in the past
- EU-countries can mainly be divided in 2 "cultures in legislating":
 - the ones who do NOT seek for a dialog with other EU countries + rely on an (assumed) effective enforcement vs unlicensed operators
typical characteristic: tax base on stakes + relatively high tax rate
 - the ones seeking dialog + understanding of the impact of specific regulations
typical characteristic: tax base GGR and moderate tax rate

Two typical candidates who fit this description:

3) Recent EU-regulation and taxation

First Candidate: France → Tax on stakes: 7.5% on sports bets + 2% on all cash-poker pots

Second Candidate: Denmark → Tax on GGR: 20%

Task: judging if both tax systems are viable

Referee for this contest: Italy

- experience with both tax-models (e.g. poker) + different percentages + recent discussions whether to raise the taxes or not.
- Analysing pros and cons of tax base + rate
- Considering relevant results for customers, operators and the state

3) Recent EU-regulation and taxation

"French Model"

Tax 7.5% on stakes = Germany (5% on stakes)

In France, both the Chairman of the French gambling regulator (ARJEL) and the Comité Consultatif de Jeux have conceded that taxing stakes in sports betting *'does not work'*

- Reduction of licenses: 35 in 2011 → 21 in April 2013
- The French online poker market saw a 13% year-on-year decrease in gross gaming revenues (data: ARJEL)
- Operators recorded €72m in revenues during the first quarter 2013, down from €83m in Q1 2012.
- Constant decrease in the number of registered players online

3) Recent EU-regulation and taxation

"Danish Model"

Tax on GGR amounting to 20% on GGR = SH

- In 2012 the 39 licensed operators in Denmark generated more than DKK 2bn (EUR 268,094,000) in revenue.
- Illegal operations – less than 5 % of the market (Data: SKAT)
- Former Danish monopoly Danske Spil recorded a 13.8% growth in profits for the full-year 2012, despite the liberalisation of the dot.dk market a year prior. Its GGR across online and offline rise 5.5% year-on-year to DKK4.1bn (EUR 549,592,000).

3) Recent EU-regulation and taxation

Judging from the Italian experience:

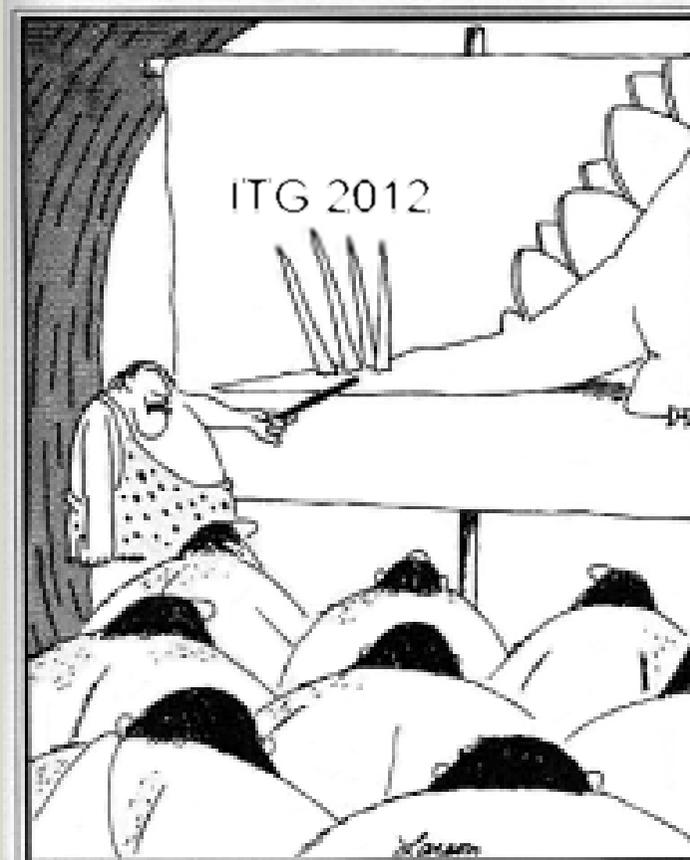
- Can these findings be backed up from the Italian experience in particular re the experience with games “naturally” having a very high RTP such as online poker?
- Can the market coverage mainly be guided by the tax model?
- Will the ring fence on shared liquidity planned by I, F, SP + P adjust the weaknesses of the “French model”?

4) Outlook

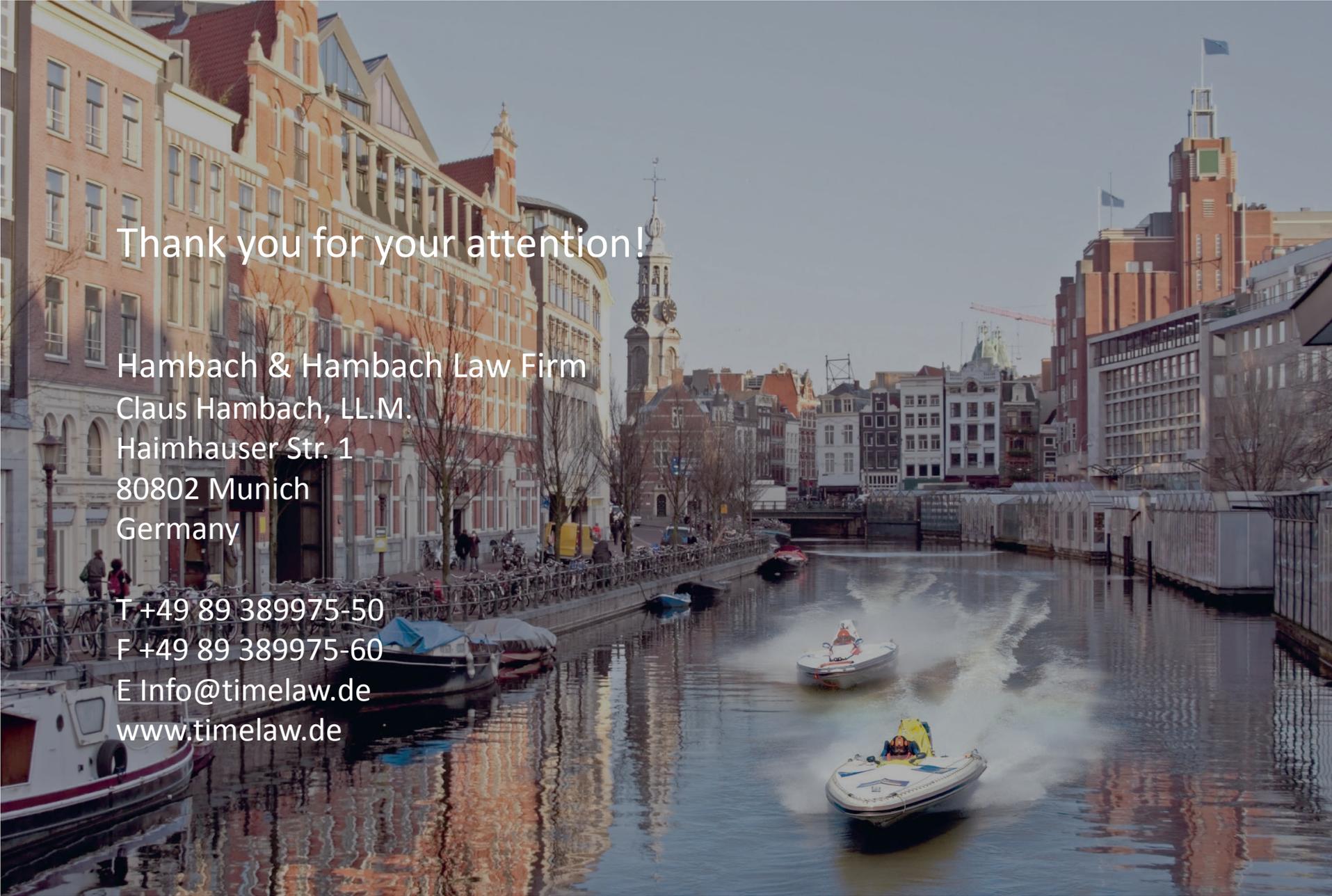
→ It is still not too late for Germany to adopt a viable tax model! The necessary dialog with other regulators has already been made by the former SH-government. The SH-model is waiting....

....otherwise:

4) Outlook



Now this end is called the Germanizer... after the late German gambling market



Thank you for your attention!

Hambach & Hambach Law Firm
Claus Hambach, LL.M.
Haimhauser Str. 1
80802 Munich
Germany

T +49 89 389975-50

F +49 89 389975-60

E Info@timelaw.de

www.timelaw.de

Hambach  Hambach

Law Firm