

Philippines Gaming

Alert: Potential Tax Change Likely Far Less Draconian Than It Seems

The Philippine gaming space was under pressure yesterday regarding a circular filed by the Bureau of Internal Revenue (BIR) in the Philippines ([ftp://ftp.bir.gov.ph/webadmin1/pdf/70320RMC%20No%2033-2013.pdf](http://ftp.bir.gov.ph/webadmin1/pdf/70320RMC%20No%2033-2013.pdf)). However, **based upon our conversations with PAGCOR as well as Bloomberg, we believe that the impact to earnings would only be 2-6% (as a percent of our current out-year EPS estimates) in a worse-case scenario and net neutral assuming the regulators allow the operators to make certain deductions from the taxable income base.**

We believe PAGCOR and the four private gaming license holders are sitting down with the BIR over the next week or so to discuss potential outcomes and what is and is not taxable under the new tax structure.

In short, the circular suggests that the franchisee-related component of the gaming tax (comprising 5% of total Gross Gaming Revenue) applicable to the private gaming license holders in the Philippines could be replaced by a 30% income tax instead (on taxable Gaming earnings). Note, non-gaming earnings are already shielded by a variety of tax holidays (under TIEZA and PEZA, meant to spur tourism-related investment).

While we await some clarity from the BIR, PAGCOR and the license holders, we believe the government is highly supportive of the US\$6bn in CapEx spent/committed for the new integrated gaming developments (as well as objectives to achieve a more than doubling in international visitation by 2016). As such, we do not expect the government will dramatically “move the goal posts in the middle of the game”, which would jeopardize current and future investment in the country. Our sense is that the tax authorities are keen to redefine the franchise-related tax component as income tax (which could be the first step in privatizing/splitting PAGCOR’s regulatory arm from the operational one).

If you recall, last year following Bloomberg’s IPO, concerns around the current tax structure at PAGCOR also spooked investors (see the Senate bill from May 2012 - <http://www.senate.gov.ph/lisdata/1318911070!.pdf>). We also highlighted the risks surrounding the potential changes in the regulatory/tax landscape in our August [initiation](#) on the space (see page 47).

■ Industry Overview

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