Hardly anyone believes a casino operator would pay an effective tax rate of 72 percent to operate a Chicago casino. But how high could the rate be and still attract bidders?

It's a fair question after a financial analysis released Aug. 13 by the Illinois Gaming Board suggested that the much-anticipated gambling house could be dead on arrival because of "onerous" taxes on the facility imposed by state lawmakers—new taxes that would be so high as to make it impossible to finance the project. The consultancy hired by the Lightfoot administration to analyze five potential sites for the casino found that the tax rate for the casino operator would amount to about 72 percent of the gross, not counting certain operating expenses.

That tax rate is far beyond what casinos in other locations typically pay.

Illinois' graduated tax rate on gambling venues already reaches 50 percent. That's not as high as Maryland's 61 percent or Pennsylvania's 54 percent, but close. And those states, unlike Illinois, tax table game revenue at much lower rates, as little as 16 percent.

New York, in contrast, taxes up to 45 percent of machine revenue but only 10 percent of table game revenue, according to the American Gaming Association. Rates in states neighboring Illinois with licensed gambling range from Missouri's 21 percent and Iowa's maximum 22 percent to Indiana's maximum 44 percent.

The 50-page Chicago casino report by consultant Union Gaming (see below) estimated state taxes and licensing fees, plus a 33.3 percent "privilege" tax imposed by Chicago, would total about 72 percent—before a "reconciliation fee" due in three years equal to three-fourths of the casino's highest 12-month revenue period. Taxes are imposed on "adjusted gross receipts," or revenue after winnings have been paid out.

Even Mayor Lori Lightfoot indicates that specs for a Chicago casino included in the gambling expansion bill signed into law in June are unrealistic. The consultant's report said an operator could expect, at most, a 3 percent margin before earnings, taxes and other expenses at one of five proposed sites that did not include a downtown location. (The figure averaged 22.9 percent for six regional casino companies between 2013 and 2018, the Union Gaming study says.)

Tax rates aside, the law has chilled casino operators by tripling the number of authorized gambling positions in the state, threatening diminishing returns.

As it is, the Chicago-northwest Indiana market is the nation's third-largest, trailing only the

obvious leaders Las Vegas and Atlantic City, generating $1.95 billion in gambling-related revenue last year, according to the gaming association.

At the same time, Illinois was the only state last year to suffer a noticeable decline in “commercial casino” spending (down 2.45 percent to $1.37 billion). The lobbying group attributes the slide to competition from video gambling terminals in bars and other locations.

In late June, the CEO of Penn National Gaming, the state’s largest gambling operator, said a Chicago casino “would be a very difficult investment to make.” Other big casino companies have either expressed similar sentiments or not commented.

Nevertheless, in high-tax Maryland and elsewhere, “companies like Cordish and MGM have been willing to invest a lot of money to get a fair return,” says Delaware-based casino consultant Frank Fantini. “The bottom line is, yes, it can be done.”

Wynn Resorts told Bloomberg a just-approved $2.6 billion resort across the Mystic River from Boston could serve as a template for other big-city casinos. However, casino resort taxes in Massachusetts are 25 percent. Las Vegas Sands, another operator specializing in convention-oriented resorts, including an operation in Singapore (which Fantini suggests as a city model for Chicago's aspirations), said it isn’t interested in Chicago, according to Bloomberg.

Tom Swoik, executive director of the Illinois Casino Gaming Association, which represents operators, suggests a remedy. Lower the proposed effective tax rate for a Chicago casino, he argues, by adopting a provision in earlier, stalled gambling-expansion bills; after a graduated tax escalates to a certain threshold, reverse it.

Currently, the tax maxes out at 50 percent (of which the municipal locale receives 5 points) on revenue of more than $200 million. If the top rate were dropped to 40 percent for annual revenue, say, above $500 million, “the state would still get a hell of a lot more than they’re making now,” Swoik contends.

(Illinois generated $462 million last year in gambling-related taxes, compared with Indiana’s $600 million, but, the consultant's report noted, expanded gambling in the Chicago area could cannibalize $260 million of Indiana's casino business by 2024.)

The consultant’s report said a casino at one of Chicago’s proposed sites could generate as much as $806 million annually five years after opening and a downtown spot could produce $1.15 billion. Last year, Rivers Casino in Des Plaines was the top grosser in Illinois, with $442 million in revenue.

Tim Wilmott, the CEO of Penn, which operates casinos in Joliet and Aurora and video gaming outlets, wonders whether punitive tax rates would limit a Chicago casino to slot machines, “because given the labor it takes to run table games and margins associated with table games, I don’t think you can make a profit,” he told Bloomberg.

A Chicago casino without craps? Hard to imagine.

The so-called privilege tax is a substitute for earlier efforts to allow Chicago to own at least a piece of a casino. Lightfoot says she's receptive to changes in the tax structure that the Illinois Gaming Board can recommend over the next 90 days and the Illinois General Assembly could enact in the fall veto session.

Churchill Downs, which owns Arlington International Racecourse and holds a majority stake in Rivers Des Plaines, says it wants to bid on one of six new casino licenses authorized by the gaming law.

A J.P. Morgan analyst suggests Waukegan would be the most likely target for Churchill, which says it doesn't comment on "analyst speculation." The Louisville-based company has signaled it will have more to say on its Illinois plans by the end of the month.

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