



Casinos in Sonora, Mexico: Overview And State Tax for the Provision of Gambling Services And Contests

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ABSTRACT

This research aims to understand the behavior from the state tax perspective with respect to the tax for the provision of gambling and contest services; besides obtaining the perception on the establishment and operation of casinos in Sonora, Mexico; considering that as of March 2015, Sonora is located between the four states with more gambling centers per capita in Mexico and where, in recent years, there has been a proliferation perhaps even excessive thereof.

In the most relevant results, it is perceived that job creation and tax revenues are the main contributions the state of Sonora receives from the casino industry; besides considering that family problems and gambling debts are the main negative impacts, a different behavior between taxes budgeted against taxes actually collected is also reflected.

KEYWORDS : Casinos, State Tax, Gambling Services

INTRODUCTION

By March 2015 the state of Sonora, Mexico runs among the top four states with the largest number of casinos in operation nationwide.

The Federal Gambling and Contest Games Act (Ley Federal de Juegos con Apuesta y Sorteos) (2014) includes the concept of casino, which refers to the establishment in which the types of gambling games consisting of live games, slot machines and remote betting occur, as well as raffles of drawings and symbols or numbers, whether all or only some of these activities are held.

Somehow these places provide fun and recreation for those who visit and therefore, contribute to the economic movement through the creation of jobs, infrastructure and taxes; but also, according to research and statistics from other countries that have a proliferation of casinos, they indicate that negative situations toward society such as prostitution, money laundering, gambling addiction, among the most frequent, are also generated.

In this sense, the interest of this research arises upon learning that Sonora is currently considered as one of the states with more gambling centers per capita in Mexico, where in recent years, there has been an excessive proliferation of such centers and in some cases without meeting location regulatory requirements; such as that said establishments should not be built within two hundred meters from institutions of basic, secondary and higher education, registered places of public worship and the favorable opinion of the State, Municipality or Delegation; reason why some have been suspended permanently or temporarily.

In virtue of the above, a diagnosis is made of the perception of society on the role of the setting and operation of casinos in the state of Sonora, in addition to perceiving the uneven performance of the state tax for the provision of gambling services and contests.

The present study was performed by analyzing the budgeted public finance tax against what was really collected. Regarding the perception of context in the growth of casinos, this was obtained through the application of an exploratory survey to a sample of the population of Hermosillo, Sonora.

LITERATURE REVIEW

Considering the fiscal coordination agreements between the federal and state governments, as of January 1st, 2011, the state tax for the provision of gambling and contest games comes into force, reason why in Article 212-M paragraph 2 of the Law on State Finance (2015) the following is described:

The object of this tax are the activities related to the provision of services involving the realization in the territory of the State of, gambling games, regardless of the name by which they are designated, as well as all activities that require permission pursuant to the Federal Gambling and Contest Games Act and its Regulations, as well as games, contests and raffles in which the prize is obtained by the participant skill, chance or luck, in the use of machines or that in their development use electronic visual images such as numbers, symbols, figures or anything similar. In gambling games are included, those in which bets are only received, captured, crossed or exploited and in the contests in which chance is involved either directly or indirectly. It is considered within the concept of prize that to which the first paragraph of this article refers, all those prizes that before playtime, come from slot machines, which in exchange for a sum of money or tokens paid or prepaid, are awarded by the service provider in cash or by electronic means, such as credit card or debit card, e-wallet or electronic transfer emitted from bank accounts or vouchers redeemable for cash or personal property.

Thus, through this Law on State Finance (2015) the state tax of 6% is set for those service providers that through casinos generate the kind of aforementioned revenues. This tax is based on Article 212-M BIS 2 which describes the following:

This tax is effected at the time the chips, cards, passwords, magnetic strips, electronic devices or the like, used to bet replacing amounts of money, are delivered to the participants and are accepted for this purpose by the person carrying out the game or at the time of participation in the contest.

With that levy, it is intended that this type of service providers properly contribute to finance public spending.

It is important to mention that the activity for the service provided by casinos is also taxed by federal regulations to a levy of 30%, as stated in the Special Tax on Production and Services Act (LIEPS for its Spanish acronym, 2015), according to that indicated in Article 2 section II, paragraph B of said Act. Furthermore, Article 18 of the Act states that for calculating the tax, the value will be considered as the total amounts actually received by the participants for these activities.

The Federal Gambling and Contest Games Act is published for regulation in this area in Mexico, and it was recently updated in November 2014, published in the Parliamentary State Gazette No. 4164-XII, which states that the purpose of the law is divided into four main aspects summarized below:

I. To regulate all kinds of gambling and raffles so that they are carried

out responsibly, safely and safeguarding the fundamental rights of the participants, licensees and operators;

- II. To guarantee the rights of the participants, as well as people in vulnerable situations, especially girls, children, adolescents, young people, and those with mental or psychosocial disabilities and those affected by a gambling addiction;
- III. To establish the basis for a responsible exercise of gambling and to identify their rights and obligations; and
- IV. To establish the bases and limits for the authorization, control, monitoring, inspection and sanction for conduct relating to all types of gambling and raffle games.

Some researchers say it is not easy to determine the social effects of the economic impacts that casinos have on society, because the social cost is difficult to measure; therefore, there are different opinions on how to deal with this interesting activity of social impact. Because it is difficult to separate the economic impact of social influences, for researchers social impacts are considered as the most difficult phenomenon to measure scientifically (Oh, 1999).

In the research titled ¿Casinos en México?, Rueda (2010) points out the following:

[...] the opening of casinos in Mexico, presented in the beginning as an aid to tourism, created diverse opinions [...], even though Mexico has a Law for Gambling and Raffles, they were not contemplated, in spite of their clandestine existence.

In such way, (Walker 2003, 2007), uses a different angle to examine the social costs of “games of chance”:

He suggested that a cost must, by definition, meet the following three criteria to be considered a social cost of the game: (1) the cost has to be social rather than private or personal, (2) the cost must result in a real reduction in social wealth, and (3) the cost has to be exclusive of gambling”.

Studies over the social impact of casino games suggest that this industry has clearly given both positive and negative effects to the local communities and the life of local residents (Tsung, & Shyang 2015).

For instance, (Giacopazzi, Nichols & Stitt 1999) interviewed 128 community leaders in seven new casino jurisdictions in the US and found that 59% of respondents favored the establishment of casinos in their communities, 65% believe that casinos have improved the quality of their lives, and 77% state that the casinos led to positive effects on the economy of their communities.

Meanwhile, (Gonzales, Lyson & Bauer 2007) state that gambling associated to casinos produces improvements in the quality of life in relation to social and economic welfare in indigenous and non-indigenous populations in Arizona and New Mexico.

Casinos allow the attraction of new segments of foreign tourists and retain domestic tourism who travel abroad to attend such establishments. The main beneficiary of the establishment of casinos should be the local community in terms of job creation, income distribution and development of the country (Uquillas, 2011)

The previous literature review allowed to visualize the impact on the touristic sector and also the impact on the social in other contexts; to subsequently apply the survey to residents of Hermosillo, Sonora for their perception.

METHODOLOGY

Public finances were analyzed for the behavior of the income collected against the budgeted state tax for the provision of services of gambling and contest games during fiscal years 2011 to 2015.

For those surveyed, a Likert scale questionnaire structured by multiple-choice questions, divided into four sections and which, at the same time, was applied to a non-probabilistic sample using a convenience sample of 200 people through electronic means. Of those, only 103 responses were obtained in the city of Hermosillo, Sonora, reason why it is considered to be a field research. Data were processed in SPSS statistical software.

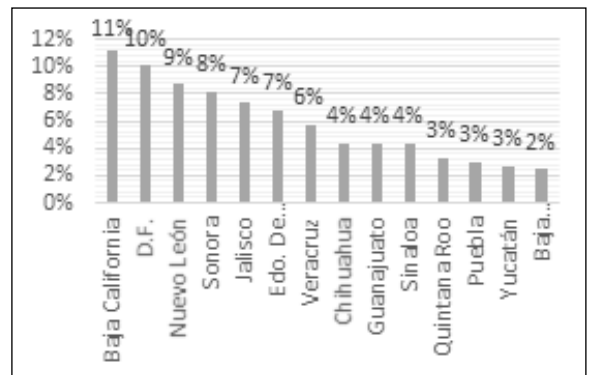
The type of method with which this analysis is performed corresponds to qualitative and quantitative descriptive, with a non-probabilistic and cross-sectional sample.

For such a claim, (Hernández, R, Fernández, C. & Baptista, P. 1997), states that “cross-sectional research designs collect data at one moment, in one time, its purpose is to describe variables and analyze their incidence and interaction at a given time.

RESULTS

In the state of Sonora, there are currently thirty casinos in operation in the different municipalities as it can be observed in the following figure.

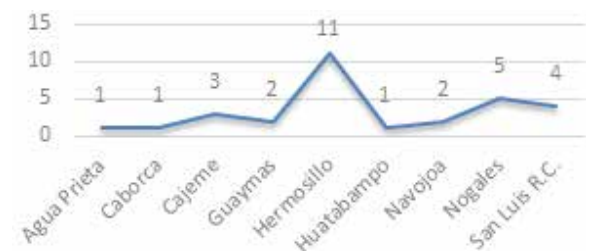
Figure 1: Percentage distribution of casinos by state in Mexico



Author’s creation based on data from the Secretaría de Gobernación México, (SEGOB 2015.march)

Next figure shows the location and distribution of the 30 casinos currently existing in the state of Sonora.

Figure 2: Distribution of the casinos established in the municipalities of Sonora.



Author’s creation based on data published by the Secretaría de Gobernación México (SEGOB 2015)

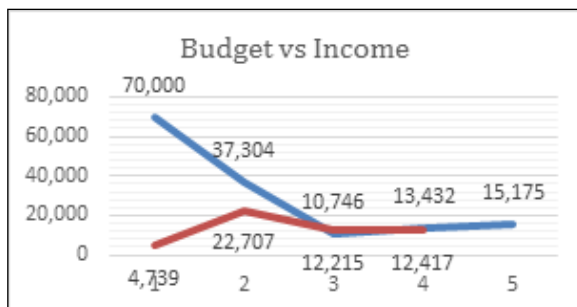
The following table details the performance of the budgeted tax against the actual revenues collected during fiscal years 2011 to 2014 regarding the tax for the provision of services of games of chance and raffles.

Table 1. Behavior of the tax for the provision of games of chance and raffles.

Figures in thousands of pesos		
Fiscal year	budget	revenue
2011	\$70,000	\$4,739
2012	\$37,304	\$22,707
2013	\$10,746	\$12,215
2014	\$13,432	\$12,417
2015	\$15,175	

Figure 3. Comparative graph of the budgeted tax against the revenue collected for the provision of services of games

of chance and raffles.



Source: Author's creation with data from Budget and income published in the annual public account issued by ISAF (Instituto Superior de Fiscalización del Estado de Sonora) of fiscal exercise 2011 to 2015.

Regarding the results of the surveys given to residents of Hermosillo, Sonora; 35% of respondents have occasionally visited the casinos and 46% have not visited them. The rest of the respondents visit casinos on a monthly or weekly basis, or another frequency.

In reference to the perception of respondents over the opening and establishment of casinos in Sonora; 51.5% oppose, 32% are in favor and the rest do not know.

Table 2: Opinions about the opening and establishment of casinos in Sonora

Opinion on opening of casinos	Frequency	Percentage
In favor	33	32.0%
Against	53	51.5%
Does not know	16	15.5%
Total	102	99.0%
Lost	1	1.0%
Total	103	100.0%

Author's creation with processed surveys

Next table details the results regarding respondents' opinion on the suitability of the location of casinos.

Table 3. Opinion on the location of casinos

Casinos location	Frequency	Percentage
Traveller's point	30	29.1%
Outside urban área	19	18.4%
Hotels	34	33.0%
Shopping centers	38	36.9%
Resorts	22	21.4%
Others	6	5.8%

Respondents of this study believe that the creation of jobs and tax revenues are the main contributions received by Sonora from the establishment of casinos; according to the means of 3.14 and 3.02 respectively obtained and displayed in Table 4.

Table 4. Average of answers from perception of contributions by the establishment of casinos in Sonora.

	means
Tourism development	2.37
Creation of infrastructure	2.59
Creation of employment	3.14
Foreign exchange earnings	2.72
Tax collection	3.02
Recreation for locals	2.73

Author's creation from processed surveys.

Shown below are the results of the application of the survey used in this study, whose perception indicates that family problems and gam-

bling debts are the main negative impact of the establishment of casinos, as presented in the following figure.

Table 5. Mean of negative impact perception from the establishment of casinos in Sonora

	Mean
Family problems	3.82
Gambling debt	3.78
Social problems	3.49
Money laundering	3.28
Gambling addiction	3.25
Suicide	2.56
Public insecurity	2.28

Author's creation from processed surveys data

For the analysis between the variables analyzed, bivariate correlations detailed in Table 6 of Pearson correlation were performed. In relation to the independent variables, we found that in each of them there is a positive correlation greater than 0.50; indicating that there is a correlation between variables.

Table 6. Pearson correlation between independent and dependent variables

	Creation of infrastructure	Creation of employment	Foreign exchange earnings	Tax collection	Recreation for locals
Pearson correlation	.736**	.552**	.614**	.526**	.588**
Sig. (bilateral)	.000	.000	.000	.000	.000
N	102	102	102	102	101

** . Correlation is significant at level 0,01 (bilateral).

Author's creation from data obtained and processed in spss

CONCLUSIONS

Regarding the analysis of the financial performance of the state tax, significant variations were observed during the first two years of that tax collection (2011 and 2012), afterwards having a more stable variation between the budgeted amount and the one received from 2013 to 2015. However, there is no consistency between the budget during the mentioned years and the gradual growth in the establishment of casinos.

The opening of casinos in Sonora has generated controversy; but what is a fact is that it automatically benefits the local economy as well as becoming a recreational option for tourists visiting the state of Sonora; not only for local residents.

The normative analysis also reveals that after so many years, this activity was regularized by updating the Federal Gambling and Contest Games Act, avoiding to continue illegally running casinos and dictating the regulating conditions for the operation in this matter; also impacting tax collection.

The perception obtained from this research conducted through the use of surveys is shown in the most important results; reflecting that respondents perceive that the creation of jobs and tax revenues are the main contributions received by the state of Sonora for the establishment of casinos; besides considering that family problems and gambling debts are the main negative impacts.

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