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Electronic Filing Ready for Gambling Reports, Taxes

By Charles S. Johnson

It's taken 13 years, but the state Gambling Control Division is finally putting into place a voluntary system for owners of an estimated 18,000 video keno and poker machines to file their reports and pay their taxes electronically.

It's been a long, convoluted journey, with lots of twists and turns, including some industry resistance, legislative opposition and lawsuits.

Both state regulators and some gambling businesses have been part of a program to test the new electronic system. After what officials called a successful pilot project, the system will be widely available for use Jan. 1.

What triggered this slow move away from paper toward electronic filing was a 1994 legislative audit. The auditors said they could not determine with certainty whether the taxes paid by machine owners under the paper system were correct.

The division has been trying ever since to get an electronic system in place.

Montana's current system is a paper jungle. Machine owners must file quarterly reports on how much money was paid into each gambling machine in bets, minus the total winnings or payouts, to calculate their gross income. Their taxes are 15 percent of gross income. To do so, they must read meters inside each machine and file quarterly reports.

That amounts to about 72,000 paper reports a year, plus backup data, sent to the state.

"We have way too many errors, but nothing that was evident that people were underpaying their taxes," said Gene Huntington, administrator of the Gambling Control Division in the Justice Department.

A study by BearingPoint, a national consulting firm, found that more machine owners were overpaying their taxes than underpaying them under the paper system, he said.

Either way, lots of money is at stake. In the fiscal year that ended June 30, owners reported that their machines generated \$404.4 million in gross income after the paying out winnings. Montana collected \$60.7 million in gambling machine taxes for in fiscal 2007, up from \$56.9 million last year.

Huntington said an electronic system offers many advantages for the state and for machine owners besides reducing paperwork.

"I think everyone benefits from having better accounting and controls," he said.

Machine owners can type the meter readings from their video gambling machines onto a page on the state's Web site and transmit the information electronically to Helena.

Or they can buy one of two commercially available software systems to handle much of the work.

These systems are intended mainly for route operators — the businesses that own about 70 percent of the gambling machines in the state and lease them to casinos and taverns in exchange for a split of the proceeds.

As route operators service their machines, they record the statistics on handheld devices that cannot be altered, automatically enter them into their software systems and file reports electronically with the state. They also can pay their taxes electronically, just like people who do their banking online.

Huntington said some other advantages include:

- Allowing for paperless licensing for the combined applications for gambling and liquor licenses. Although those seeking applications would still file them on paper, the state would electronically scan them into the system so both the Justice and Revenue departments could work on them electronically and simultaneously.
- Integrating with state government's accounting system.
- Providing a mailing system that can be used, for example, to automatically notify people holding card dealer licenses to renew their annual licenses.
- Making it easier to obtain gambling machine permits.
- Creating a powerful database for the state to analyze statistics and crank out reports.

From April through June, four businesses owning 2,000 gambling machines participated in a test program to file electronically.

“I think it’s working really well,” said Thom (pronounced Tom) Propp, vice president of Fleetwood Gaming of Billings, a major route operator. “It certainly created some great efficiencies with respect to our machine operations in that each machine has to be permitted to operate in the state. We can access the state Web site for a license in a manner of minutes versus days.”

Propp said the system the state has adopted is more timely and reduces paperwork.

Rolland Leitheiser, owner of Big City Amusement, a small route operator business in Great Falls, also praised the effort, saying, “they’re slowly getting the bugs worked out” to make it easier to operate.

“It works relatively well,” he said. “It’s a little more of a pain to do it weekly or biweekly (than quarterly). It saves paper.”

It isn’t cost effective for his business, with only 15 machines, to invest in the software system, he said, so he has to manually enter the numbers.

It took three legislative sessions to pass a law for an electronic reporting system.

Some gambling machine owners fought the mandatory “dial-up” system, saying it was too expansive and too invasive of their businesses. Lawmakers killed dial-up bills in 1995 and 1997.

Under dial-up, each video gambling machine or series of machines would have had a computer modem inside. The state could have dialed up each machine to gather the statistics and determine the taxes.

The division abandoned the mandatory dial-up plan and passed a law in 1999 for voluntary electronic reporting.

However, it couldn’t find a vendor to provide a software solution until a Reno, Nev., company, LGS, owned by Steve Urie, finally won the \$900,000 contract — but never delivered it. The state sued him, he countersued, and his company filed for bankruptcy.

A turning point came in the 2004 BearingPoint study, Huntington said. Because route operators make up such a large share of the business in Montana, consultants recommended concentrating on implementing an Internet-based filing system for them and large independent operators who owned at least 16 video gambling machines.

BearingPoint suggested that letting the 315 gambling operators with 15 or fewer machines to continue to file by paper.

It also recommended developing an enhanced database for the division. It spent \$1 million to buy GenTax software from Fast

Enterprises. It’s the same system used by the Montana Department of Revenue after its disastrous and costly experience with its POINTS software from Unisys.