

# Vliv dodatku k zákonu o loteriích na financování sportu

## Influence of the amendment of the Lotteries Act on financing sport

Tomáš Ruda, Michaela Rudová, Jan Šíma

*Faculty of Physical Education and Sport, Charles University in Prague  
Fakulta tělesné výchovy a sportu, Univerzita Karlova, Praha*

### **Abstract**

*Contents of this contribution are analysis of changes in financing sport caused by the amendment of the Lottery Act and comparison of condition of sport funding before and after the amendment had enter into force.*

*The literature review was used for comparison of the amendments of the Lotteries Act.*

*Act No. 458/2011 Coll. on changes to acts relating to the establishment of a single collection point has among others amended also Act No. 202/1990 Coll. on lotteries and other similar games, as amended in the name of the effort for better regulation of gambling.*

*Lottery companies were exempt from corporate income tax (profit tax) and they are liable to donate part of their income to public interest purposes. The amounts paid by the lottery companies to public interest purposes varied depending on amount of income, ranging from 6 % to 20 %. The Amendment unified the lottery companies' donation to public interest purposes at 20% for all operators without distinction. Unification appears to be a tool for ensuring the same conditions for all lottery operators. However, this amendment had great impact especially on smaller companies in this field, having essentially no effect on the major players, who had already been paying the 20% donation before the amendment. The real result is therefore elimination of smaller lottery companies and reinforcement of the influence of the large ones.*

*The final result is overall decrease in contributions to public interest purposes, which therefore creates a gap in financing Czech sports. An adequate substitute for the loss of contributions to sport, caused by the gradual elimination of small lottery companies, has not been implemented as of yet.*

### **Abstrakt**

*Obsahem tohoto příspěvku je analýza změn ve financování sportu způsobená dodatkem k zákonu o loteriích a srovnání podmínek financování sportu před a po vstoupení dodatku v platnost.*

*Analýza literatury byla použita pro srovnání dodatků zákona o loteriích.*

*Zákon č. 458/2011 Sb. o změně zákonů související se zřízením jednoho inkasního místa kromě jiného změnil i Zákon č. 202/1990 Sb. o loteriích a jiných podobných hrách v platném znění ve jménu úsilí o lepší regulaci sázení.*

*Loterijní společnosti byly osvobozeny od povinnosti platit daň ze zisku společnosti (daň ze zisku) a jsou povinny darovat část svého příjmu na veřejně prospěšné účely. Částky placené loterijními společnostmi na veřejně prospěšné účely se lišily v závislosti na výši příjmu od 6 % do 20 %. Dodatek k zákonu sjednotil dary loterijních společností na veřejně prospěšné účely na 20 % pro všechny provozovatele bez rozdílu. Unifikace se jeví jako nástroj k zajištění stejných podmínek pro všechny provozovatele loterií. Těto dodatek má však velký dopad zejména na menší společnosti v tomto oboru, a přitom v podstatě nemá účinek na velké hráče, kteří platili dary ve výši 20 % už před změnou. Skutečným důsledkem je tedy eliminace menších loterijních společností a posílení vlivu velkých.*

*Konečným výsledkem je celkový pokles v příspěvcích na veřejně prospěšné účely, čímž vzniká deficit ve financování českého sportu. Adekvátní náhrada za ztrátu příspěvků na sport způsobenou postupnou eliminací malých loterijních společností nebyla dosud realizována.*

**Key words:** *lottery, financing sport, public interest purpose.*

**Klíčová slova:** *loterie, financování sportu, veřejně prospěšné účely.*

*The article was written in the framework of the scientific branch development program UK FTVS n. 39 Social-Sciences Aspects of Human Movement Studies. The research was conducted in the framework of a UK FTVS Praha research goal SVV – 2014 – 260 116. The Grant Agency of Charles University supported this research; project 575612 Standardization of the questionnaire SERVQUAL, measuring the quality of sport and physical education services in institutions dealing with the preschool education in the Czech Republic.*

## INTRODUCTION

Financing sport, mainly financing sporting non-profit organizations, has been a highly discussed topic. One of the traditional ways of financing is support resulting from lottery revenues and other betting games. Legislation in the Czech Republic is, concerning this field, controlled by Act nr. 202/1990 Coll., on lotteries and other similar games (hereinafter referred to as the Lotteries Act). Views on lottery games are not unified. Lottery games are partly considered non-ethical or morally inappropriate. However, another group considers this area appropriate owing to the fact that such an act keeps gamers busy and also brings high contributions to state, regional and communal budgets. Whatever the view on these games is, it is certain that for a specific population group they are essential. Lorenz and Shuttlesworth (1983) estimate that 7% of the population are pathological gamers who will play lottery games under any conditions. History itself reveals that when gambling was banned illegal gambling rooms always became popular. Moscrop (2011) claims that pathological gaming can neither be cured nor rooted out and the only possibility is to socially adapt to it, this is the reason why gambling has been regulated all over the world and to some extent even supported. The ethical point of view itself is numbed if at least a portion of resources generated by the lottery market are used for public benefit. Undoubtedly, sport is a publicly beneficial activity.

Considering the fact that gambling and lottery cause a lot of problems in those areas where they operate, lotteries must necessarily be properly regulated. On the grounds of the dynamic development of technologies, lobbying, and media pressure, the Lotteries Act itself is constantly being amended. This article focuses mainly on a substantial change that occurred as a result of changes made by act nr. 458/2011 Coll., on changes to the act relating to the establishment of a single collection point and other changes to tax and insurance acts. This amendment implemented crucial changes to the system of lottery companies' compulsory payments to publicly beneficial activities; which highly influenced the composition of finance designated for the development of sport in the Czech Republic.

If the funding of sport in the Czech Republic is considered, then KPMG International (2012) says that 69% of the money that comes from public funding to sport clubs is from community budgets. Community budgets are places where the money from lottery companies goes directly and could be reallocated to sport organizations. Considering the financial situation in the Czech sport clubs, it is necessary to follow the changes in the Lottery Act in the Czech Republic.

The Czech Republic falls into the group of countries where there is no lottery area controlled centrally (along with Great Britain, Italy and Slovenia). KPMG International (2012) states that those countries invest 1–5 euros a year per person in sport. Only Great Britain invests approximately 8 euros. Great Britain is a very good example because they support pure competition in the area of sport and there is no major corruption in this area.

In 2011, the Czech Republic had 119 registered companies in the lottery area. During 2012, the number of companies decreased to 104 and the next year decreased further to 75. The forecast for 2014 estimates a decrease to 70 companies (Ministry of Finance of the Czech Republic, 2014).

This study aims at comparing the Lotteries Act before and after the amendment effective January 1<sup>st</sup>, 2012 and sets key areas in this problematic relation between the lottery market and sport area.

## METHODS

This study uses the descriptive analysis of legislative character secondary data method. Another stage used the method of synthesis when, from partial information stated in the Lotteries Act, there were several areas that were substantially changed by the amendment. Based on these data the impact of the Lotteries Act was determined after the above-mentioned amendment on lottery companies, or rather sport organizations.

## RESULTS

The adjustment of the Lotteries Law that became effective on January 1<sup>st</sup> 2012 can be divided into six areas: the area of corporate income tax (Czech law defines the corporate income tax which is very similar to profit tax in other countries; further in the text the term income tax will be used), other changes in taxation of lottery companies, canceling publicly beneficial uses, regulation of video lottery terminals and other technical equipment, sport support and the area of canceling administrative fees.

### *Corporate income tax*

Lottery companies had not been obliged to pay corporate income tax until 2011, however, as compensation they paid (after subtraction of administrative and local fees and government control fees) a part of their revenues to publicly beneficial purposes. Corporate income tax of natural and legal persons is regulated by act 586/1992 Coll., on income taxes as amended effective January 1<sup>st</sup> 2012 (hereinafter referred to as Income Tax Act). The Income Tax Act in regulation § 21 states that legal persons are obliged to pay income tax of 19%. This type of income is defined as another income.

### *Changes in taxation*

Regulation § 41 of the Lotteries Act orders gambling operators to pay a contribution from lotteries and other similar games. The base of contribution is set as the sum of all bet sums minus the sum of all paid wins. Since January 1<sup>st</sup> 2012 the amount of contribution for lotteries and similar games has been set at 20% according to regulation § 41c. In comparison with 2011 it means that a progressive tax of 6 to 20% (depending on earnings) has been unified for all companies and all types of similar games. A fee of 55 CZK for each day of operation for slot machines has also been implemented.

### *Canceling publicly beneficial purposes*

The amendment canceled the possibility of operators to choose an area of publicly beneficial purposes to which they could transfer paid amounts. Financial offices now distribute funds where 20% go to the state budget and 80% to community budgets in the case of slot machines. Other lotteries and games pay 70% to the state budget and 30% to community budgets.

### *Regulation of video lottery terminals*

According to regulation § 43 of the Lotteries Act, municipalities can cancel licenses for operating all slot machines in their area. Moreover, municipalities can regulate slot machines via communal regulation and can also set an arbitrary fee per machine.

### *Sport support*

Each community can now decide to which purpose money from gambling will be used. Municipalities themselves decide if they use the money for sport or for different purposes, such as new pavements, parks, etc.

### *Canceling administrative fees*

Administrative fees (1000–5000 CZK per year) were canceled by the amendment and replaced by a fixed fee of 55 CZK for each machine per day. The amount is paid for every day a machine is in operation in the community area.

## **DISCUSSION**

The lottery industry has, after the above-mentioned amendment, become an area where lottery companies are taxed twice. Lottery companies must pay 20% from the partial base of transfer and if they still earn some money they must pay 19% as income tax. This fact will lead companies to show fictional wins that are subtracted from the partial base of tax and will lead some companies to a shadow economy in order to be able to function in the market. The net corporate income of companies in the lottery business in the Czech Republic has decreased from 31,1 billion CZK in 2011 to 28,6 billion CZK in 2013 (Ministry of Finance of the Czech Republic, 2011, 2012 a 2013).

Unification of the rate seems like a tool that offers all lottery operators the same conditions. However, canceling the progressive transfer from the partial tax base will eventually lead to the death of medium-sized businesses that operate in the lottery market. The reason for this conclusion is the fact that this adjustment has a greater impact on smaller companies operating in this sphere. The amendment had no influence on larger companies in the lottery market such as Synot or SAZKA that already paid 20% (Ministry of Finance of the Czech Republic, 2011). Therefore the real result is the liquidation of smaller lottery companies and reinforcing the influence of the large ones. This statement is supported by the decrease in the number of companies running lotteries and gambling in the Czech Republic. The number of companies dropped from 119 to 75. Only 13 of those were companies that were owned by people who stayed in the business and all of those were companies with a turnover lower than 50 million Czech crowns. No new companies have entered the lottery industry since 2010 (Ministry of Finance of the Czech Republic, 2010).

Canceling the possibility of transferring money to public purposes has two sides. The first one is disabling money transfer to non-profit organizations such as “Yacht Club” that was operated by owners of lottery companies, whereas on the other side most of the money was used both in culture and sport. A large amount of sport groups relied on the responsiveness of small and medium business that supported sport on the regional level.

Sport support itself is, especially in smaller municipalities up to ten thousand inhabitants, very endangered. The community possibility to choose brings a risk that smaller teams will not be able to survive without community funding, mainly because those teams travel hundreds or thousand kilometers annually to matches or other sporting events outside their residence and they are fully dependent on community contributions.

Higher community authority is often based on the idea of decreasing criminality in the community. The question is whether this will really occur or if a situation similar to the state of Ohio in the United States of America where canceling a gaming place did not lead to decreasing criminality but to its relocation to other places (Culleton, 1985). This is also an area that should be examined in the long-term.

## **CONCLUSION**

Gambling has always been a controversial topic that divides the population into two groups. The first fully rejects it and the second tries to find solutions how it could function in the world.

Psychological research show that pathological gaming cannot be fully cured and if gambling is banned these gamers always find an alternative. Therefore it is recommended to permit gambling but only if regulated by the state.

The amendment effective from January 1<sup>st</sup> 2012 is working, however, it is causing many inconveniences for smaller and medium businesses that have been affected by transfer regulations. The number of companies in the lottery business decreased by approximately 37%, mostly companies with turnover under 50 million CZK. Simply said, the legislation adjustment creates an oligopolistic position of big companies by an artificial means.

Considering that 69% of the money that sport organizations receive is from municipalities' budgets, the amendment of the Lotteries Act represents a major risk for sport organizations that are to some extent dependent on financial contributions from municipalities. They can currently use the financial means from the lottery area as they please.

## References

- Culleton R. A. (1985) Survey of Pathological Gamblers in the State of Ohio. Philadelphia, *Transition Planning Associates*, p. 11–23.
- KPMG International. (2012). *Financování sportu v ČR*, p. 4.
- Lorenz V. C., Shuttlesworth D. E. (1983) The impact of pathological gambling on the spouse of the gambler. *J Community Psychol*, vol. 11: p. 67–76.
- Ministry of Finance of the Czech Republic. *Seznam provozovatelů* [online]. 2010. last revision 5. 5. 2014 [cit. 2014-12.5.] available from: <<http://www.mfcr.cz/cs/soukromy-sektor/regulace/loterie-a-sazkove-hry/seznam-provozovatelu/2009/seznam-provozovatelu-loterii-8508>>
- Ministry of Finance of the Czech Republic. *Přehled vyúčtování prostředků na veřejně prospěšné účely za rok 2011* [online]. 2011. last revision 5.5.2014 [cit. 2014-12.5.] available from: <<http://www.mfcr.cz/cs/soukromy-sektor/monitoring/vysledky-z-provozovani-loterii/2011/prehled-vyuctovani-prostredku-2011-2859>>
- Ministry of Finance of the Czech Republic. *Přehled výsledků z provozování loterií a jiných podobných her za roky 2008–2012* [online]. 2012. last revision 5. 5. 2014 [cit. 2014-12.5.] available from: <<http://www.mfcr.cz/cs/soukromy-sektor/monitoring/vysledky-z-provozovani-loterii/2012/komentar-vysledky-loterie-hry-2012-13354>>
- Ministry of Finance of the Czech Republic. *Hodnocení a přehled výsledků provozování loterií a jiných podobných her za rok 2013* [online]. 2013. last revision 5. 5. 2014 [cit. 2014-12.5.] available from: <<http://www.mfcr.cz/cs/soukromy-sektor/monitoring/vysledky-z-provozovani-loterii/2013/hodnoceni-vysledku-provozovani-loterii-18429>>
- Ministry of Finance of the Czech Republic. *Seznam provozovatelů* [online]. 2014. last revision 5. 5. 2014 [cit. 2014-12.5.] available from: <<http://www.mfcr.cz/cs/soukromy-sektor/regulace/loterie-a-sazkove-hry/seznam-provozovatelu>>.
- Moscrop, A. (2011). Medicalisation, morality, and addiction: Why we should be wary of problem gamblers in primary care. *British Journal of General Practice* vol. 61, p. e836-e838.
- Zákon č. 202/1990: O loteriích a jiných podobných hrách. In: *Sbírka zákonů*. 1990.
- Zákon č. 565/1990: O místních poplatcích. In: *Sbírka zákonů*. 1990, v účinném znění k 1. 1. 2012.
- Zákon č. 565/1990: O místních poplatcích. In: *Sbírka zákonů*. 1990, v účinném znění k 1. 1. 2008
- Zákon č. 586/1992: O daních z příjmů. In: *Sbírka zákonů*. 1992, v účinném znění k 1. 1. 2012.
- Zákon č. 115/2000: O sportu. In: *Sbírka zákonů*. 2000, účinném znění k 16. 6. 2010.