

INTELLECTUAL OUTPUT 4

Case Study IO4- Macroeconomic

iGaming in Malta: a rol model

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1. Summary

Malta, positioned in the centre of the Mediterranean, is the smallest EU member state. This country has sought to diversify its economy beyond tourism by developing and promoting a variety of sectors and activities. Among them, the iGaming or Online Game consists of using the internet of betting money or some other value on the outcome of an event or a game.

Today, online gaming represents nearly 13% of the Maltese economy, generating €700 million and employing around 6,500 people. The island is the place of origin of regulated online gaming and, nowhere, has taken off as rapidly and been as quickly embraced as it has in Malta. The Malta Gaming Authority regulates the local remote and land-based gaming industry.

This case study examines the reasons for Malta's success in the online gaming industry, if strengths are exportable to other European territories, and if Melilla can also become the headquarters of these companies after the Brexit.

2. Introduction

Being a member of the Commonwealth, also belonging to the EU since 2004 and part of the Schengen Area since 2007 have facilitated Malta with extensive freedom of trade and movement of persons.

Other reasons further strengthen the decision for other European people, and from other parts of the world, to come and work in Malta: the World Risk Report, (2018) named Malta as the world's second safest country, has a top-ranked healthcare system, excellent flight connections to Europe and the majority of locals are fluent English language (official language) owing to its time as a British colony. The growth of the gaming industry in Malta is undeniable. Malta was the first EU nation to regulate remote gaming and has offered a unique and favourable strategy to the gaming and gambling industry. The reputation associated together with the favourable licence fee & costs and gaming tax regime, without a doubt, continues to make a jurisdiction of choice for gaming services/operations of initial establishment for most operators within the industry.

The revolution of the internet and smartphones are perhaps the essential factors to thank for the rapid growth of the iGaming industry in recent years.

A. Malta

Malta's economic and political stability, together with a regulator who adopts a hands-on approach, make it a destination of choice for the iGaming industry.

The main characteristics are: experienced & reputable regulator; attractive tax regime for both companies and individuals; well-regulated remote gaming jurisdiction which safeguards the interests of both operators and players; an extensive network of double tax treaties; established and well-regulated financial services institutions; excellent telecommunication infrastructure; top business support services specialised in the gaming industry; political and economic stability and a safe, secure and pleasant lifestyle.

The Maltese archipelago has successfully established itself as the hub of the iGaming sector thanks to the innovative and robust Remote Gaming Regulations which were put in place in 2004, which placed Malta as the first member state of the European Union to regulate remote gaming.

These regulations have been repealed by the Gaming Act, which came into force in August of 2018, with more favourable Tax Regime & Regulations. The industry enjoys low rates of official fees and taxes related to online gaming due to the attractive company tax regime that Malta has to offer.

Organisations in iGaming operate strongly, by keeping up-to-date with the growing advances in technology, offering great support to customers as well as offering considerable attention and benefits to their employees.

Skilled and qualified individuals across various fields are all required for iGaming companies: ICT, Computing & Programming, Web Design & Development, Network, System & Data Engineering, Graphic & Product Design, Digital Art as well as roles related to Marketing, Management, HR and Technical Support. Not to mention, professions in Financial as well as Legal Specialists in iGaming law are also on the increase within the industry.

Companies wishing to operate in or from Malta must possess a valid licence issued by the Malta Gaming Authority (MGA). There are two types of licences offered in Malta, along with the services to be provided, these being either a B2C Gaming Service Licence (business to consumer services) or a B2B Critical Gaming Supply Licence (business to business services).

A Maltese Gaming Licence allows companies wishing to carry on or otherwise provide gaming services in or from within Malta, including but not limited to, games of chance, such as slots or casinos, fixed odds betting such as race books or sports pools, peer-to-peer games such as poker or bingo or controlled skill games and/ or any gaming supplies which are indispensable to provide such services.

The B2C Gaming Service Licence consists of four gaming services types:

- Type 1 gaming service, Remote Gaming Licence which shall mean a licence to provide games of chance played against the house. The outcome of which is determined by a random generator, and shall include casino type games including roulette, blackjack, baccarat, poker played against the house and lotteries. The applicant must have issued and paid up minimum share capital €100,000 and is subject to a fixed annual licence fee of €25,000 together with a variable Compliance Contribution fee depending on the gaming revenue generated (€ 15,000).

- Type 2 gaming service, Remote Gaming Licence which shall mean a licence to provide games of chance played against the house, the outcome of which is not generator randomly, but is determined by the result of an event or competition extraneous to a gaming of chance, and whereby the operator manages his or her own risk by managing the odds offered to the player. Minimum Share capital €100,000 and is subject to a fixed annual licence fee of €25,000, together with a variable Compliance Contribution fee depending on the gaming revenue generated (€ 25,000)

- Type 3 gaming service, Remote Gaming Licence which shall mean a licence to provide games of chance not played against the house and wherein the operator is not exposed to gaming risk but generates revenue by taking a commission or other charge based on the stakes or the prize. It shall

include player versus player games such as poker, bingo, betting exchange, and other commission based games. Minimum share capital €40,000 and is subject to a fixed annual licence fee of €25,000, together with a variable Compliance Contribution fee depending on the gaming revenue generated (€25,000).

- Type 4 gaming service, Remote Gaming Licence which shall mean a licence to host and manage remote gaming operators, excluding the licensee himself. Operators with this licence are B2B operators that provide management and hosting facilities on their gaming platform to other B2C operators and European Economic Area licensees. Minimum share capital €40,000 and is subject to a fixed annual licence fee of €10,000, together a reduced Compliance Contribution fee of €5,000.

All B2C Gaming Services operators are required to pay gaming tax amounting to 5% of the Gaming Revenue generated from Malta-based players.

The B2B Critical Gaming Supply Licences is required only for suppliers of critical games and/or supplies of material games and are also subject to a licence fee depending on the revenue generated. In this regard, annual licence fees range between €25,000 and €35,000, but are exempt from gaming taxes.

Additionally, gaming companies are subject to a 35% corporate tax in Malta, either if they are companies incorporated and/or having management and control in Malta or companies deriving or raising income in Malta.

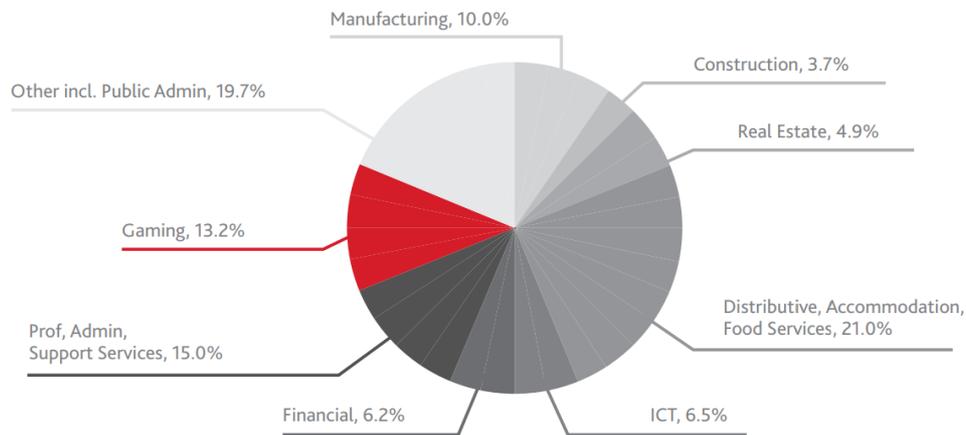
The process for applying for licences in Malta is as follows. the MGA assesses whether an applicant is fit and proper to conduct gaming business, is correctly prepared from a business strategy perspective, has the operational and statutory requirements to meet the obligations prescribed by law and policy, and has correctly implemented and tested, on a technical environment, what has been applied for, before going live. On successful completion of all the aforementioned stages, the MGA issues a ten-year licence.

Taxation Model: all operators of licensable gaming services would need to pay gaming tax amounting to 5% of the Gross Gaming Revenue (GGR) generated from customers located in Malta and gaming operators are only required to pay tax in Malta on revenue from Maltese customers.

As for the main economic indicators of this industry, it stands out: the gaming industry's share in economic activity has increased, to stand at around 13.2% by 2018 and excluding public administration, has consolidated its position

as the third-largest sector in the economy the gaming industry has consolidated its position as the third-largest sector in the economy.

Figure 1. Contribution of the gaming industry to value added



Sources: National statistics office, MGA Annual Report 2018

The sustained growth in employment further attests to the sector's significant contribution to the Maltese economy

The MGA for the year 2018 indicates that when taking into account indirect employment, the total employment in the gaming industry was estimated to be around 9,800 full-time equivalent (FTE) jobs.

The gaming sector is thus expected to continue to play a fundamental role in Malta, by directly generating employment and value added, attracting foreign investment and human capital, diversifying the economic base and contributing to the growth of related activities.

B. Melilla

Many operators in the gambling industry had established themselves in the Rock of Gibraltar, because its tax advantages and being located in EU territory. But the implementation of Brexit is forcing them to leave the Rock and seek other competitive destinations. Among them Malta, Ceuta, Melilla, Cyprus, territories with certain tax advantages can be places of attraction for these online gaming companies.

The government has been promoting the two autonomous jurisdictions for gambling companies, particularly in the wake of Brexit uncertainty that could

jeopardise EU market access for firms based solely out of Gibraltar. Since 2018 the state has introduced a series of tax cuts and economic support for companies such as a 50 percent reduction in the applicable gambling tax rates (excluding state level sports betting).

If three requirements are met: firms

- must have more than 50 percent of the gambling operator's employees to be tax residents and assigned to an Autonomous City workplace;
- more than 50 percent of the gambling operator's employee costs must relate to employees which are tax resident and assigned to an Autonomous City workplace and intragroup services received by the gambling operator shall not exceed 50 percent of its total costs;
- the gambling operator would be deemed to be actually established in the Autonomous Cities and the reduced gambling tax rates would apply,

The Spanish government has announced plans to halve gambling taxes in the autonomous cities of Ceuta and Melilla in order to attract investment. The main attraction that moves many operating companies to be interested in Melilla as a city to settle, are its extraordinary tax advantages:

Law 6/2018, "with the aim of contributing to mitigate the effects of its territorial uniqueness" establishes the rates to be demanded in the Tax on Gaming Activities by the City of Melilla with a 50% discount. The rates for operators with tax residence in their territories and actually based in the Autonomous Cities of Ceuta and Melilla will be:

1. State sports betting, 22% of the taxable base.
2. Sports betting, horse racing and other mutual and crossover bets: 10% of the taxable base
3. Raffles: 10 percent of the taxable base except for those declared to be of public or charitable interest, which will be taxed at 2.5 percent of the same taxable base.
4. Competitions and other games: 10 percent of the taxable base
5. Random combinations for advertising or promotional purposes: 5 per cent of the tax base

In the city of Melilla there is no VAT. Instead, a local tax (IPSI) is applied with a reduced rate of 0.50% for the following services: Advertising and marketing services; Services provided by electronic means; Accessory and

complementary management services for carrying out gaming activities that constitute the taxable events for taxes on gaming and random combinations.

3. Aims

The purpose of the study and the specific questions that must be answered are as follows:

- The development of the electronic gaming industry in Malta has been extraordinary. Therefore, these case analyses what the strengths of Malta to have become in this industry are a world leader.
- As the Autonomous City of Melilla also has essential tax advantages in its economic activities, could we consider the Maltese model of the gaming industry applicable in Melilla? Facing the Brexit, Ceuta and Melilla will be an attractive alternative for the establishment of online gambling operators in the EU?

4. Method

A case study is an analysis of a particular situation. The question formation of the study determines mostly the methodology that is the best one for the empirical part of the study.

In order to give an opinion supported by quantitative data on how the closing of the border, which is the objective of the study, maybe affecting it, the appropriate methodology for data collection and processing techniques (sources) should be used to carry out the analysis.

The type of study to be carried out is exploratory and begins with the search for information and statistical data since we consider that although there are antecedents in the literature researched, these are not updated). It is descriptive, where a series of concepts or variables are selected and each one of them is measured independently from the others, with the purpose, precisely, of describing them (trade indicators and variables independently without trying to establish at this stage the form of relationship between them). It is explanatory since it tries to find out the reasons why this phenomenon occurs and why two or more variables are related. These statistics relate to the gaming industry in Malta that has been collated by the MGA.

The sources are: Industry Performance Returns submitted by operators in terms of the Gaming Act (Chapter 583 of the Laws of Malta); information provided by operators through specific questionnaires and correspondence

with the MGA; and financial information provided by operators to the MGA. One of the main aims of this research is to acquire an accurate snapshot of the activity by the companies that are licensed under the MGA.

In order to ensure better data representation, companies were divided into two groups, namely companies operating with a Business-to-Consumer (B2C) - Gaming Service licence and those that operate with a Business-to-Business (B2B) - Critical Gaming Supply licence.

Their tax advantages measure the comparative advantages of the Spanish autonomous cities, that is to say, the taxes and mandatory contributions that an igaming company must pay in a given year as well as measuring the administrative burden of paying taxes and contributions.

5. Results

The empirical analysis provides us with sufficient information on the economic impact that the gaming industry is having on Malta's economy.

Gross value added has increased by 58% from 902 million euros to 1,427 million euros between 2015 and 2018. During this time, the number of full-time equivalent employees directly working with remote gaming companies licensed by the MGA rose by 52%, from 3,908 to 5,950. This is not in line with the in the number of remote gaming companies licensed by the MGA because after the introduction of new licensing regime, the number of gaming companies and licences are more aligned as the operators do not require multiple licences to offer different games unless they wish to offer both B2C and B2B services (table 1)

Table 1 Headline indicators of gaming industry activity (2015-2018)

	2015	2016	2017	2018	% 15/18
Number of licences (remote)	490	513	625	275	-44%
Number of companies in operation	276	268	296	283	3%
Gross value added (€mill)	902	1,153	1,272	1,427	58%
Employment - Full-Time Equivalent (FTE)	4,707	6,193	6,673	9,794	108%
Online Gaming Employment	3,908	5,327	5,861	5,950	52%
Land-based	799	866	812	844	6%
Gaming tax revenue (€mill)	55	56	59	67	22%

Sources: MGA Annual Report 2018

The Gaming Licence Fees Regulations (S.L. 583.03) were brought into force on 1 January 2018, introducing the concept of the compliance contribution

fee. The amount payable by the operators depends on the type of approval issued by the Authority, and it is strictly correlated with the Gaming Revenue generated during the licence period. This Regulation also stipulates a minimum and maximum amount of contribution, which is to be paid according to contribution paid by the online gaming operators amounted to €34 million, a drop of 21% when compared to 2015 despite an increase in the activity (table 2). The new gaming legislation introduces a taxation model that provides a more proportionate relationship between gaming activity and taxations and is considered to be more equitable and fair. Online game contribution corresponds to approximately 51% of gaming revenues.

Table 2. Gaming tax revenue and gaming licence fees regulations (Malta 2015-2018)

	2015	2016	2017	2018	% 15/18
Casinos	3.719.674	4.421.187	7.038.381	17.301.552	26%
Controlled gaming promises	1.141.235	1.617.012	2.122.052	2.198.832	93%
Bingo	600.692	608.502	601.945	687.374	14%
National Lottery	11.534.302	12.375.614	12.813.404	12.722.515	10%
Online Games	28.182.999	27.277.412	26.547.862	33.977.600	21%
Total €	55.178.902	56.299.727	59.123.644	66.887.873	21%

Sources: MGA Annual Report 2018

Distribution of licences by class type: Class type 1 games: Slots 79% and table games 18%. Class type 2 games: football 73%, tennis 8%, sports 6% and basketball 6%. Class type 3 games: P"p poker 84%, P2P bingo 10% and lottery messenger 4%.

Table 3. Remote gaming. Distribution of licences by class type (Malta 2015-2018)

	2015	2016	2017	2018	% 15/18
Class type 1 B2C	267	293	389		
Class type 2 B2C	100	103	116	207	
Class type 3 B2C	61	58	49		
Total B2C	428	454	554	207	-52%
Class type 4 B2B	62	59	71	68	10%
Total Licences	490	513	625	275	-44%

Sources: MGA Annual Report 2018

Table 4. Remote gaming Tax by class type games (Malta 2015-2018)

	2015	2016	2017	2018	%15/18
Class type 1 B2C	4,975,482	5,052,171	5,709,571		
Class type 2 B2C	16,045,945	15,330,358	14,108,062		
Class type 3 B2C	3,860,142	3,462,951	2,857,372		
Total B2C	24,182,999	23,845,480	22,675,005		

Class type 4 B2B	3,301,430	3,431,932	3,872,858		
Total gaming tax	28,182,999	27,277,412	26,547,863	33,977,600	21%

Sources: MGA Annual Report 2018

The measurement of the success of the fiscal measures to attract the investment of online gaming companies to Melilla is precise when the first company in turnover is already a gaming company (CODERE Online SA) (table 5).

Table 5. Company ranking by sales (Melilla 2018)

Melilla	2018	2017	Ceuta	2018	2017
Codere Online SA	518.6	188.2	Luckia Games	161.3	136.2
Gaselec Diversificación	32.7	30.9	Euroapuestas Online	82.5	0.2
Almacenes Tuhami SL	28.5	37.3	Serv. Puerto Ceuta	32.1	30.7

Sources: eleconomista.es

6. Discussion

Malta's success in the iGaming arena is undisputed. As the first jurisdiction in the EU that introduced regulated remote gaming, with an average of a hundred new applications a year and being the largest EU i-gaming jurisdiction, Malta's success in the iGaming arena is undisputed. Malta's strategy in iGaming decided to focus on regulation and transparency, providing a strict approach to licensing and monitoring of gaming operations.

The online industry maintained its role as a primary contributor to economic activity in Malta, generating 13.2% of the gross value added. This positive performance was sustained through the overhaul of the regulatory framework is enabling the Authority to be more productive and forward-looking while benefiting operators using a future-proofed and streamlined regulatory environment.

Supply Licence and wish to offer an additional type of game are now required to apply for the necessary approval instead of applying for an additional licence. As a result, fewer applications for a gaming licence are being received by the Authority. As at the end of 2018, there were 275 licences approved to offer online services under the MGA jurisdiction, including nine corporate.

After the introduction of new licensing regime, the number of gaming companies and licences are more aligned as the operators do not require

multiple licences to offer different games unless they wish to offer both B2C and B2B services.

Ceuta and Melilla's tax claim is succeeding because the leading companies according to their sales are already online gaming companies. However, these territories will not overtake Malta because this country is not only offering low taxes, but also a software development environment and business climate.

In Melilla, the first company in turnover is already a gaming company and the first and second in Ceuta.

7. Conclusions and Recommendations

In 2017, the Malta Gaming Authority (MGA), together with the stakeholders of the gaming industry, embarked upon a mission to make gaming legislation future-proof and thus ensuring that the gaming laws would be kept up to speed with emerging and disruptive technologies such as virtual currencies and distributed ledger technologies.

The results are becoming apparent. The number of workers and tax revenues are increasing. The institution that regulates it is well organized and has a team that knows very well the way forward.

Melilla and Ceuta seem to be an attractive alternative for the establishment of online gambling operators in the EU, but not only in the development of the gaming industry possible with tax benefits. However, in these autonomous cities, the first companies' turnovers are already online gaming companies.

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