

CASINO DEVELOPMENT IN HUNGARY

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Hungary

Gambling activities (1)

- ❑ Liberalised: tombola drawings, operation of slot machines
- ❑ Non-liberalised: any other gambling activity, including creation and operation of casinos



State monopoly – the activity may only be carried out by certain entities

Gambling activities (2)

- Business associations with major or (indirect or direct) exclusive state ownership:
 - State Game Organizer (a company exclusively owned by the State and created for the operation of gambling activities on a regular basis)
 - a company exclusively owned by the State Game Organizer
 - a company with the majority ownership of the State

 - Others to whom the State assigns this right on a temporary basis by concession agreement (but state exclusivity: certain types of betting, lottery!)
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Concession

The Hungarian regulation system of casino concession: two-tier regulation:

- Concession Act – main rules regarding all sorts of concession (e.g. construction and maintenance of public roads, mining activities, public transportation)
 - Gambling Act – sector specific rules regarding gambling activity
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Concession tender - conclusion of agreement

- ❑ the Minister of Finance invites a tender for the conclusion of the concession agreement
 - ❑ the evaluation of the tender and the conclusion of the concession agreement also fall within the competence of the Minister of Finance
 - ❑ foreign natural persons, legal entities and organisations without a legal personality - the concession agreement may also be concluded with them and in this case, they have the same rights as domestic persons
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Concession company (1)

- obligation to establish a resident business association within 90 days from the signing of the agreement

Practical problem: the concession agreement is concluded between the State and the winner of the tender, but the activity subject to concession is pursued by the concession company – the legal relationships are unclear

- minimum registered capital:
 - class I casino unit: HUF 1 billion (app. EUR 4 million)
 - class II casino unit: HUF 300 million (app. EUR 1,2 million) (Budapest and Pest county) / HUF 100 million (app. EUR 0,4 million) (other parts of the country)
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Concession company (2)

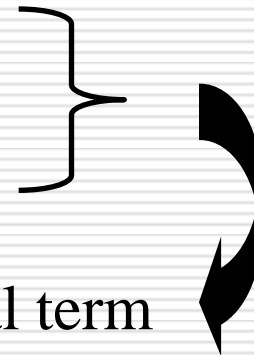
- obligation to own the majority of the shares and/or voting rights of the concession company throughout the concession period
Practical problem: the encumbrance or sale of shares is restricted
 - restriction of other activities: the concession company is only entitled to pursue the activity subject to concession and connected activities (activities closely connected to currency exchange and catering)
 - the concession company may not assign its right to pursue the activity subject to concession to another party
Practical problem: not possible to conclude an agreement for the management of the casino with a third party
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Concession fee

- ❑ an annual amount payable to the State
 - ❑ class I casino unit (at least 100 game and/or card tables + 1000 slot machines)
 - min. HUF 600 million (app. EUR 2,4 million) in Budapest and Pest county and
 - min. HUF 500 million (app. EUR 2 million) in the other parts of the country
 - ❑ class II casino unit
 - min. HUF 350 million (app. EUR 1,4 million) in Budapest and Pest county and
 - min. HUF 50 million (app. EUR 0,2 million) in the other parts of the country
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Concession period

- ❑ class I casino: maximum 20 years
- ❑ class II casino: maximum 10 years



may be renewed with half of the original term
at the maximum

*Practical problem: the decision of the Minister on the
renewal is discretionary*

Casino licence (1)

- in addition to obtaining a concession, a licence has to be obtained from the State Tax Authority (acting in its capacity as the Gambling Authority) to operate a casino
 - personnel requirements (private individual members, executive officers, director, accountants, cashiers, etc.)
 - equipment requirements (building, security system, video surveillance, etc.)
 - financial requirements (e.g. depositing cash or Hungarian government securities to secure sufficient funds for the winnings)
 - the State cannot undertake prior obligation to issue the licence!
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Casino licence (2)

- the licence defines the conditions of operating and visiting the casino, the types of games and the rules of such games, the highest bets, the proportion of bets and winnings, etc. (gaming plan – deviation only with prior approval)
 - licence fee – depends on the application (number of games, rooms, slot machines), the maximum amount:
 - class I casino: HUF 40 million (app. EUR 160.000)
 - class II casino: HUF 1 million (app. EUR 4.000)
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Casino licence (3)

- general exclusions (examples)
 - the activity is deemed immoral or indecent, or is likely to breach public safety
 - the applicant or any of its executive officers has a criminal record
 - the activity fails to meet the applicable statutory requirements
 - etc.
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Gaming tax

- ❑ Degressive tax rate
 - ❑ Where the net annual gambling revenue is
 - between HUF 0 and HUF 5 billion (app. EUR 20 million)
30 %
 - between HUF 5 billion and HUF 10 billion (app. EUR 40 million)
HUF 1,5 billion (app. EUR 6 million)
+
25 % of the amount above HUF 5 billion over HUF 10 billion
HUF 2,75 billion (app. EUR 11 million)
+
10 % of the amount above HUF 10 billion (app. EUR 40 million)
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Construction permit, concept construction permit

- ❑ construction permit: required for any kind of construction
 - ❑ concept construction permit
 - prior to applying for a construction permit
 - in order to clarify certain construction requirements (planning requirements, technical solutions, the design of the building, etc.)
 - valid for 1 year (may be extended for another 1 year period)
 - if the constructor applies for a construction permit during its term, the authorities are bound by the content of the concept construction permit
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Background: Hungarian casino market (1)

- 6 casinos – 3 in Budapest, 3 in other towns (Győr, Kecskemét, Sopron)

	Casino	Operator	Operation licence expiry date	Legal title of operation	Currency
1	Las Vegas Casino	Las Vegas Casino Kft.	31/12/2009	Concession	Mixed (HUF/EUR)
2	Tropicana Casino	Belvárosi Kaszinó Kft.	31/12/2009	Concession	Mixed (HUF/EUR)
3	Várkert Casino	Várkert Kaszinó Kft.	18/09/2007	Concession	Mixed (HUF/USD)

Background: Hungarian casino market (2)

	Casino	Operator	Operation licence expiry date	Legal title of operation	Currency
4	Casino Sopron	Casino Sopron Kft.	31/12/2010	Concession	Mixed (HUF/EUR)
5	Casino Győr	Casino Győr Kft.	15/01/2012	State monopoly	HUF
6	Casino Kecskemét	Casino Kecskemét Kft.	01/02/2012	State monopoly	HUF

Background: Hungarian casino market (3)

- In year 2006
 - total revenue (6 casinos): HUF 52,88 billion (app. EUR 211,5 million) (increase of 10 %)
 - net gaming revenue: HUF 8,99 billion (app. EUR 36 million) (same as in 2005)
 - visitors (6 casinos): 342.385 customers (decrease of 5 %)
 - proportion of foreign customers: 54 % (decrease of 1 %)

(Annual Report 2006 of the Gambling Authority)

**THANK YOU FOR
YOUR KIND ATTENTION**
