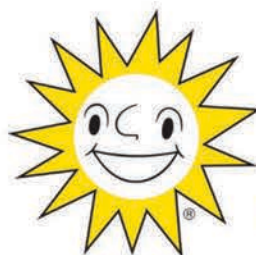


Regal Gaming & Leisure guide to Completing the Machine Games Duty (MGD) Return



MGD is a new tax on gaming machines that came into effect on 1st February 2013 and replaced both Amusement Machine Licence Duty (AML D) and the payment of Output VAT on machines takings.



REGAL
GAMING AND LEISURE

Accounting period

The date by which your first Return must be completed depends on the Accounting Period (also known as Return Period) that you chose when you registered for MGD.

- Quarter Ending March, June, September, December: First Return will be for two months covering the period 01/02/13 to 31/03/13
- Quarter Ending January, April, July, October: First Return will be for three months covering the period 01/02/13 to 30/04/13
- Quarter Ending February, May, August, November: First Return will be for four months covering the period 01/02/13 to 31/05/13

Thereafter MGD Returns will cover the three month quarter period. You must submit your MGD Return so that HMRC receives it by the 30th day following the end of the Accounting Period. If the 30th is not a "Business Day", you must send both the Return and payment to arrive by the last Business Day before the 30th (28th February).

If you have not elected to submit your Return electronically via HMRC Online Services, HMRC will send you a paper Return (MGD6) for completion after the end of the Accounting Period. However, if you do not receive one you can telephone the HMRC helpline on 0845 010 9000 to obtain a duplicate; alternatively you can download a copy from the HMRC website.

IMPORTANT NOTE – HMRC will not accept that you did not receive a blank paper Return as an excuse for failing to submit a completed Return on time!

MGD return examples

Assuming a business has two Category B4 gaming machines, one Category B3A machine and one quiz machine which pays cash prizes.

The takings from the Category B3A machine are exempt from MGD and are therefore excluded from all calculations of MGD and do not need to be entered on the MGD Return.

The total net takings from all the other machines are liable to the standard rate of MGD.

- (a) When the income is split 50:50 after calculation of MGD The machines are cashed up every two weeks by Regal Gaming and the business is given their share of the takings and the amount of MGD due on all the net takings. We will leave a collection invoice that provides a breakdown of the collection and is also an invoice for our charges. The invoice shows the meter readings for the machine and any adjustments to the float etc. The business is responsible for paying the MGD and will need to complete and send HMRC an MGD Return and payment within 30 days of the end of the Accounting Period as detailed above. When calculating the MGD due for the Accounting Period, the business will add together all the MGD on all the collection invoices which fall within the Period. If a collection invoice covers a Period which spans two different Accounting Periods then an apportionment of the takings should be made between the two Accounting Periods.
- (b) When all income is retained by the business and Regal Gaming charge a fixed weekly rental The machines are cashed up by an authorised official/ employee of the business and recorded in their books of account. Regal Gaming supply an invoice each month for the rental charges but have no involvement in the cashing up of the machines or the recording of any information. The business must ensure that the records kept are sufficient to provide an accurate audit trail that will substantiate the takings and the MGD declared on their MGD Returns.

How to complete an MGD Return if the machines have made a profit over a Return Period

1	Number of machines available for play at the end of the Return Period	3	Business has three machines. Enter '3' in box 1
2	Total net takings liable to the standard rate of duty	£1,265.87	Business enters the amount of the takings for the Return Period in box 2
3	Total net takings liable to the lower rate of duty	0	Business has no machines which are liable to the lower rate, so enters '0' in the box
4	Total MGD due at the standard rate of duty	£253.17	Business multiplies the amount in box 2 by 20% (the standard rate of duty). The result is £253.17 (rounded to the nearest penny) which is entered in box 4. This figure can also be checked by adding together all the amounts of MGD shown on Regal Gaming collection invoices together with any MGD apportioned between Return Periods
5	Total MGD due at the lower rate of duty	0	Business does not have any machines liable to the lower rate. Box 3 is nil, so business enter '0' in box 5
6	Duty payable before any adjustments	£253.17	This is box 4 added to box 5, but since box 5 is '0' it's just the amount in box 4
7	Any under declared duty from previous MGD Periods	0	If a business realises that they have made a mistake on an earlier Return and have underpaid duty, they can enter the amount here, though limits apply (see paragraph 15.1). If it is less than £10,000 it can always be entered here. If there are not any errors on previous Return Periods simply enter '0'
8	Enter the box 8 amount from your previous Return	0	If the machines made a loss over the previous Return Period, then the amount of negative MGD carried forward from the previous Return should be entered here
9	Enter any negative amount of duty to carry forward	0	If the machines have made a loss over this Return Period, then the amount of negative MGD is entered here
10	Total net duty payable on this Return	£253.17	This is the total of box 6 plus anything in box 7 less anything in box 8 less anything in box 9. This is the duty which the business must pay for this Return Period

How to complete an MGD Return if the machines have made a loss over a Return Period

This is not expected to happen very often. It might happen where a site installs a new type of machine which then pays out a jackpot before that amount has been taken in stakes. If such a machine is installed towards the end of a Return Period it is theoretically possible but very unlikely.

HMRC will scrutinise any MGD Return involving losses because it is expected to be a very rare event and they may suspect that a mistake has been made in completing the Return! HMRC will not make a repayment of duty in a loss situation, but businesses are permitted to carry any negative duty forward to offset against future profits (shown in box 9). This is then entered into box 8 of the next MGD Return.

1	Number of machines available for play at the end of the Return Period	3	Two machines are available for play. (One is liable to the standard rate of duty and one to the lower rate)	
2	Total net takings liable to the standard rate of duty	£1,000	The machine has paid out £1,000 more in winnings than was due in stakes. The takings for the accounting Period are minus £1,000. The figure is entered on the Return (paper) and a 'M' is entered in the adjacent box on the right	M
3	Total net takings liable to the lower rate of duty	£500	The net takings from the machine liable to the lower rate are £500. This machine made a profit and so there is no 'M' in the column to the right	
4	Total MGD due at the standard rate of duty	£200	This is box 2 multiplied by 20%. It is a minus figure, so a 'M' is entered in the box on the right	M
5	Total MGD due at the lower rate of duty	£25	This is box 3 multiplied by 5%	
6	Duty payable before any adjustments	£175	This is box 4 minus box 5. The result is a minus amount, so a 'M' is written in the adjacent box on the right	M
7	Any under declared duty from previous MGD Periods	0	No mistakes have been made on previous Returns so '0' is recorded in this box	
8	Enter the box 8 amount from your previous Return	0	A loss has never been made before, so '0' is recorded in this box	
9	Enter any negative amount of duty to carry forward	£175	HMRC will not make a repayment of MGD, but will allow businesses in this situation to offset amounts against liability in future Return Periods. The loss of £175 MGD is entered in box 9 to carry forward to the next Return Period	M
10	Total net duty payable on this Return	0	There is no MGD to pay on this Return	

How to bring forward a negative amount from the previous Return Period

1	Number of machines available for play at the end of the Return Period	3	Three machines are available for play. (Two are liable to the standard rate of duty and one to the lower rate)	
2	Total net takings liable to the standard rate of duty	£1,500	The net takings from the machines liable to the standard rate are £1,500	
3	Total net takings liable to the lower rate of duty	£520	The net takings from the machine liable to the lower rate are £520	
4	Total MGD due at the standard rate of duty	£300	This is box 2 multiplied by 20%	
5	Total MGD due at the lower rate of duty	£26	This is box 3 multiplied by 5%	
6	Duty payable before any adjustments	£326	This is box 4 added to box 5	
7	Any under declared duty from previous MGD Periods	0	No mistakes have been made on previous Returns so '0' is recorded in this box	
8	Enter the box 9 amount from your previous Return	£175	This is the amount of negative MGD brought forward from the previous Return	M
9	Enter any negative amount of duty to carry forward	0		
10	Total net duty payable on this Return	£151	Box 6 plus box 7 less box 8	

Detailed HMRC Guidance can be found on the HMRC website : www.hmrc.gov.uk/machinegamesduty

Calculation of MGD

There are two rates of MGD:

Standard Rate - 20% of net takings
 Lower Rate - 5% of net takings (only applies to machines with a maximum stake of 10p and a maximum prize of £8)

It is calculated on the net takings of the machine. That is the amount paid into a machine by players minus the amounts paid out.

MGD is calculated differently to VAT as the machine takings are not inclusive of MGD whereas with VAT they are. To compare the two, consider the following example where a machine has £100 of net takings:

The VAT payable is - $£100 \times 20/100 = £16.67$

The MGD payable will be - $£100 \times 20\% = £20.00$

VAT Partial Exemption

Many businesses will already be partially exempt for VAT as they already make a mixture of VATable and exempt supplies.

For example, the sale of alcohol is standard rated for VAT whereas the sale of bingo and lottery tickets is exempt.

The introduction of MGD means that the taxation status of machine income has changed from being standard rated for VAT to exempt.

This switch needs to be taken into account when calculating VAT liabilities from 1st February 2013 onwards.

Input VAT related to exempt supplies (such as the VAT on charges made for the supply of gaming machines post 31st January 2013) can be recovered subject to special rules known as "de minimis rules" which allow the recovery of input VAT relating to exempt supplies providing certain limits are not exceeded.

It is therefore probable that the VAT on costs associated with gaming machines will be recoverable. However the de minimis checks will need to be carried out each time a VAT Return is prepared.

VAT Notice 706 (Partial Exemption) explains the full rules, procedures and tests to be satisfied for full recovery of Input VAT. A summary of the rules are:

- Input tax relating to all exempt supplies must not exceed £7,500 per annum or £1,875 per quarter (or £625 per month if monthly VAT Returns are submitted) and cannot be more than 50% of all input tax incurred in that period. If either parameter is exceeded then the 'exempt' input tax cannot be recovered
- The business must take into account non-attributable input tax (e.g. book keeping fees) where a proportion of the VAT incurred is attributed to exempt activities/income and a proportion to standard rated activities/income
- If the de minimis limits are exceeded then none of the input tax relating to an exempt supply can be reclaimed by the business

Consider the following example assuming a quarter end date of April 2013:

Business has purchased 8 boxes of lottery tickets and has been charged £1,120 + £224 VAT

Lottery machine profits after paying out prizes were £800

Business has been charged £40 + £8 VAT weekly rental for gaming machine totalling £520 + £104 VAT for the quarter

Gaming machine income for the quarter was £5,200

Book keeping fees of £1,000 + £200 VAT have been incurred

Bar takings for the quarter were £8,000

Bar stock was purchased at a cost of £4,000 + £800 VAT

Total input VAT incurred:

Lottery machine	224
Gaming machine	104
Bookkeeping fees	200
Bar Stock	800
Total	£1,328

Exempt Input VAT:

Lottery machine	224
Gaming machine	104
Bookkeeping fees*	86
Total	£414

Partial exemption tests:

1. Is total exempt input tax of £414 less than £1,875?

Answer: YES

2. Is exempt input tax less than 50% of all input tax (£1,328 x 50% = £664)?

Answer: YES

Therefore ALL INPUT TAX CAN BE RECLAIMED (but ensure it is less than £7,500 over whole year)

*In the example, bookkeeping fees are apportioned by reference to Turnover.

Total Turnover = Lottery £800 + Gaming machine £5,200 + Bar takings £8,000 = £14,000

Exempt Turnover = Lottery £800 + Gaming machine £5,200 = £6,000

Apportionment of Bookkeeping fees Input VAT = $£6,000/14,000 \times £200 = £86$

Machine Games Duty record keeping

What records must I keep?

If you are registered for VAT, your records will contain information also required for MGD purposes. Providing your records are cross-referenced and the audit trail is clear and easy to follow, you are not expected to duplicate your records.

Excise Duty Account

The law requires that all MGD Registered Persons must keep an "Excise Duty Account". This must show all the information needed to complete each MGD Return and how the figures on the Return have been calculated. You are not required to keep your records in any particular way but they must contain all the relevant information which you have used to complete your Returns. You may face penalties if you do not keep adequate records.

What additional records must I keep?

HMRC has the power to direct that you keep specific additional records. For more information see **Notice 206: Revenue Traders' Records**

The following additional records are required as a minimum to demonstrate that the figures you declare on your MGD Return are correct.

1. Dates and times when your machines are in use

Those responsible for premises on which machine games are provided for play must keep a record of when each machine was:

- brought into use
- taken out of use temporarily, and
- taken out of use completely

These records must be supported by relevant contracts and invoices. Regal Gaming provide a duplicate delivery note whenever a machine is installed or withdrawn, so these should be retained for inspection by HMRC along with any monthly rental invoices and collection invoices.

2. Details of any changes to your machines

Those responsible for premises on which machine games are provided for play must keep a record of:

- changes to the software or games on a machine, and
- changes to the percentage level of the prize payout from machines

3. Details of third party arrangements

Those responsible for premises on which machine games are provided for play must keep a record of arrangements with third parties to:

- supply
- maintain, or
- upgrade machines

(including records of arrangements with third parties to make the changes described below).

4. Accounting for cash in and out of machines

Those responsible for premises on which machine games are provided for play must record cash in and cash out in an accounting period. These records must cover activities which may affect the cash balance of a machine, such as:

- floats including details of 'top ups'
- non-cash credits to machines such as free plays, and
- for machines subject to MGD which pay out non-cash prizes (including redemption machines), the VAT inclusive amounts paid for prizes

5. Other payouts to customers

Those responsible for premises on which machine games are provided for play must record all payouts made in respect of machine game-play other than through a machine. For example if a claim is paid from the bar, then this must be recorded.

6. Storage of records, documents and accounts

Those responsible for premises on which machine games are provided for play must keep:

- trading and profit and loss accounts,
- balance sheets,
- bank statements,
- records used for the purpose of completing MGD Returns, and
- any additional records and documents relevant to the business of providing dutiable machine games for play

Records must be kept for four years in a readily accessible form and manner.

HMRC have stated that they will review the minimum record keeping requirements on a regular basis in light of experience.

HMRC recommend that you have a clear and robust system for identifying each machine and its location. For example, give each machine an identification number (such as the machine serial number) and a location reference. This will help you to keep track of each machine and its profits.

HMRC can also direct you to keep additional records in individual cases (for example, your meter readings of takings and payouts for individual machines) where it is proving difficult to check your MGD affairs.

If you have a problem with record storage, you can write to HMRC and ask for a dispensation to keep some of your records for a period shorter than four years.

7. Where do I have to keep the records?

Books, Accounts and Returns for a business are usually kept at the principal place of business. However, you can keep these records elsewhere if you wish.

HMRC can require that you make records available for inspection at your principal place of business or registered premises.

8. Do HMRC have the right to see my records?

Yes. HMRC have the legal right to check your MGD calculations and take copies of any Books, Accounts and Returns or other documents relating to the business.

Accounting for Machine Games Duty - what to do if you weren't registered by 1st February 2013

This guidance applies if you are in the following situation:

- you were, from 1 February 2013, responsible for premises from which dutiable machine games were provided for play
- you were not on the MGD Register on 1 February 2013 and
- you are placed on the MGD Register before 1 April 2013

The first MGD return you receive will ask you to set out details of takings and duty due from the date of your registration (that is the date you were placed on the MGD Register). You may also use this first return to inform HMRC about MGD you owe from 1 February 2013 until the date of your registration provided what you owe for this unregistered period is less than £50,000.

There is no specific box on the MGD Return for this, but as set out below, you should enter the amount you owe for the unregistered period in box 7 of the Return (the box for amounts of MGD previously under-declared).

Under the law, you are liable to a penalty for any period during which you provide machine games for play at premises not covered by an MGD registration. The amount of the penalty will depend on your behaviour – HMRC may not charge you a penalty if you have a reasonable excuse for not registering and make “a full and unprompted disclosure”.

If you are in the situation described above and you follow the procedure outlined below, HMRC will consider that you have made a full and unprompted disclosure and will assume you have a reasonable excuse for not registering unless there is reason to believe otherwise.

If you owe an amount of MGD for an unregistered period and:

- you cannot use box 7 on your MGD return to tell HMRC about this because the unregistered period did not start on 1 February 2013 with registration taking place before 1 April 2013 (“the relevant dates”), or
- you cannot use box 7 on your MGD return to tell HMRC about this because although the relevant dates applied to the unregistered period the amount you owe for that period is more than £50,000, or
- although the relevant dates applied to the unregistered period and the amount that you owe for the period is less than £50,000, you do not wish to use box 7 of your first MGD return to tell HMRC about this

You should write to HMRC setting out the dates between which there was an unregistered period, the amount of MGD you owe for that period and an explanation of why you were not on the MGD Register at 1 February 2013.

If you have offered machines for play on premises not covered by an MGD registration you could be liable to a penalty if you do not have a reasonable excuse.

The following parts of this notice have the force of law under Regulation 14(2) of the Machine Games Duty Regulations 2012 (notification and correction of errors).

Any person responsible for premises from which dutiable machine games were provided for play from 1 February 2013, who has a date registration (R date) after that date but before 1 April 2013, may declare any amount of MGD due for the period from 1 February 2013 to the R date on box 7 of the MGD return provided that:

- the amount of MGD due for this period is less than £50,000
- the date of application for MGD registration is recorded in the person's MGD records as soon as practicable after the application is made
- a copy of the registration application is retained in the person's MGD records (paper application), or a note of the MGD application reference is kept in the person's MGD records (application using the MGD Online Service), and
- a record of dutiable takings from 1 February to the R date is kept and this is included in the person's MGD account for the first MGD Return

MGD – Machine Games Duty

- New form of taxation, introduced Feb 2013
- Replaced AMLD (amusement Machine Licence Duty) & VAT on net takings on gaming machines
- MGD applies to machines where a cash prize greater than the stake can be won
- For the pub sector, this will apply to mainly AWP's (fruit machines) and SWP's (quiz machines)
- Standard rate of MGD is 20%. Lower rate of 5% for machines where price of play is 10p or less and jackpot is a maximum of £5
- All locations offering gaming machines for play are required to register for MGD; www.hmrc.gov.uk/machinegamesduty
- Registration **must** be completed within 14 days of making games available for play
- Machines subject to MGD will be exempt from VAT, and this may affect your ability to recover input VAT on items such as machine rentals. You should consult your tax advisor or accountant regarding this (De-minimis level & partial VAT exemption)
- Regal calculate MGD each time a collection is made, and the amount will be either left on site or remitted to the person responsible for paying the tax

MGD - FAQs

Q – How often do I need to submit an MGD return?

A – Every 3 months. You can request HMRC to change your MGD quarter end date to match your VAT return dates

Q – What records do I need to keep?

A – A record of the number of machines, the amount of net takings (obtained from collection receipt) and the amount of MGD due (obtained from collection receipt)

Q – Why do I get charged VAT on the fruit machine rent?

A – Regal provide the machine as a service to you, and they must charge VAT on that service (if you are below the de-minimis threshold this VAT is recoverable)

Q – Why do I get charged VAT on the Customer share of machine income?

A – The customer provide a machine management service on behalf of all tenants in exchange for their share of income. This service is Vat-able (if you are below the de-minimis threshold this VAT is recoverable)

MGD - FAQs

	Total =====	LOS ===	Banked =====
Gross Cash	313.30		
<hr/>			
Nett Take	313.30		
<hr/>			
MGD	62.66	62.66	
<hr/>			
VAT Supplier	11.38		11.38
VAT on Comp. %	19.37		19.37
<hr/>			
VAT Total		(30.75)	30.75
<hr/>			
** Nett Less MGD (re	250.64		
<hr/>			
Rent / Front Money	56.91		56.91
Post Rent Loc. % (50	96.87	96.87	
Post Rent Comp. % (5	96.86		96.86
<hr/>			
NETT CASE TOTALS	313.30	128.78	184.52
<hr/>			
Regal Amusement Machine Sales Ltd, Brookfield Place, Preston			
VAT No. 677 6765 66			
This is a VAT receipt			

1 This is the Nett Takings figure for the MGD return

Monies Left On Site (LOS)

Monies Banked

2 This is the MGD figure that is payable to HMRC

3 VAT Supplier is the VAT on Rent, this is fully reclaimable if you are below the de-minimis VAT threshold

4 VAT on Comp is the VAT on Pub Company Share, this is fully reclaimable if you are below the de-minimis VAT threshold

5 This is the sum of VAT Supplier & VAT on Comp that is deducted from Location or Tenants share

7 This is the total amount of monies Left On Site (LOS)

6 This is the Location or Tenants share of machine

MGD - FAQs

Notes/comments

1. The Nett take figure is the figure that you are required to declare on your MGD Return
2. The MGD figure is the amount you are required to pay to HMRC
3. The VAT Supplier figure is the VAT your supplier charges. This is fully reclaimable on your VAT return, if you are below the de-minimis VAT threshold (you should check with your accountant if you qualify)
4. The VAT on Comp figure is the VAT on the pub company share of machine income. This is fully reclaimable on your VAT return, if you are below the de-minimis VAT threshold (you should check with your accountant if you qualify)
5. This is the sum of the VAT Supplier and and VAT on Comp figures both of these are fully reclaimable on your VAR return, if you are below the de-minimis VAT threshold (you should check with your accountant if you qualify). NB – you can change the date your MGF D return is due, so that it falls in line with your VAT return, please speak to HMRC to arrange
6. The Post Rent Loc figure is your share of machine income and this is the figure you should declare
7. This figure is the amount of monies that have been left on site