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How Should Gambling Machines Be Taxed?

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Background, 1926-1947

- Betting Tax Introduced on bookmakers, based as a levy on stakes, by Chancellor of the Exchequer Winston Churchill, in 1926. Off-course cash bookmaking was, however, illegal.
- Was unpopular, difficult to enforce, and broadly ineffective as means of raising revenue.
- Abolished in 1930.
  - Dalton Budget, November 12, 1947 introduced 'Surprise Tax' (Daily Graphic and Daily Sketch,, Nov. 13) on betting. 10% tax on greyhound Totalisator bets ("A bolt from the blue", said greyhound circles last night) and on football pools.
  - 1960 – legalisation of off-course cash bookmaking

In 1966, tax on betting with bookmakers introduced

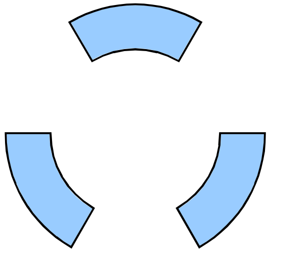
Betting tax history

- 1966: Betting tax introduced at 2.5% of turnover.
- Rose over the years to peak at 8%.
- By 2000, levied at 6.75% of turnover.

Re-consideration of the options for taxing betting

- By the year 2000, however, the Government was persuaded to consider afresh the options for taxing betting in the UK, due in large part to the rise of online gambling and the start of a movement overseas by some leading British bookmakers.
- In particular, online gambling created increasing opportunities for the betting public to avoid duty altogether by placing wagers with offshore or overseas companies. This posed a clear threat to government revenue streams.

Government invites tender to advise on the options for taxing betting.



Tax criteria

- Efficiency
- Fairness
- International Competitiveness
- Maintenance and Sustainability of Government Revenue

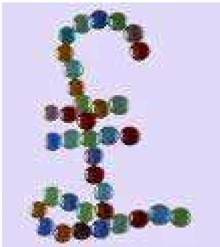
Economic Analysis of the Options for Taxing Betting: a report for HM Customs and Excise.

Principal Investigator: Leighton Vaughan Williams

Gross Profits Tax Versus Turnover Tax

a. Efficiency

A switch to GPT represents an improvement under reasonable assumptions because it encourages a low-price, high-turnover strategy instead of a high-price, low-turnover strategy. This is because a GPT is by construction levied on price whereas turnover taxes are levied on quantity.



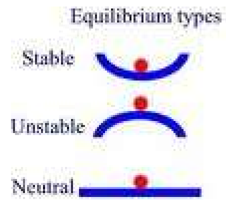
- International Competitiveness

Economic theory predicts that a GPT will result in a lower tax burden in sectors such as online betting which are extremely competitive and thus have relatively low profit margins. More generally, a switch to GPT enhances the ability of UK bookmakers and betting exchanges to compete in a rapidly changing technological and global environment – also encourages repatriation of overseas business.

- Fairness

Under a GPT system, those who earn a greater level of gross profits pay more tax and vice-versa, which would seem more equitable than linking tax to a measure such as turnover.

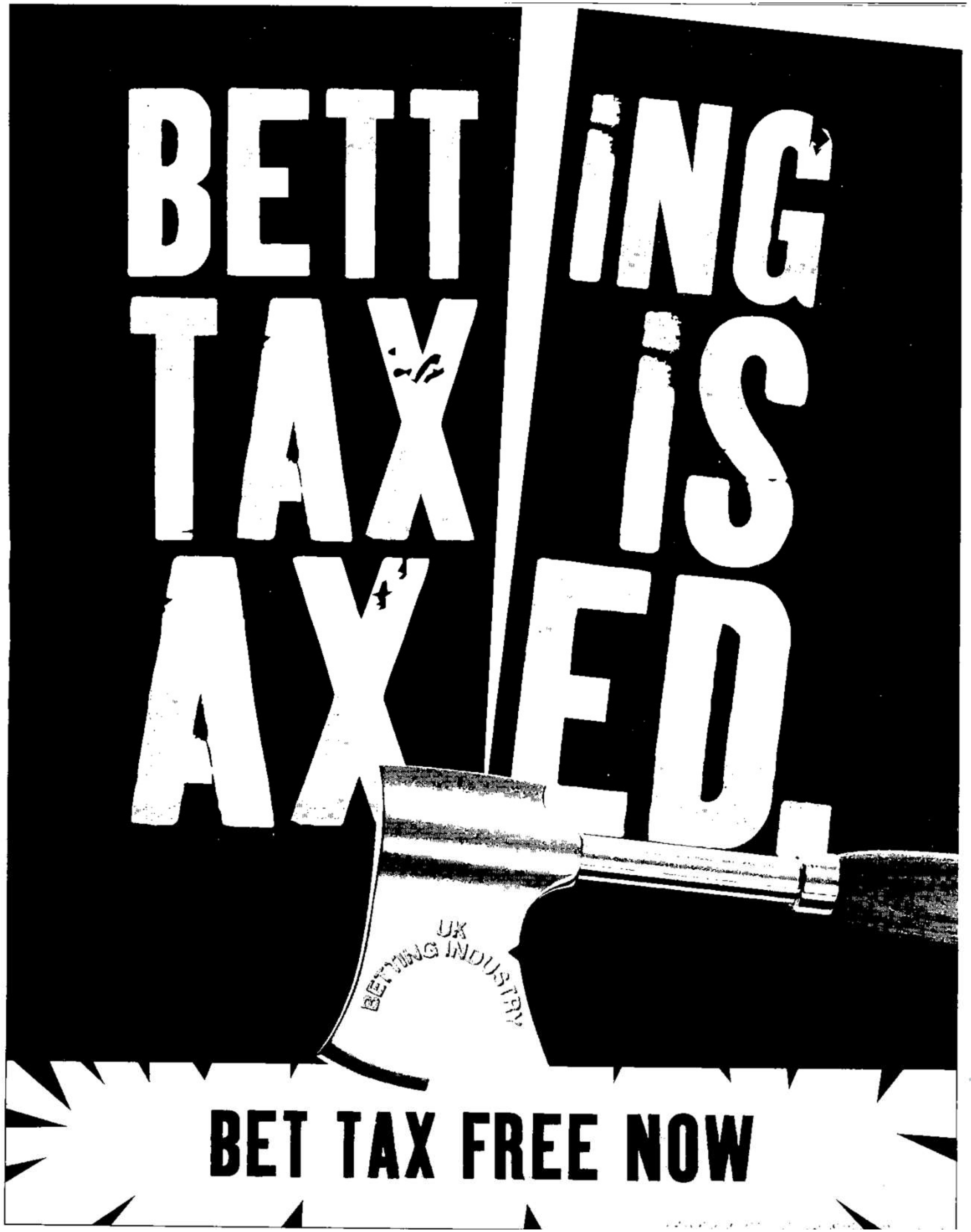
- Maintenance and Sustainability of Government Revenue



- GPT is likely to protect tax revenue by removing some of the risk from industry and enabling it to compete more effectively with overseas competition.

New tax regime

- **GPT introduced in October 2001 for fixed-odds betting (at 15% - equal to a cut of approx. half in the effective incidence of tax).**
- **In 2002 GPT introduced at 15% for football pools betting and for bingo, and for betting exchanges in 2003.**
- **For the betting public, betting tax was effectively axed!**


BETTING TAX IS AXED.
UK BETTING INDUSTRY
BET TAX FREE NOW

A Policy Opinion

- In: Theory and Practice of Excise Taxation, 2005, Oxford University Press
- "Since 2000, the aim of the UK Government has been to base taxation policy explicitly on economic criteria, such as maintaining competitiveness and reducing allocative inefficiency. Thus, the decision to reduce the overall level of betting taxation demonstrated an awareness of changing market conditions in the betting industry which became especially vulnerable to the growth in e-commerce … furthermore, the switch from a general betting duty to a gross profits tax is likely to lead to lower prices and enhanced consumer welfare. The intuition behind this result is that by levying the tax on margins instead of turnover, producers with at least some market power have an incentive to reduce their price."

Impact of the Switch to GPT

- HM Customs and Excise in 2003 published a review of the introduction of Gross Profits Tax – ‘Report on the Evaluation of the Gross Profits Tax on Betting.’

- The report concluded that the reform had been successful and that, in particular, industry turnover had increased although margins were smaller.

British Bookmakers’ turnover increases dramatically

Impact of the Switch to GPT (Cont.)

The main impacts of the reform, summarized by the National Audit Office, were increased turnover (following the introduction of GPT stakes on betting quadrupled from £7.1 billion in 2000-01 to £32.2 billion in 2003-04) and more choice for consumers.

The NAO also noted that the biggest bookmakers repatriated their offshore businesses in the wake of the switch to GPT, securing additional employment and business tax revenues within the UK.

HM Customs & Excise predicted, prior to the 2001 tax reforms, that if no change was made to the structure or rates of betting taxation between half and a third of the UK betting market would be lost to offshore operators (NAO, 2005).

Although general betting duty receipts fell in the immediate aftermath of the effective halving of the tax incidence, from £487m in 2000-01 to £304m in 2002-03, it began to rise thereafter, to £383m in 2003-04 (NAO, 2005). A comparison of the receipts between 2001 and 2004 shows that the later figures were little changed from the earlier figures (2001- £474m; 2002- £292m; 2003- £359m; 2004 - £437m).

"... Customs considers that it is likely that revenue reduction under the old regime would have exceeded the decline recorded had no change been made as more and more businesses would have moved overseas." (NAO, 2005).

National Audit Office: Gambling Duties.

Report by the Comptroller and Auditor General / HC 188 Session 2004-2005

Betting industry secure

Bettors in tax paradise

Bookmakers’ revenue and profits soar

Evidence to Parliament

- Joint Scrutiny Committee of the House of Commons and House of Lords, Tuesday 13 January 2004

Opinion:

Opinion

- "The move to a gross profits tax was in some respects borne out of a desire to create a taxation regime that protected – in some senses, future-proofed – the betting industry against changing economic and technological circumstances…What is happening is that a tax based previously on quantity has been replaced by a tax based on price, a system which is designed to reduce price and to increase quantity. This benefits the twin objectives of efficiency and equity at any given point in time and in a manner which is proof against changes and developments over time …

Machine Games Duty – Extending GPT to all gambling machines

- A formal consultation on the taxation of gambling machines and whether to move to a gross profits tax was held in 2009. A summary of responses to that consultation was published in December 2010, when the Government announced its intention to reform the taxation of gambling machines and introduce Machine Games Duty (MGD). This was reaffirmed at Budget 2011.
- MGD to be charged on the net takings from the playing of dutiable machine games. These are games played on a machine where customers hope to win a cash prize worth more than they stake. MGD replaced both Amusement Machine Licence Duty (AMLD), based on turnover bands, and VAT.

Government consultation exercise

- “MGD will improve the future predictability and sustainability of the tax regime by making it more resilient to technological progress, regulatory changes and to inflation. Exempting the takings from machine games will also increase the stability of the tax regime as the playing of machine games will then receive the same VAT treatment as other gambling activities. MGD also supports the Government’s objective of a fairer tax system by ensuring the taxation of machine games will be more closely linked to machine profits. Under the current AMLD system, for machines of a given category, AMLD liability is the same regardless of profit. By improving fairness within the industry, this measure will particularly help support businesses with less profitable machines and low VAT recovery rates.” (Economic Secretary to the Treasury, 2011).

Opposition to MGD

- Key representations to the consultation pointed out that MGD would extend beyond the current scope of AMLD and raised concerns that this would adversely impact on venues such as family entertainment centres.
- A few business and trade organisations also suggested that instead of introducing MGD, all gambling activities should be made subject to VAT. BACTA, which represents the British amusement and gaming machine industry in the UK, was particularly critical of the proposed MGD. "During what is already a period of precarious economic trading, this could see further closures of businesses, a reduction in investment, loss of jobs and loss of tax revenue for the Treasury."

Machines Games Duty rate increased

- Regardless, MGD rates were announced in Budget 2012. The standard rate for betting machines in bookmaker offices (FOBTs) would be 20 per cent. After legislation in Finance Bill 2012, implementation followed on 1 February 2013. Increased to 25% in 2014.

• CONCLUSIONS

- Economic theory suggests that the switch from a turnover tax on betting to a Gross Profits Tax on betting is likely to create a more efficient and more equitable market outcome, characterised by lower margins and higher turnover. Practical experience up to 2013 bore out the key theoretical predictions.
- The radical changes to the taxation of betting introduced in 2001 and subsequently extended in 2002 and 2003, were extended to all gambling machines in 2013.
- What would theory expect to happen?
- What has happened?