

**AN ASSESSMENT OF THE OPTIONS FOR
MODERNISING BETTING TAXATION:
FINAL REPORT**

**A Report for
The Bookmakers' Committee
by
Europe Economics**

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EXECUTIVE SUMMARY

1. The health of the UK bookmaking industry - and the benefits it brings to its employees, to horseracing and to the general taxpayer – is threatened by the ability of UK and international bettors to avoid paying betting tax in the UK by betting tax-free with international bookmakers.
2. As a result, the UK bookmaking industry is placed at a significant competitive disadvantage. This threatens current levels of betting turnover, and with it Government revenues from General Betting Duty (GBD). It also prevents the UK bookmaking industry from exploiting the fast-growing international gambling market made more mobile by technological developments.
3. The deductions made from bets placed in the UK finance a levy to horseracing as well as GBD payments to government. Since international bookmakers also do not pay the Horserace Levy faced by their UK counterparts, this exacerbates the competitive disadvantage of UK bookmakers and also jeopardises the future financing of the UK horseracing industry from this source.
4. In March, HM Customs and Excise issued a consultation paper on the options for modernising betting taxation. This document reported that “the Government recognises the need to modernise the system of taxing bets” and that a “robust tax regime” is required to meet the “challenges of the fast developing e-commerce environment”.
5. Europe Economics was asked by BOLA to carry out an independent assessment of the two options floated by the Customs for modernising betting taxation: a Place of Consumption (POC) model and a Gross Profit Tax (GPT) model.
6. In the present paper, the options are assessed against the criterion, specified by Customs, that the betting tax regime should provide a fair basis for UK bookmakers to compete internationally, and against the criteria specified by Government for the taxation of e-commerce more widely.
7. We conclude that a POC betting tax is unlikely to be effective and so would prevent UK bookmakers competing on fair terms with international competitors. It would create pressures for reciprocal arrangements with other countries that would be likely to create instances of double taxation such that complex bilateral negotiations with overseas tax authorities would be required. If other countries could not be persuaded to bring their tax system into line with that of the UK, a POC tax may ultimately have to be withdrawn.
8. A POC regime would, we assume, allow overseas bookmakers who appoint a tax representative approved by Customs to advertise their services in the UK. This is in contrast to the current situation whereby advertising off-shore betting services is illegal. It is not clear to us what practical measures could be taken by Customs to

ensure that both the overseas bookmaker and its tax representative were 'fit and proper' sufficient to provide assurance that UK bettors are not placed at risk from unscrupulous overseas operators. Furthermore, the collection of tax would be open to abuse and evasion.

9. If POC does not provide a level playing field, UK bookmakers will not be able to compete on fair terms with international competitors, and employment and the other benefits that the bookmaking industry provides to the UK economy will be lost to overseas.
10. Our analysis shows that Insurance Premium Tax (IPT) should not be relied upon as a precedent for a POC betting tax, contrary to the suggestion in the consultation document. Taking out insurance and placing a bet are intrinsically very different actions, and the taking of UK bets by overseas bookmakers has no established mechanism to compare with the close supervision that those insuring risks in the UK faced before IPT was introduced.
11. A rate of GPT at or close to zero would be necessary for UK bookmakers to compete on a wholly fair basis with their overseas counterparts. However, our assessment has also taken into account the Government's desire to protect the tax base. We find that, assuming payment from bookmakers to horseracing continues at around its present level, a GPT rate of approximately 15 per cent would be sufficient to raise the same revenues from the specific tax on betting as would be raised if the current tax regime is left unchanged.
12. Furthermore, a competitive GPT rate would generate significant additional contributions to general government finances from the UK bookmakers through their Corporate Tax payments, their employees' Income Tax payments, and so on. The more responsive bettors are, and the more widespread the availability of telephone and internet betting, the more the comparison favours a GPT model.
13. With a modern system of betting taxation, the UK could become an important global centre for betting over the internet. In our simulations, the additional business generated in the UK in the GPT model could create up to 10,000 new jobs in the UK, some of them in new shops, and generate substantial additional contributions to general taxation. However, if the system is not modernised, we find that over 2,000 betting shops could close and up to 12,000 jobs in the UK could be at risk.

1 INTRODUCTION

The increasing popularity of telephone betting and the growth of the internet have led to a rise in the number of bookmakers trading from outside the UK. International bookmakers, by avoiding the payment of General Betting Duty (GBD) to which their UK counterparts are subject, can offer tax-free betting and thus trade at a significant competitive advantage to UK bookmakers.

This development threatens the health of the UK bookmaking industry, and with it the benefits it brings to its employees, to horseracing and to the general taxpayer. It is not only existing levels of betting turnover (and GBD) that are at risk: the current tax regime also prevents the UK bookmaking industry from exploiting the fast-growing international gambling market made more mobile by technological developments and for which, given a level playing field, the UK would be a natural focal point.

In view of these developments, HM Customs and Exercise issued in March a consultation document, *Our Stake in the Future, The Modernisation of General Betting Duty for the 21st Century*. This consultation document reports (at paragraph 1) that “the Government recognises the need to modernise the system of taxing bets subject to General Betting Duty” and that a “robust tax regime” is required to meet “the challenges of the fast developing e-commerce environment”.

The consultation document invites views on two alternative duty models:

- a Place of Consumption (POC) model (“Option 1”), which provides for a duty charge based on the place where the bettor is located; and
- a Gross Profit Tax (GPT) model (“Option 2”), which abolishes the present turnover-based duty on stakes and replaces it with a duty on the bookmakers gross profit (ie, the amount wagered less the amount paid in winnings).

Europe Economics is an independent economic consultancy, which specialises in the application of economic analysis to public policy and business issues. We have been asked by BOLA – the Betting Office Licensees Association – to carry out an independent assessment of the two options, from the perspective of developing a modern system for betting duty which provides a fair basis for UK bookmakers to compete internationally, a fair basis for horseracing to secure financial support, and a fair contribution from the industry towards general tax revenues.

This paper is structured as follows:

- Section 2 sets out the background to the current consultation exercise and the threat currently presented to the UK bookmaking industry.
- Section 3 provides a qualitative assessment of the options for modernising betting taxation against the criterion, specified by Customs, that the betting tax regime should provide a fair basis for UK bookmakers to compete internationally, and against the criteria specified by Government for the taxation of e-commerce more widely (neutrality, certainty and transparency, effectiveness and efficiency).

- Section 4 provides a financial assessment of the options, focusing on the potential impact on betting duty and other government revenues from the betting industry.

Detailed results are reported in an appendix.

2 BACKGROUND

2.1 Introduction

This section sets out the background to the current consultation exercise.

2.2 Evolution of General Betting Duty

Off-course betting duty was first introduced in 1966 at a rate of 2.5 per cent. The current rate is 6.75 per cent. Table 2.1 shows the changes in off-course duty rates which have occurred since 1966.

Table 2.1
History of Off-Course GBD Rates

November 1966	2.5%
April 1968	5%
May 1970	6%
April 1974	7.5%
July 1981	8%
April 1992	7.75%
March 1996	6.75%

Source: Adapted from NERA (1990), *Taxation of Bookmaking*, and updated by Europe Economics for changes post-1990.

The reduction of GBD in March 1996 was in response to the impact that the introduction of the National Lottery in 1994 had had on the bookmaking industry. Nevertheless, analysis undertaken by Europe Economics in November 1998 showed that off-course betting remained, after football pools (for which the rate of tax has subsequently been reduced), the mostly highly taxed of all gambling activities (Europe Economics, 1998a).¹ The paper also reported that betting taxation was a regressive tax, in that poor households spend a significantly higher proportion of their income on gambling than do better off households.

2.3 Impact of New Technologies

In the late 1990s, the traditional models of betting began to change. Econometric analysis shows real betting shop turnover suffering from a long-term negative time trend (Europe Economics, 1998b).² While turnover in betting shops stagnated, the popularity of betting by telephone increased, and it began to be possible for bettors to place bets over the internet. Most significantly, by betting with telephone and internet bookmakers located outside of the UK, bettors were able to avoid the payment of GBD, thereby placing UK-based bookmakers at a competitive disadvantage and threatening the turnover on the basis of which GBD has in the past been collected. Some UK bookmakers began to respond to these threats by setting up their own operations off-shore.

¹ Europe Economics (1998a), *Taxation of the Off-Course Betting Industry*, November 1998, Table 1. The preferred measure of tax incidence was tax paid as a proportion of customers' losses (net expenditure).

² Europe Economics (1998b), *The Impact of the 1996 Reduction in Betting Duty*, November 1998, Annex 2.

In June 1999, BOLA commissioned research which concluded that turnover would significantly increase if GBD (and deductions) were reduced to 3 per cent (Europe Economics, 1999).³ From the government's perspective, revenues from GBD would fall, but the positive impact the tax reduction would have on demand meant that this would be off-set by increases in the other contributions made by the bookmaking industry to public finances, including corporation tax and VAT payments of bookmaking firms and the personal tax payments of their employees.

As well as damaging UK bookmakers ability to compete against tax-free international competitors for UK customers, the high rate of GBD also prevents it from competing effectively for overseas customers who might otherwise bet into the UK and generate additional revenues for government. In December 1999, MMD estimated the size of the "potentially fluid" international market (ie, telephone and internet betting principally on sports and horseracing) to be £64.9bn in 2001, of which it was realistic to expect the UK bookmaking to gain a market share of around 15 per cent (MMD, 1999).⁴

International bookmakers also avoid the payment to the UK horseracing industry that the UK bookmaking industry currently makes through the Horserace Levy. This payment currently amounts to approximately 1.25 per cent of gross turnover for the UK bookmaking industry on average, equivalent to over 5 per cent of gross profits. This discrepancy exacerbates the competitive disadvantage of the UK bookmaking industry compared to international counterparts, and means that any reform of the taxation system designed to enable UK bookmakers to compete on a fair basis will need to take into account, before the rate of tax is set, UK bookmakers' ability to make a payment to the horseracing industry. It also emphasises that a failure to modernise the system of betting taxation will also jeopardise the financing of the UK horseracing industry from this source.

In January 2000, Europe Economics reworked its calculations to include the potential benefits to the bookmaking industry and to government of a lower tax regime in attracting the potential international market to bet with UK bookmakers. We concluded that, were it to result in an international market being attracted to the UK of the size estimated by MMD, the Government would be better off reducing GBD to 3 per cent even when measured in terms of GBD revenues alone (Europe Economics, 2000).⁵

That paper also assessed the impact of the reduction in betting tax in Ireland from 10 per cent to 5 per cent that had occurred in July 1999, implemented by the Irish government in response to the threat to the Irish exchequer from international competition. We found that the effect of the tax cut had been to increase off-course betting turnover in Ireland by 30 per cent. As well as indicating the potential benefits from reducing betting tax, this increase in turnover was also consistent with the assumptions used in earlier Europe Economics reports to estimate the impact of betting tax reductions in the UK. There has been speculation that betting tax in Ireland will be further reduced.

As reported later in this paper, there is now much anecdotal evidence to suggest that off-shore operations are generating significant levels of turnover. Customs receipts from GBD are

³ Europe Economics (1999), *The Potential Impact of Off-Shore Betting on Government Tax Revenues*, June 1999.

⁴ MMD (1999), *The Global Gambling Market*, December 1999.

beginning to decline, particularly in comparison to what could be achieved with a modern taxation system that exploited developing markets rather than sought to defend traditional markets that are being eroded by technological developments. Increasingly, bettors have come to expect to be able to bet deduction free, which points towards the need for a taxation system that is flexible enough to accommodate these changing customer expectations.⁶

2.4 The Need for a Modern System of Betting Taxation

Given the potential impact of new technologies, the bookmaking industry requested a reduction in the level of GBD in the 1998 and 1999 Budgets. This was so as to tackle the threat posed by overseas operators and to remove the incentive for UK bookmakers to establish themselves in off-shore locations.

However, GBD has remained at 6.75 per cent, and the potential impact of new technologies is increasingly now being realised. As a result, the migration of UK bookmakers to off-shore locations has continued unabated. Furthermore, more and more bettors have over this period become used to betting in a deduction-free environment with off-shore bookmakers.

As a result, the bookmaking industry now sees the need for a more fundamental reform of betting taxation. From the industry's perspective, the objective has become one of identifying a system of taxation which provides a reason for UK bookmakers to return from off-shore locations, and which is able to provide an environment in which UK bookmakers can offer bettors the deduction-free betting to which they have become accustomed. This applies particularly to low margin and high volume areas of the business which are most subject to international competition where a tax on turnover can have a disproportionate effect on profit margins.

The solution identified by the bookmaking industry is a tax on bookmakers' gross profits. If set at a low enough rate to enable bookmakers to bet deduction-free, this will foster rapid growth of the UK market and encourage international bettors to bet with UK bookmakers. As the profits generated by both of these markets – domestic and international – will be subject to the tax, the option also ensures that the UK taxpayer shares in the success of the UK bookmaking business through revenues from betting tax as well as other revenues generated by growth in the industry (employment, corporation taxes etc).

2.5 Customs' Consultation Document

In view of these developments, HM Customs and Excise published, in March 2000, *Our stake in the future, the modernisation of General Betting Duty for the 21st century, HM Customs and Excise Consultation Document Budget 2000*. This begins:

"The Government recognises the need to modernise the system of taxing bets subject to General Betting Duty".

⁵ Europe Economics (2000), *The Potential Impact of Off-Shore Betting on Government Tax Revenues: An Update to Reflect New Evidence*, January 2000.

⁶ In future, interactive TV will become as big a challenge as the internet. Merrill Lynch has forecast that by 2008 there will be some 75 per cent penetration of homes by interactive TV (*Racing Post*, 8 June 2000).

The document identifies a number of shortcomings with the current system, not least the potential for “serious damage” to the UK economy from lower employment levels in betting and racing, lower horserace levy receipts, lower profitability of the UK betting industry, and lower duty receipts.

It is also stated that the UK Government “is committed to doing all it can to help equip the bookmaking industry to grasp the opportunities offered by the e-commerce revolution”. The paper presented two alternative duty structures, summarised in Box 2.1.

Box 2.1

HM Customs & Excise Alternative Duty Structures

Option 1: Duty Structure Based on the Place of Consumption

“The basis of this proposal is a change of the territorial scope of the duty from where a bookmaker taking a bet is located to one based on where the customer is located.

Under the proposal both UK and overseas businesses providing off-course betting to UK customers would be subject to the full rate of UK betting duty. Conversely, any bets made by customers from outside the UK with a UK-based bookmaker would either be exempt from UK duty or subject to a reduced rate. Insurance Premium Tax is a precedent for this model.

Such a structure would allow UK-based bookmakers to compete for overseas business while removing the incentive to set up overseas operations targeting UK-based customers. Bookmakers could benefit from repatriating offshore operations saving overhead costs on items such as rent and administration”

Option 2: The Gross Profit Tax Model

“The basis of this proposal is that UK betting businesses would be required to account for duty as a percentage of gross profit derived from all betting activity, including spread betting, bet brokering and pool betting with the Tote. Duty is thereby absorbed from the bookmakers’ gross profit rather than shown as an additional cost to the customer in the form of a ‘deduction’. Bookmakers should therefore be better able to compete with offshore operators”

Source: *Our stake in the future*

Views were invited on:

- how each would work in practice;
- what difficulties might be envisaged and how they could be addressed; and
- analysis of the likely economic impact.

The remaining two sections of this report provide, respectively, a qualitative assessment of each of the options against the criteria identified by the Government for assessing tax options (Section 3), and a quantitative analysis of the likely financial effect of the options under different assumptions about bettor behaviour (Section 4).⁷

⁷ The scope of our analysis was limited to traditional forms of fixed odds and starting price betting; we do not consider the impact on spread betting.

3 QUALITATIVE ASSESSMENT OF OPTIONS

3.1 Introduction

This section describes the criteria identified by the Government for assessing tax options, and then assesses each of the options for the modernisation of betting taxation against these criteria.

Our assessments have been reached following discussions with bookmakers and with staff at HM Customs and Excise and the Inland Revenue.

3.2 Criteria for Assessing Tax Options

3.2.1 The Government's stated principles for the taxation of e-commerce

The development of internet betting and telephone betting are central to the development of the betting industry. It is therefore important to draw the principles on which tax policy should be based and the criteria against which it should be assessed from policy statements that explicitly take account of e-commerce.

The two main sources of UK policy statements about the taxation of e-commerce are:

- The Inland Revenue's *Electronic Commerce: the UK's Taxation Agenda*,⁸ and
- The Cabinet Office's *e-commerce @its.best.uk*.⁹

The traditional criteria for assessing any taxation have been that taxation should be neutral, certain and transparent, effective and efficient. The Government has set out how these principles apply to the taxation of e-commerce.¹⁰

- *Neutrality* - the taxation of e-commerce should seek to be technology neutral so that no particular form of commerce is advantaged or disadvantaged;
- *Certainty and transparency* – the rules for the taxation of e-commerce should be clear and simple so that businesses can anticipate, as far as possible, the tax consequences of the transactions they enter into;
- *Effectiveness* - the tax rules should not result in either double or unintentional non-taxation, and risks from increased evasion and avoidance should be kept to a minimum. The overriding aim should be that the right amount of tax is paid at the right time and in the right country; and
- *Efficiency* - the tax rules should be efficient, keeping the compliance costs of business and the administration costs of government to the minimum compatible with effective tax

⁸ Published by the Inland Revenue and HM Customs and Excise Departments, November 1999, <http://www.inlandrevenue.gov.uk/taxagenda/index.htm>.

⁹ This document was published in September 1999 by the Cabinet Office as a Performance and Innovation Unit Report, <http://www.e-envoy.gov.uk/2000/strategy/piureport/default.htm>.

¹⁰ These principles were first set out in an Inland Revenue press release dated 6 October 1998. They have been reiterated in subsequent policy documents, including *Electronic Commerce: the UK's Taxation Agenda* and *e-commerce @its.best.uk*.

administration. Measures to counter evasion or avoidance should be proportionate to the risks which they seek to address.

3.2.2 Customs' stated principles for the taxation of betting

Further criteria are discussed in the Customs consultation paper. This paper starts from the premise that: "The challenges of the fast-developing e-commerce environment require a robust tax regime which creates:

- A fair basis for UK bookmakers to compete internationally;
- A fair opportunity for horseracing to secure financial support;
- A fair contribution from the industry towards general tax revenues." (Page 1)

Of these, we consider that providing a fair basis for international competition is a distinct criterion – a different form of neutrality from neutrality between technical methods of betting. We have therefore adopted it as an additional criterion in the assessment below. This is an important criterion, as the positive reputation of UK bookmakers, and the restrictions on bookmaking activity in other jurisdictions, combine to potentially make the UK a natural focal point for the international betting market, given an appropriate fiscal environment.

The second "fairness" principle - the contribution to horseracing – is not material to the *form* of betting taxation, as any agreed transfer between bookmakers and horseracing can be arranged separately from the revenue collected through the tax. However, payments to horseracing will impact upon the *rate* at which the tax can be set. The simulations examined in this paper are based on the assumption that payments to horseracing continue at about the current level.

The third issue – a fair contribution by the industry to general taxation – is addressed in Section 4 of this paper, which estimates the contribution to overall government revenues under different tax options, in addition to the contribution from the specific betting tax alone. We show that the likely level of receipts under the different options will depend on the *rate* of a tax on betting as well as on its *form*, and on a range of behavioural responses.

There is a further, important interpretation of fairness. As discussed in Section 2, Europe Economics (1998a) reviewed what could be said about whether the taxation of off-course betting was "fair" compared to the taxation of similar products. This paper reached two main conclusions:

- there are no clear results from the textbook literature on the efficiency and equity of taxation from which robust principles and rules for the appropriate level of taxation of gambling relative to other goods and services could be derived; and
- the current General Betting Duty rate of 6.75 per cent leaves off-course betting making a contribution to the general tax burden that remains, relative to the amount wagered less customer winnings, above that for gambling as a whole.

This picture has not changed: betting remains relatively highly taxed compared to the taxation of other forms of gambling, for which there does not appear to be an obvious objective justification.

3.2.3 Summary of the criteria for the analysis of options

From this review, it seems that the Government will require any new tax to:

- Provide a fair basis for the UK betting industry to compete internationally;
- Be neutral between means of betting;
- Be certain and transparent;
- Be effective; and
- Be efficient.

The remainder of this section therefore assesses GBD and Customs' two options for reform against the above criteria.

3.3 General Betting Duty

3.3.1 Providing a fair basis for the UK betting industry to compete internationally

GBD at its current rate fails to provide a fair basis for the UK betting industry to compete with international operators for bets made by UK residents, as UK residents can place bets tax-free with international and internet bookmakers.

Part of the Government's response has been to seek to enforce the ban on advertising overseas betting and on the business of transmitting bets overseas. This ban, which applies within the UK jurisdiction, seeks to block the growth of a legal form of e-commerce by making it harder for potential customers to find out how to enter into the transactions. The need for such a ban – assuming it could ever be wholly effective - sits awkwardly with the emphasis Government policy gives to reducing barriers to e-commerce.¹¹

Recent evidence of the inability of UK-based bookmakers to compete internationally under the current tax regime is provided by the heavy demand from UK bookmakers for off-shore betting licences being issued by the government of Malta.

3.3.2 Neutrality

All bets placed through UK bookmakers are subject to the 6.75 per cent Duty independent of whether they have been placed through a betting shop, on the telephone or via the internet. However, from the customer perspective GBD is not neutral between different betting media, since UK customers can avoid paying GBD by betting by telephone or over the internet with international bookmakers. By penalising cash betting, the tax discriminates against poorer sections of society to the extent that they are more likely than other sections of society to bet in a betting shop rather than by telephone or over the internet.

3.3.3 Certainty and transparency

For dutiable expenditure, the duty payable by the UK bookmaker is clear, and the sum on which it is based well-defined, albeit reliant on accurate returns being submitted by bookmakers.

3.3.4 Effectiveness

General Betting Duty appears in the past to have been a reasonably effective tax. The tax rules have not led to double taxation, and non-compliance, while present, has not been such as to compromise the integrity of the tax. Government revenues from GBD have so far held up well, rising from £462 million in 1997/8 to £480 million in 1998/9 and £492 million in 1999/2000.

However, these annual figures hide significant change:

- The most recent Duty returns show decreases in turnover for February (down about 5 per cent in real terms over the same month last year), March (3 per cent), April (8 per cent) and May (8 per cent) compared to the same months in 1999. These falls have occurred even though the development of new markets is widely believed to be leading to an

¹¹ See, for example, the emphasis on "open and competitive markets" in Chapter 1 of *E-commerce@its.best.uk*.

increase in the popularity of betting. Other factors, such as additional Sunday racing, minimal loss of racing due to weather and new UK-based operators offering short-term reductions similar to off-shore bookmakers, will also have played a part in current performance.

- Little data are available on the turnover of off-shore and internet betting, so no firm estimate can be made of the extent to which the UK Government is 'missing out' on tax revenues it would be entitled to collect under a modernised system for the taxation of betting. However, soundings taken from within the industry suggest that the turnover generated from UK customers by tax-free betting operations are increasing rapidly and could already be £1 billion a year.
- In addition, there is believed to be a significant level of illegal gambling conducted within the UK (eg, in pubs) – BOLA estimates that it amounts to at least £1 billion each year.

The above evidence suggests GBD is already beginning to decline in effectiveness as the use of new betting media expands.

The Inland Revenue has identified a range of constraints deterring UK customers from offshore gaming and betting services, such as:¹²

- the law that bans agents operating on behalf of overseas bookmakers;
- for many clients who wager modestly, credit betting by telephone is not an option and the existence of low-tax, offshore bookmakers will not change this;
- many betting office clients are attracted by the immediate payment of winnings;
- the betting office is a social environment for many people, which cannot be replicated over the telephone or on a computer screen;
- there is a perceived increased risk for clients betting offshore that their money is not safe and that they will not be paid out on winning bets; and
- on-course bets, such as bets placed at racetracks, have been free of duty for many years.

As they develop more experience with off-shore betting, bettors' concern that they might not be paid out is diminishing. Otherwise, each of these points is valid for some part of the population that currently makes dutiable bets. However, as those who wish to place larger bets increasingly have internet access as well as access to free international telephone calls, that element of the market unable or unwilling to bet other than in betting shops can be expected to decline in importance. The impossibility of UK-based companies competing with international bookmakers for the growing telephone betting and internet betting business risks leaving duty payable only by a "rump" industry serving a diminishing market of traditional betting-shop customers, particularly if the rate of GBD is maintained at its current high level.

¹² *Electronic Commerce: The UK's Taxation Agenda*, Inland Revenue and HM Customs and Excise, 1999, at page 67 <http://www.inlandrevenue.gov.uk/taxagenda/ecom7.htm>.

The present GBD regime also leaves the UK Government with no revenues from any business secured by UK companies in international markets. There is no upside to offset against the reduced effectiveness of the tax in collecting revenue from betting by UK residents.

The prospect for GBD, if maintained at its current high rate, is therefore one of declining effectiveness. It was not designed for a world with e-commerce, where its sharp non-neutrality with respect to establishment location becomes important and its effectiveness depends on lack of access to modern technology. No tax with such a large, obvious and legal loophole scores well against a criterion of effectiveness.

In his foreword to *E-commerce@its.best.uk*, the Prime Minister writes:

“Countries that wholeheartedly embrace e-commerce will benefit from improved national economic performance. Those that do not risk seeing trade ebb away to low cost competitors elsewhere in the world”.

This comment could be applied to the effectiveness of GBD at its present rate in the face of overseas competitors who are able to attract UK and international customers by avoiding the tax payments faced by UK bookmakers.

3.3.5 Efficiency

The tax base for General Betting Duty is fairly simple and well-defined and the reporting returns are straightforward. This has contributed to the high degree of compliance from bookmakers. The costs of administering the duty seem unlikely to be large relative to the annual revenue of £492 million in 1999/2000.

3.3.6 General Betting Duty: Assessment

The increased availability and popularity of telephone betting and the rapid growth of household internet access have left GBD looking very exposed as a tax. It has directly prompted an offshore flight of economic activity and now has to be buttressed by attempts to block legal e-commerce.

This weakness is of course recognised by HM Customs and Excise, whose consultation paper notes the risk of more serious damage to the UK economy in several ways:

- Lower employment levels in betting and racing;
- Lower horserace levy receipts;
- Lower profitability of the UK betting industry; and
- Lower duty receipts.

With telephone and internet betting certain to become easy and familiar to ever more of the UK betting public, and the Government obtaining no offsetting income from bets placed by overseas residents with UK bookmakers, it is hard to imagine how GBD can have a long-term future in its current form, particularly at such internationally uncompetitive rates.

Parts of the industry have already responded by locating the provision of internet betting and telephone betting beyond the reach of the tax in an effort to compete with international operators. The rate of decline of GBD depends on the rate at which the UK betting public uses internet betting and telephone betting rather than the traditional betting shop.

3.4 Option 1: Place of Consumption Tax

Under this option, duty would be payable on bets made by customers located in the UK, wherever these bets were placed. An overseas bookmaker taking bets from customers located in the UK would be required to appoint a tax representative in the UK who would then be liable if the bookmaker failed to meet its obligations.

3.4.1 Defining the tax base

The Customs consultation paper refers to the physical location of the bettor being the place of location, although it requests views on other approaches.

The consumption tax sub-group of the Inland Revenue's Electronic Commerce Consultation Forum (ECCF), which met on 1 December 1999, discussed two related OECD papers currently in circulation, one on place of consumption and the other on collection mechanisms.¹³

The discussion noted the view put forward in the OECD's consumption paper that, for services provided to private consumers and non-business bodies, place of consumption should be defined as the usual place of residence (UPR). This would simplify decision-making for suppliers, most of whom routinely collect this information for marketing purposes. The discussion also noted that work was still being done on the OECD consumption paper, especially on how to verify a person's UPR, and that it was possible that the measure of agreement within the OECD could be reached by the end of 2000.

There is a possible tension between how one might ideally define the tax base for betting in shops (where physical location seems the natural choice) and how one might define it for telephone and internet customers (where place of residence may be preferable). This tension is likely to exacerbate the other difficulties in enforcing the tax, discussed below. In either case, such a system would seem likely to be unwieldy to operate in an industry characterised by relatively small transactions undertaken by a large customer base.

3.4.2 Providing a fair basis for the UK betting industry to compete internationally

If it could be effectively enforced on all bookmakers, including international bookmakers, and if non-discriminatory reciprocal arrangements between all countries could be established, Option 1 would provide a fair basis for bookmakers from different countries to compete. However, it seems more likely that UK bookmakers will continue to face unfair competition from international bookmakers supplying to UK customers and evading the tax. This in turn will depend on the rate at which the tax is set – UK bettors will have less incentive to bet with illegal tax-free overseas bookmakers if the UK tax is at a low rate.

The system would be likely to create pressures for reciprocal arrangements with other countries, such that UK bookmakers would have to appoint tax representations for each country in which they took a bet. This may discriminate against UK bookmakers to the extent that they are more likely to wish to comply with such requirements in order to preserve their reputation for probity and

¹³ See <http://www.inlandrevenue.gov.uk/e-commerce/ecom12b.htm> Further meetings of the consumption tax sub-group were expected to take place in June and December 2000. Their work would need to be cleared by the OECD's Committee of Fiscal Affairs in January 2001 in time for a joint international conference in May 2001.

integrity than might international bookmakers. Furthermore, any requirement to collect tax on behalf of overseas jurisdictions under reciprocal tax arrangements would still leave UK bookmakers uncompetitive against international competitors evading national betting taxes.

As a tax on gross betting turnover, it may also provide a disincentive for UK bookmakers to develop the high-volume, low-margin markets which are likely to be the growth areas of business in the UK. The competitive position of UK bookmakers in international markets against companies with lower domestic taxation may therefore be weakened by the detrimental effect the tax has on the incentives to develop the home market.

3.4.3 Neutrality

In principle, a place of consumption tax using a place of residence definition would score well on our definition of neutrality. Whether someone is a UK resident or an overseas resident, each of the alternative betting media would generate the same duty liability for the customer concerned - that is, how they place the bet would not affect the duty payable. It would, however, be extremely difficult to regulate in a betting office, where both UK and international customers can be present.

However, if the definition is physical location, as implied by Customs consultation document, then non-neutrality would emerge, as overseas residents currently in the UK would pay the tax if betting in a betting shop but not if betting over the internet or by telephone. Similarly, UK residents could avoid the tax by betting from overseas.

In both cases, any neutrality in the design of the tax would depend on it being enforceable and on reputable tax representatives being in place for international bookmakers.

A Place of Consumption tax operated by the UK could also create problems of double taxation. The consultation document fails to make clear what will happen in the case of, say, an Irish bookmaker taking bets from UK bettors – will this be subject to Irish or UK betting tax, or both? If both, the overseas bookmaker seems highly unlikely to wish to appoint a UK tax representative, and may find its own government sympathetic to an argument that it should not be subject to double taxation. It is difficult to see how a UK Place of Consumption tax could be sustainable unless other countries can be persuaded to bring their tax regimes into line (which is unlikely to be straightforward task and may not be achievable in practice).

Customs has suggested to us that an overseas bookmaker subject to this double taxation problem would cease offering bets to UK customers, thus solving the problem. This seems to us a somewhat over-optimistic view. It seems more likely that the overseas bookmaker will move its operations to an off-shore location where the tax burden is lowered or removed. Overseas tax authorities therefore seem unlikely to enforce satisfactorily the double taxation requirements. At the least, therefore, one can expect the imposition of the place of consumption tax on foreign bookmakers to lead to disputes with other national governments (eg, under the terms of the agreement to avoid double taxation).

3.4.4 Certainty and transparency

As with the current GBD, the amount of duty a business would be required to pay on a transaction would be clear, provided the business had adequate means of identifying the location

(as defined for the purpose of the tax) of the individual placing the bet. As noted above, this raises difficult issues.

Under Insurance Premium Tax (IPT), offered by Customs as a precedent for a successful place of consumption tax, applicants seeking insurance must specify the precise location of the risk in purchasing the service. However, location of risk is well-defined in EU legislation. Even so, certain kinds of insurance for which the location of the risk cannot be readily defined and assured (eg, international transport and freight) have been exempted from IPT on those grounds. The precedent may therefore be of limited relevance to betting.

Before the tax could be regarded as scoring well under certainty and transparency:

- an unambiguous definition of the relevant location criterion would have to be specified; and
- bookmakers would need some way of assuring themselves about the bettor's status against that criterion.

The IPT is different in important respects from the proposed place of consumption betting duty, and so does not show that certainty and transparency can be achieved for such a tax (this is further discussed in relation to Box 3.1 below).

3.4.5 Effectiveness

The effectiveness of a place of consumption betting duty would depend on:

- the ability of UK residents to evade the tax by betting in a way that hides their taxable status;
- the extent to which international companies would voluntarily appoint a tax representative or could be compelled to appoint a tax representative;
- whether tax representatives will be sufficiently reputable to provide assurance that they will meet their potential liabilities; and
- whether workable reciprocal arrangements with other countries could be introduced.

As discussed above, a clear consensus has not yet been reached on place of consumption, so there remains considerable uncertainty as to whether it will be possible to prevent UK customers evading the tax.

As with any tax, the higher the rate the greater will be the incentive to evade the tax. If set at a low rate, the advantages to the customer from betting with an illegal international bookmaker who does not have a UK tax representative will diminish.

With regard to compliance and enforceability, the comparison with Insurance Premium Tax reveals some stark differences which mean that the high rates of voluntary tax registration under IPT are of limited value in judging the likely registration rate for a place of consumption betting duty. These are summarised in Box 3.1.

Box 3.1**Reasons why IPT is Not a Good Precedent for a Place of Consumption Betting Tax**

- The product is entirely different. Insurance typically consists of taking out protection against serious risk, and the ability to obtain insurance is fundamental to many transactions in a market economy. Taking out insurance is a quite different kind of transaction from placing a bet, in which bettors voluntarily take on upside and downside risk rather than seek to minimise serious adverse risks.
- This difference is reflected in the more stringent regulation of insurance compared to betting. Overseas insurers wishing to insure UK risk already had UK representatives to meet the requirements of the Insurance Companies Act at the time IPT was introduced, so a mechanism for introducing tax representatives was effectively already in place through existing relationships in the insurance industry.
- Of the several hundred overseas insurers registered for IPT, most are thought by Customs to be 'captive insurers' – ie, created by a business corporation to supply some or all of the insurance needs of the parent.
- The UK businesses that seek to insure overseas are unlikely to wish to do so with an insurer that is not meeting its legal obligations: this effect might be expected to be much weaker for betting, where less is at stake.
- The fact that the businesses taking out insurance are VAT registered, as are the overseas companies they purchase insurance services from, provides an additional monitoring mechanism. Betting is by individuals who do not have to keep records for VAT inspection.

Ensuring that overseas suppliers register and account for the VAT due on sales to private customers in the UK is an unsolved problem in VAT compliance. These private purchases from businesses, rather than the business-to-business transactions that account for most of overseas transactions on which IPT is payable, are the relevant parallel to a place of consumption betting tax. The private individuals who place bets overseas do not need to make VAT accounts available for Customs to audit.

If effectively enforced, the tax would preserve the tax revenues from betting by UK residents. The main mechanism proposed by Customs for exerting pressure on overseas bookmakers to register and pay duty would be via the relevant national or state licensing authorities (of whom there might be a large number). However, the possible use of such a mechanism may lead bookmakers wishing to avoid duty to base themselves in jurisdictions where such a mechanism is likely to be ineffective.

It would therefore be unwise to rely on the successful introduction of Insurance Premium Tax in forming a view on the likely effectiveness of a place of consumption betting duty.

A further shortcoming is that a place of consumption tax would not generate any additional revenue from betting duty should UK-based firms be successful in obtaining a larger share of overseas betting markets, and would also attract illegal overseas bookmakers to the UK market.

3.4.6 Efficiency

If a Place of Consumption Tax was introduced, a new apparatus to register and monitor tax representatives would be required, which could prove costly (and certainly more costly than when similar arrangements were introduced for Insurance Premium Tax).

A significant risk to the efficiency of the tax lies in the resources that might need to be devoted to ensuring compliance by those seeking to evade the tax, for example:

- overseas bookmakers that do not appoint tax representatives or do not accounting correctly for tax; and
- UK residents seeking to continue to enjoy duty-free telephone and internet betting.¹⁴

Further costs would arise to the UK bookmaking industry if the introduction of such a tax led to the need for reciprocal arrangements with other countries. With such an eventuality, UK bookmakers would potentially need to appoint a tax representative in each country in which any of its customers were located. This could lead to an onerous burden, and perhaps ultimately a breakdown in the tax representative system.

A Place of Consumption regime would, we assume, allow overseas bookmakers who appoint an approved tax representative to legally advertise their services in the UK, in contrast to the current situation whereby advertising off-shore betting services is illegal. Additional enforcement costs would therefore be likely to arise from Customs' need to ensure that both the bookmaker and its tax representative were 'fit and proper' to be allowed to advertise their services in this way. It is not clear to us what practical measures could be taken by Customs to ensure that this was the case, and there is therefore a risk that the UK bookmaking industry's reputation for probity and integrity could be jeopardised. A Place of Consumption tax regime would certainly seem to imply a significant departure from the way in which the UK bookmaking has traditionally been regulated.

3.4.7 Assessment of Option 1: Place of Consumption Tax

It appears very doubtful whether a Place of Consumption tax could be effectively enforced, unless set at a low enough rate to diminish the attractions of customers betting off-shore or illegally. Transactions in which businesses outside the EU sell to private consumers in the UK are intrinsically difficult for Customs to collect information on and collect tax revenue for. If enforcement was not effective, the tax could lead to the worst of all possible worlds, with bookmakers evading the tax taking a large share of the market and making profitable compliance impossible. As recently as July, the US government warned that it was becoming increasingly easy for e-commerce companies to set up websites in jurisdictions that were unwilling to share

¹⁴ One of the options floated in the consultation document is the possibility of making it a criminal offence for a UK resident to knowingly place a bet with an illegal off-shore bookmaker, and under IPT Customs has the power to pursue the individual for the tax liability in the event that the customer places a bet with an overseas firm that does not appoint a UK tax representative, or if that tax representative defaults on its liabilities.

taxpayer information, allowing them to sell their goods worldwide without any scrutiny from international tax agencies.¹⁵

A Place of Consumption betting tax would also raise the double taxation problem discussed in Section 3.4.3, unless overseas tax authorities could be persuaded to reform their own betting tax regimes to bring them into line with the UK's approach, which seems unlikely. This is an important issue. Quantitative analysis of the effect of a Place of Consumption tax would require a set of explicit assumptions about how other tax authorities behave, but there is no basis for making such assumptions. If other jurisdictions were to reject the UK Government's claim to tax overseas bookmakers, a Place of Consumption tax would presumably have to be withdrawn.

The successful introduction of Insurance Premium Tax should not be relied on as a precedent for the likely effectiveness of a place-of-consumption betting duty. Taking out insurance and placing a bet are intrinsically very different – reflecting opposite decisions about risk - and the taking of UK bets by overseas bookmakers has no established mechanisms to compare with the close supervision that those insuring risks in the UK already faced when IPT was introduced.

¹⁵ Comments attributed to Larry Summers, US Treasury Secretary, in the Financial Times of 11 July 2000.

3.5 Option 2: Gross Profit Tax

Under this option, UK bookmakers would be required to account for duty as a percentage of gross profit derived from betting activity. This is similar to the way in which Gaming Duty is currently calculated. Companies would make monthly returns showing the dutiable amounts.

3.5.1 Providing a fair basis for the UK betting industry to compete internationally

Set at a reasonable rate, a GPT could provide a fair basis for the UK bookmaking industry to compete internationally. It would enable bookmakers to encourage both growth of the UK betting market and to attract international business to the UK. It is also an attractive option to government, as the international activity attracted to the UK will be covered by the tax.

The extent to which Option 2 provides a fair basis to compete in international markets would depend on the rate at which the tax was levied. A rate of GPT at or close to zero would be necessary for UK bookmakers to compete on a wholly fair basis with their overseas counterparts. However, our assessment has also taken into account the Government's desire to protect the tax base. While the tax might not be visible to the bettor, it would affect the terms of competition between the bookmakers: the lower the rate, the stronger the competitive position, and the easier it would be for UK bookmakers to compete with international bookmakers.

The deductions made by UK bookmakers finance a levy to horseracing as well as tax payments to government. Since international bookmakers do not pay the Horserace Levy, this will have an impact on the rate of tax that would enable UK bookmakers to compete internationally.¹⁶

3.5.2 Neutrality

This form of taxation would be neutral between ways of betting and would therefore not in itself be an obstacle to the development of e-commerce.

3.5.3 Certainty and transparency

The gross profit tax is a coherent response to the arrival of e-commerce, in that UK-based bookmakers would be taxed on gross profit from their activities wherever and however they organise them. The amount of duty a UK bookmaker would be required to pay would in principle be clear once a return was compiled, provided a working definition of a UK bookmaking company could be established.

3.5.4 Effectiveness

The effectiveness of a Gross Profit Tax would depend on the extent to which UK companies could successfully compete in UK and international markets against competitors subject to low betting duties and low corporate taxes more generally. The doubts over the effectiveness of this tax therefore relate to its rate: a significantly higher rate of tax relative to its competitors would eventually show up in the prices UK bookmakers can offer. This could, in time, lead to UK

¹⁶ In addition, differences in the level of corporation tax ought ideally to be taken into account when determining the level of betting tax necessary to ensure international competitiveness.

bookmakers losing share of the UK betting market and at the same time preventing them obtaining a significant share of international markets.

Provided GPT is set at a competitive rate, it should discourage UK bookmakers and their customers from moving off-shore, as they will be able to compete effectively from the UK.

Furthermore, the UK bookmaking industry has in the past satisfactorily honoured voluntary agreements with the UK taxation authorities designed to maintain the integrity of the tax system.

3.5.5 Efficiency

The monthly returns would be a little more complex to complete, collect and audit than the monthly returns already lodged for General Betting Duty. This may lead to some limited additional costs of compliance, at least for a short period after the tax is introduced. The use of standard industry margins, and reviewing the bookmakers' internal controls, should limit the extra auditing work for Customs and Excise. In the longer term, however, the tax should be no more costly to collect than GBD. There seems little reason why the risks of evasion under a GPT would be any higher in the long term than the risks of evasion under the present GBD model. Indeed, a reduction in the rate of tax seems likely to reduce the incentive for bookmakers to evade it.

3.5.6 Assessment of Option 2: Gross Profit Tax

A gross profit tax has the advantage of providing an incentive to UK bookmakers to pursue low-margin, high-growth markets such as that in internet betting, in both the UK and overseas markets.

The possible risk to its effectiveness as a tax will lie largely in the risk of the tax being payable at a high rate. Too high a rate would make it difficult for UK bookmakers to compete on equal terms in both UK and overseas markets. Government would have to make a trade-off between, on the one hand, seeking to defend existing revenues from the specific tax on betting (which would lead to a higher rate, but may limit growth) and, on the other, seeking to share in the benefits of growth in the UK and overseas. The latter consideration would call for a lower tax rate, the principal benefits of which would materialise in the form of the industry's wider contributions to the UK economy (corporation tax payments, levels of employment, and so on) .

3.6 Conclusions on Qualitative Assessment of Options

This section examines how the different possible alternatives for a modern system of betting taxation stand up against a range of criteria set out by the Government. Our conclusions are as follows:

- **General Betting Duty**, the current form of taxation, has generally been an effective and efficient tax to date, but technological advances now mean that at its present rate it has become a sitting target for simple and legal tax avoidance by UK customers. Unless modernised, it is incompatible with the UK reaping the benefits from developing international e-commerce. In a world where internet betting and telephone betting are increasingly available and increasingly familiar to more of the betting population, the effectiveness of this tax can only decline, particularly if retained at its present high rate.
- Effective enforcement of the **Place of Consumption Tax** (Customs' Option 1) seems unlikely. Even if set at a low rate, it may be hard for UK bookmakers to compete effectively on the low margin / high volume growth areas of the business. It is also unclear how the many practical issues raised in this paper will be resolved, if at all, and what costs they might give rise to. These include the practicality and cost of reciprocal arrangements with other countries, and the risk that a Place of Consumption tax implemented by the UK will give rise to double taxation unless other countries can be persuaded to change their basis of betting taxation, and so may well prove unsustainable. The successful introduction of Insurance Premium Tax is not a convincing precedent, as the service and the circumstances are too different from those of betting to be relevant.
- Set at a reasonable rate, the **Gross Profit Tax** (Option 2) could provide UK bookmakers with an incentive to pursue high-growth low-margin markets that may be unprofitable under a duty based on turnover. This would potentially bring substantial new markets within the scope of the tax, to the benefit of the UK taxpayer as well as of the UK bookmaking industry. A high rate of tax is to be avoided if bookmakers are to be able to compete effectively in the longer term.

In summary, a GPT would be more effective in achieving the objective of reducing the attraction of off-shore betting than a GBD set at a similar level. This is because GBD weighs more heavily on low-margin business than on high-margin business, and it is the low margin business which has been most responsive to the attractions of off-shore betting.

The options are assessed in quantitative terms in the following section.

4 FINANCIAL ASSESSMENT OF OPTIONS

4.1 Introduction

This section of the report seeks to complement the qualitative analysis provided in Section 3 with analysis of the likely financial effect of the options under different assumptions about bettor behaviour. We do so by developing illustrative scenarios for what might happen under different options - the quality of available data and the uncertainty about future developments do not provide reliable bases for precise forecasts.

The key variable in assessing different forms of betting tax from a financial perspective is taken to be the UK government's revenue from the specific tax on betting. We also consider how the options may affect the other contributions that the UK bookmaking industry makes towards government revenues, and employment levels in the industry.

As discussed in Section 3, the question of the funding of horseracing can be separated from the debate as to the appropriate *form* of betting taxation. For example, any agreed transfer between bookmakers and horseracing can be arranged separately from the revenue collected through the tax. However, any arrangements with the horseracing industry will impact upon the *rate* at which betting tax can be set.

4.2 Modelling Framework

The analysis uses a comparative static approach. It seeks to capture the results at a time when those bettors who wish to have adjusted to the ready availability of internet and telephone betting, and when bookmakers and bettors alike have responded fully to the incentives created by the new form of taxation - that is to say, each scenario is intended to characterise a new equilibrium position. In chronological time, a reasonable estimate might be that this adjustment would be complete within two to three years of the tax being introduced.

To model the effects on tax revenues under different options, the rates of betting taxation under the different forms must be specified.

The following options are assessed:

- The status quo: General Betting Duty at 6.75 per cent on the gross stake, with deductions of 9 per cent on all bets.
- GBD at 1.1 per cent on the gross stake, with zero deductions.
- Option 1 (Place of Consumption Tax) at 1.1 per cent on the gross stake, with zero deductions.
- Option 2 (Gross Profit Tax): this tax is assumed to be set at 15 per cent of the gross profit of UK bookmakers (and no deductions).

The status quo – what would happen if betting tax was not modernised - is included for comparison, as it is a well-understood counter-factual against which to assess the Gross Profit Tax model.

A rate of GPT of 15 per cent has been modelled following discussions with the industry. We have assumed that 15 per cent is the highest rate of GPT which would provide the industry with the potential to offer tax-free betting, on the assumption that payments to the horseracing industry are not increased from their present level. While the UK industry would still be at a competitive disadvantage to 'tax-free' international bookmakers, who would not be subject to a similar tax, our modelling (below) shows that this rate would maintain government revenues from betting taxes comparable to the status quo.

On the gross margin assumptions used in this report, GPT at 15 per cent equates to a tax on turnover for telephone/internet betting of about 1.1 per cent, and a tax on turnover of betting shop turnover of about 2.3 per cent. Given the need to compete internationally, we assume that 1.1 per cent is the highest rate of GBD which would provide the industry with the potential to offer tax-free betting.

Given the doubts as to the enforceability of the Place of Consumption tax highlighted in Section 3 – in particular, the ability of international bookmakers to operate from locations where the 'tax representative' system can not be enforced - we assume that UK bookmakers under a Place of Consumption tax would require this same rate of turnover tax (1.1 per cent) if they are to be able to compete with international bookmakers.

Higher rates of GBD and POC would be likely to be self-defeating, as they would prevent bookmakers from offering zero deductions. UK bookmakers would not be able to compete for telebetting and international business, and the drift away from the betting shop in favour of more modern betting media would continue.

4.3 Betting Market Assumptions

The Betting Market in 1999

The starting point for the modelling was the position in the 1999 calendar year. Gross turnover subject to GBD of £7,290m is based on data supplied by HM Customs and Excise. The split of this between betting shops and telephone betting (in the ratio 90:10) is based on discussions with bookmakers, and is consistent with earlier estimates.

In order to assess the impact of different forms of betting taxation on how customers place their bets, it is necessary to make an estimate of the amount already being bet with internet and telephone bookmakers. Since, in 1999, the internet operations of UK bookmakers were in their infancy, we have assumed turnover through this media and subject to GBD was zero in 1999. However, we have estimated that £250m was bet off-shore by UK customers by telephone¹⁷ and £100m over the internet¹⁸ in 1999.¹⁹

¹⁷ Data on off-shore telebetting are not readily available. However, Victor Chandler, a leading off-shore telephone business, reports 20,000 UK registered customers (out of 32,000 in total) and that the UK market is the largest contributor to annual turnover of \$1 billion (Independent 19 April 2000).

¹⁸ Data on internet betting are not readily available. However, Sportingbet.com, a leading off-shore internet company, reports annual turnover of £25m (Daily Telegraph, 9 May 2000).

¹⁹ In practice, gross turnover currently bet tax-free off-shore would be likely to reduce if repatriated to the UK and subjected to 9 per cent deductions, due to the recycling effect operating in reverse. However, the amounts in question (£350m in total for telephone and internet) are such that any adjustment for this would not materially impact upon our results.

The gross margins assumed - of 22.5 per cent for betting shops, and of 15 per cent for both telephone and internet betting - are based on discussions with bookmakers and are consistent with earlier estimates of gross margins when deductions are 9 per cent.

These estimates are summarised in Box 4.1.

Box 4.1	
Summary of UK Betting Market in 1999	
Gross turnover subject to GBD	£7,290m
Of which:	
- betting shops (90%)	£6,563m
- telebetting (10%)	£729m
- internet (0%)	-
Gross turnover of UK customers betting off-shore:	£350m (est)
Of which:	
- telebetting	£250m (est)
- internet	£100m (est)
UK bookmakers' share of the 'fluid' international market	£0m (out of approx £60bn)²⁰
Receipts from GBD were £492.1m (6.75% of £7,290m).	
Betting with UK bookmakers subject to GBD of 6.75% and deductions of 9%	
Gross margins in betting shops 22.5% (assuming 9% deductions).	
Gross margins for telephone and internet betting of 15% (assuming 9% deductions).	

Underlying Growth in the Betting Market due to Technological Change

As our comparative static analysis is undertaken for a period in the medium-term future, we need to make some assumptions about how the potential market for betting may develop between now and then as a result of technological change, regardless of the form of tax regime. These assumptions are a 'building block' of our overall methodology, included to help understand how our estimates were derived, and should not be evaluated in themselves.

We assume that were deductions to remain at 9 per cent for all modes of betting (and could not be avoided by betting off-shore) technological change would by 2002 cause the following changes in the size of the markets:

- the UK betting shop market would decline by £500m (from £6,563m to £6,063m);
- the UK telephone betting market would grow by £750m (from £979m to £1729m), and

²⁰ MMD *The Global Gambling Market* (December 1999) estimated the size of the potential overseas market for UK bookmakers, what it termed the "fluid" international market, to be £64.9bn by 2001. Given growth in these markets, we have assumed a corresponding figure of approximately £60bn for 1999.

- the UK internet market would grow by £750m (from £100m to £850m).

In other words, we assume that were deductions at 9 per cent, the UK telephone and internet betting markets would experience growth through a combination of replacing some of the betting currently undertaken in betting shops and through attracting new customers who are more comfortable with betting through new media. In subsequent sections we consider how much of this potential market would be attracted to UK bookmakers under different options for the modernisation of betting tax, and how each of the markets may expand in response to reducing deductions to zero.

For bettors from overseas, we adopt MMD's estimate that the size of the "fluid" international market (ie, that bet by internet and telephone and potentially available to UK bookmakers) will be £64.9 billion in 2001, of which MMD assumed two-thirds is by telephone (£44.6 billion) and one-third (£20.3 billion) is over the internet.

4.4 Behavioural Assumptions

We assume two different possible behavioural responses by bettors to changes in the tax regime:

- "*Unresponsive bettors*" (Scenarios 1 - 4), in which UK and overseas bettors respond only sluggishly to price signals in changing how and with whom they place their bets.
- "*Responsive bettors*" (Scenarios 5 - 8), in which UK and overseas bettors respond vigorously to price signals in changing how and with whom they place their bets.

The assumptions adopted for unresponsive bettors are summarised in Box 4.2:

Box 4.2	
Main Behavioural Assumptions – Unresponsive Bettors	
<i>UK bettors</i>	
•	If deductions are 9 per cent, betting in betting shops falls by only 10 per cent and UK telebetting only halves from existing levels by 2002.
•	If deductions are zero, bettors recycle their additional returns (the "recycling assumption")
<i>Overseas bettors</i>	
•	If deductions are 9 per cent in the UK, none of the fluid international market comes to the UK.
•	If deductions are zero, UK bookmakers could attract only 5 per cent of the 'fluid' international market (of £64.9bn).

Assumptions adopted for responsive bettors are shown in Box 4.3:

Box 4.3	
Main Behavioural Assumptions – Responsive Bettors	
<i>UK bettors</i>	
•	If deductions are 9 per cent, betting in betting shops falls by 30 per cent and UK telebetting is reduced to zero, by 2002.
•	If deductions are zero, bettors increase their gross turnover in a similar manner to which UK and Irish bettors have responded to previous reductions in betting tax (the “0.63 elasticity assumption”)
<i>Overseas bettors</i>	
•	If deductions are 9 per cent in the UK, none of the fluid international market comes to the UK.
•	If deductions are zero, UK bookmakers could attract 10 per cent of the ‘fluid’ international market (of £64.9bn).

The assumed loss of betting shop and telephone customers if GBD remains at 6.75 per cent and deductions are 9 per cent is consistent with the assumptions adopted in Europe Economics (1999, 2000).²¹

In order to provide further confidence in these assumptions, BOLA commissioned a survey of the attitude of betting shop bettors to internet betting. The results, which are reproduced in Box 4.4, are based on a sample of over 500 betting shop customers from around the country, and increase the level of confidence that our original range of assumptions do not overstate the potential impact of off-shore betting on UK bookmaking if the status quo were to be maintained.

The Inland Revenue has already acknowledged that current revenues from GBD on telephone betting are at risk from the recent technological developments.²² BOLA’s survey suggests that tax revenue from betting shops customers is also vulnerable. One of the most striking results is that if deductions remain at 9 per cent, then only 71 per cent of those current betting shop customers who spend more than £50 per week would consider betting in a betting shop in future.

²¹ Europe Economics (1999), *The Potential Impact of Off-Shore Betting on Government Tax Revenues*, considered “low”, “medium” and “high” impact scenarios, in which, respectively, 10, 20 and 30 per cent of betting shop turnover switched offshore, and, respectively, 50, 75 and 100 per cent of telephone betting turnover switched off-shore.

²² *Electronic Commerce: The UK’s Taxation Agenda*, paragraph 7.11 states: “If the major bookmakers were to transfer all their credit betting facilities offshore, the revenue at risk could be in the region of £50million”.

Box 4.4		
Results of Survey of Betting Shop Bettors²³		
Q8b - Use nowadays	All respondents	Weekly spend > £50
Telephone Credit Account betting	8%	14%
Telephone debit betting with switch, delta	15%	23%
Off shore tax free betting by phone	3%	8%
Betting over the internet	4%	6%
Offshore tax free betting by internet	3%	5%
Q8c - Will use in future		
Telephone Credit Account betting	13%	21%
Telephone debit betting with switch, delta	20%	29%
Off shore tax free betting by phone	9%	17%
Betting over the internet	15%	19%
Offshore tax free betting by internet	8%	15%
Q11a - If deductions remain at 9% in betting shops, which of the following would you consider (multiple response)		
Betting tax free over the internet	21%	29%
Betting tax free via the telephone	31%	43%
Continue betting in the betting shop	78%	71%

With regards to the assumed behaviour of UK bettors if deductions are reduced to zero, the behavioural responses are again consistent with those used in Europe Economics (1999, 2000). These are that in the 'unresponsive' scenarios, bettors are assumed to recycle their additional returns that result from the removal of deductions. In the 'responsive' scenario, the elasticity of gross turnover with respect to the level of deductions is assumed to be 0.63, based on previous research undertaken by Europe Economics (see Europe Economics 1998b, 2000).

The recycling assumption assumes that while total stakes bet increase, bettors' overall expenditure (in terms of their eventual losses) remains unchanged in response to change in the level of deductions. Such an assumption has been used in previous studies, such as in the Henley Centre's analysis of the potential impact of a reduction in GBD following the introduction of the National Lottery.²⁴ Assuming the recycling effect, and gross margins initially of 22.5 per cent, gross turnover would increase by 45 per cent in response to the removal of deductions from their current 9 per cent level.

²³ Based on a survey commissioned by BOLA of 551 customers in 32 betting shops conducted by independent market research agency Davis Riley Smith Maclay (DRSM) between 24 May 2000 and 17 June 2000. Of the 551 respondents, 126 reported a weekly spend above £50.

²⁴ Henley Centre (1995), *An evaluation of the impact of the National Lottery on the betting industry*.

However, previous research undertaken of the impact of past betting tax reductions in the UK and Ireland, reported in Europe Economics (2000), suggests that the recycling assumption may understate bettors' full behavioural response, and that a 1 per cent reduction in the level of deductions has been found to increase gross turnover by about 0.63 per cent.²⁵ The 100 per cent removal of deductions would in this case increase gross turnover by 63 per cent. These increases in turnover will be underpinned by a reduction in the level of illegal betting, as well as by increased activity by those currently betting legally.

For the international market, our scenarios assume that UK bookmakers would be able, by 2002, to capture between 5 and 10 per cent of the international 'fluid' market (telephone and internet betting) identified by MMD (1999). This estimate again errs on the side of caution: MMD's original estimate was that UK bookmakers could capture 10 – 20 per cent of this market by 2001. The UK would be well placed to capture the international market, given that in most other jurisdictions betting is either undeveloped or illegal.

We make a further assumption that applies to all scenarios. This is that the £350m that we estimate was in 1999 bet off-shore (£250m on telebetting and £100m on the internet) will be bet in the UK under those options where residents in the UK face zero deductions in the UK. Similarly, underlying growth in the UK internet and telephone betting markets, which in both cases we estimate at £750m by 2002, will only be bet with UK bookmakers if there is not a legal alternative available off-shore at a lower level of deductions. This assumes that in the long run customers will wish to place bets in the country of residence if there is no benefit from placing bets overseas.

²⁵ Europe Economics (2000), *The Potential Impact of Off-Shore and Internet Betting on Government Tax Revenues*, found that off-course turnover in Ireland has, all else equal, increased by about 30 per cent in response to the July 1999 reduction in betting tax in Ireland from 10 to 5 per cent.

4.5 Summary of Impact on Tax Revenues

4.5.1 Government Revenues from Betting Tax

Our results for the impact on specific betting duties are reported in Appendix 1, and summarised in Table 4.1 below:

Table 4.1
Level of Betting Tax Receipts
Under Different Betting Tax Options and Behavioural Assumptions

	Unresponsive	Responsive
GBD at 6.75% (9% deductions)	£393m	£286m
GBD at 1.1%	£169m	£213m
POC at 1.1%	£133m	£142m
GPT at 15%	£277m	£335m

Note Assumes full compliance with each option.

A rate of GPT at or close to zero would be necessary for UK bookmakers to compete on a wholly fair basis with their overseas counterparts. From the perspective of maintaining revenues from the specific betting tax, the attractiveness of GPT compared to the current tax system depends on the rate at which GPT is levied. If bettors are unresponsive, our calculations suggest that GPT would need to be levied at a rate of about 21 per cent to match the betting tax revenues likely to arise in those circumstances (£393m) if GBD at 6.75 per cent is retained. However, if bettors are responsive, a GPT rate of about 13 per cent would be sufficient to match the revenues from GBD likely to arise in those circumstances (£286m).

This part of the analysis thus points to a rate of GPT in the range 13 – 21 per cent to match potential revenues from GBD at 6.75 per cent, if specific betting taxes alone are considered. Note though that we have earlier assumed that 15 per cent is the highest rate of GPT consistent with providing the industry with the potential to offer tax-free betting, assuming payments to horseracing remain at close to current levels. Hence, a rate towards the top end of this range would not enable UK bookmakers to compete effectively with their international competitors.

For both turnover tax options, the rate of tax necessary to enable UK bookmakers to compete with international competitors (1.1 per cent) does not provide revenues from betting tax comparable with those produce by the status quo or by GPT.

4.5.2 Government revenues from other taxes

As recognised in the Customs' document, bookmaking raises additional revenues for Government in addition to revenues from the specific betting tax. These include Corporation Tax, VAT, business rates, employees' personal income taxes, and short-term savings in welfare payments.

The impact of the different options on general tax payments made by the bookmaking industry to government is more difficult to quantify than specific betting taxes, as it relies on the development of robust cost functions for each of the different betting media. In past Europe Economics reports, detailed quantification has been possible, since the main focus of attention was on the impact on turnover in betting shops, for which the cost structure is well understood. Having collected and assessed data from bookmakers on the current costs of their betting shop, telephone betting and internet operations, we consider that the manner in which telephone betting and internet betting costs will change in response to future developments in these markets is currently too uncertain to predict.

We therefore adopt a simplified approach, which assumes that the other contributions to Government are proportional to the level of betting activity routed through the UK under the different options. This seems a reasonable assumption – additions to turnover would generally be expected to generate additional profits (and hence corporation tax payments), additional employment (and hence employee taxes) and additional need for materials (and hence VAT payments).

Europe Economics (1999, Table 4.3) was able to develop detailed models of the cost structure of betting shops. It reported that in 1998, the UK bookmaking industry contributed £246m to government revenues, in addition to the £479m raised from GBD. On gross turnover in 1998 of £6,878m, this additional contribution is equivalent to about 3.5 per cent of gross turnover. A similar figure results from applying the same calculation to the other scenarios considered in that report, which covered the range from gross turnover of £4,382m (other contributions: £153m) to gross turnover £9,769m (other contributions: £344m). This suggests that, within this range at least, this relationship is fairly robust across different levels of gross turnover.

If this figure is applied to the level of 'activity', as measured by gross turnover of UK bookmakers, calculated for each option in Appendix 1 of this report, the implied additional contributions to government revenues are as shown in Table 4.2 below:

Table 4.2
Level of Other Contributions to Government
Under Different Betting Tax Options and Behavioural Assumptions

	Unresponsive	Responsive
GBD at 6.75% (9% deductions)	£204m	£149m
GBD at 1.1%	£538m	£679m
POC at 1.1%	£538m	£679m
GPT at 15%	£538m	£679m

Note Assumes full compliance with each option.

Some care is needed in interpreting these figures, as they are based on simple application of historical relationships which may be affected by the development of more modern forms of betting in ways which are difficult to predict. However, even allowing for some margin of error, these figures show starkly the impact the modernisation of betting taxation could have on the level of activity – and hence tax base – of the UK bookmaking industry, particularly if bettors are thought to be responsive to price differentials between different betting media. GPT at 15 per cent, and the other options where deductions can be reduced to zero, would be expected to raise large sums in general taxation, on account of the significant expansion that is assumed to result for the domestic betting market and the magnitude of the international market that is assumed would be attracted to the UK. GBD at its present rate, by contrast, would see activity levels – and government revenues - showing a steady decline.

4.6 Impact on Betting Shops and Employment

The impact on shop and employment numbers is difficult to estimate, as changes of the magnitude under consideration in this paper would be without precedent.

However, Europe Economics (1998b, 1999) adopted a methodology for estimating the impact of changes in betting shop turnover on the number of betting shops.²⁶ Applying this methodology to the betting shop turnover levels derived under each of scenarios 1 - 8 produces estimates of the change in the number of betting shops compared to present levels (of about 8,350 shops), reported in Table 4.3 below:

²⁶ This is calculated according to the number of shops below a 'breakeven' level of turnover (assumed to be £450,000) at different levels of turnover for the industry as a whole, taking account of an estimate of the distribution of betting shops across turnover levels. See Europe Economics (1999, Annex 1).

Table 4.3
Change in the Number of Betting Shops
Under Different Betting Tax Options and Behavioural Assumptions

	Unresponsive	Responsive
GBD at 6.75% (9% deductions)	- 890 shops	- 2,135 shops
GBD at 1.1%	+ 1,015 shops	+ 1,390 shops
POC at 1.1%	+ 1,015 shops	+ 1,390 shops
GPT at 15%	+ 1,015 shops	+ 1,390 shops

Note Assumes full compliance with each option.

If betting taxation is not reformed, over 2,000 shops may be at risk of closure. By contrast, betting tax reform that enables deductions to be reduced to zero could create over 1,000 new shops, although we assume that most new business would be taken in existing betting shops. In practice, a desire not to cause unnecessary instability and uncertainty about the long-term outcome may mean that there may be a small time lag before changes of this magnitude are realised.

The numbers employed in betting shops depend on the number of shops and the average size of each shop. Europe Economics (1999) reported that about 37,000 people are employed in the nation's betting shops. Using the methodology adopted in previous reports,²⁷ changes in the numbers employed in betting shops under each of the scenarios considered in this paper would be as shown in Table 4.4:

Table 4.4
Change in Employment in Betting Shops
Under Different Betting Tax Options and Behavioural Assumptions

	Unresponsive	Responsive
GBD at 6.75% (9% deductions)	- 6,000 employees	- 11,800 employees
GBD at 1.1%	+ 6,400 employees	+ 9,800 employees
POC at 1.1%	+ 6,400 employees	+ 9,800 employees
GPT at 15%	+ 6,400 employees	+ 9,800 employees

Note Assumes full compliance with each option.

²⁷ Consistent with Europe Economics (1999), we assume that employment levels are proportional to wages and pensions costs, and that the latter for the industry equate to £20,000 per shop plus 2% of gross turnover.

Compared to present employment levels, leaving the GBD unchanged at its present rate could, in time, lead to the loss of between 6,000 and 12,000 jobs in betting shops, whereas modernising the system of betting taxation could create between 6,000 and 10,000 new jobs. Where new jobs are created, these arise partly from additional employment (or staff utilisation) in existing shops and partly from new shop openings.

These estimates consider only betting shops and exclude the impact on employment levels in UK internet and telebetting operations which, if they were capable of being modelled, would tend to further emphasise the attractions to Government of modernising the taxation of betting.

4.7 Overall Results

The betting tax receipts (Table 4.1) and other contributions to Government (Table 4.2), which together comprise the total receipts to Government, are brought together in Table 4.5 below:

Table 4.5
Level of Total Tax Receipts
Under Different Betting Tax Options and Behavioural Assumptions

	Unresponsive	Responsive
GBD at 6.75% (9% deductions)	£597m	£435m
GBD at 1.1%	£707m	£892m
POC at 1.1%	£671m	£821m
GPT at 15%	£815m	£1,014m

Note Assumes full compliance with each option.

Caution is needed in interpreting these figures: telephone and internet betting are likely to have different cost structure from betting shops, and the different options may have differential impacts on the way in which other contributions to government revenues are generated which are not captured in our standard assumption for the link between gross turnover and government receipts.

Nevertheless, this result suggests that, even under the unresponsive assumption, which takes a conservative view of the extent to which bettors change their behaviour in response to price differentials, GPT at 15 per cent is clearly preferred to the other options, particularly to the retention of GBD at 6.75 per cent.

A1 DETAILED SCENARIOS

Scenario 1: GBD (6.75%) and unresponsive bettors

Assumptions

- Betting shop turnover falls by 10 per cent and UK telebetting by 50 per cent in response to tax free off-shore or internet alternatives.
- GBD remains at 6.75 per cent and deductions of 9 per cent are paid on all bets placed with UK bookmakers – whether in betting shops, over the telephone or on the internet.
- The £750 million estimated growth in each of the domestic telebetting and internet markets is bet off-shore and so not included in UK bookmakers taxable operations below.
- UK bookmakers attract no international market to their taxable operations.

Extent to which markets fall within UK bookmakers' taxable operations

	UK Market			Fluid International Market		Total
	Betting Shops	Telebetting	Internet	Telebetting	Internet	
Gross Turnover (£m)	5,457	365	0	0	0	5,822
Gross Margin (%)	22.5	15.0	-	-	-	-
Net Turnover (£m)	1,228	55	0	0	0	1,282
Tax from Betting (£m)	368	25	0	0	0	393

Scenario 2: GBD (1.1%) and unresponsive bettors**Assumptions**

- GBD, at a rate of 1.1 per cent, is levied on UK bookmakers' gross turnover. On placing a bet, no deductions are levied.
- The recycling behaviour of consumers increases gross turnover.
- The £750 million estimated growth in each of the domestic telebetting and internet markets is channelled to UK operators and included in the UK bookmakers figures below.
- UK bookmakers attract 5 per cent of the fluid international market as foreign bettors face no deductions.
- The bets previously placed with foreign telebetting and internet operators return to the UK.

Extent to which markets fall within UK bookmakers' taxable operations

	UK Market			Fluid International Market		Total
	Betting Shops	Telebetting	Internet	Telebetting	Internet	
Gross Turnover (£m)	8,801	2,478	850	2,271	973	15,373
Gross Margin (%)	15.5	7.4	7.4	7.4	7.4	-
Net Turnover (£m)	1,364	183	63	168	72	1,850
Tax from Betting (£m)	97	27	9	25	11	169

Scenario 3: POC (1.1%) and unresponsive bettors**Assumptions**

- POC, at a rate of 1.1 per cent, is levied on all bets with UK bookmakers by customers located in the UK. On placing a bet, no deductions are levied.
- The recycling behaviour of consumers increases gross turnover.
- The £750 million estimated growth in each of the domestic telebetting and internet markets is channelled to UK operators and included in the UK bookmakers figures below.
- UK bookmakers attract 5 per cent of the fluid international market as foreign bettors face no deductions, but this turnover is not subject to the UK place of consumption tax (as the bets are placed outside of the UK).
- The bets previously placed with foreign telebetting and internet operators return to the UK.

Extent to which markets fall within UK bookmakers' taxable operations

	UK Market			Fluid International Market		Total
	Betting Shops	Telebetting	Internet	Telebetting	Internet	
Gross Turnover (£m)	8,801	2,478	850	2,271	973	15,373
Gross Margin (%)	15.5	7.4	7.4	-	-	-
Net Turnover (£m)	1,364	183	63	0	0	1,610
Tax from Betting (£m)	97	27	9	0	0	133

Scenario 4: GPT (15%) and unresponsive bettors**Assumptions**

- A Gross Profit Tax, at a rate of 15 per cent, is levied on UK bookmakers' net turnover. On placing a bet, no deductions are levied.
- The recycling behaviour of consumers increases domestic gross turnover.
- The £750 million estimated growth in each of the domestic telebetting and internet markets is channelled to UK operators and included in the UK bookmakers figures below.
- UK bookmakers attract 5 per cent of the fluid international market as foreign bettors face no deductions.
- The bets previously placed with foreign telebetting and internet operators return to the UK.

Extent to which markets fall within UK bookmakers' taxable operations

	UK Market			Fluid International Market		Total
	Betting Shops	Telebetting	Internet	Telebetting	Internet	
Gross Turnover (£m)	8,801	2,478	850	2,271	973	15,373
Gross Margin (%)	15.5	7.4	7.4	7.4	7.4	-
Net Turnover (£m)	1,364	183	63	168	72	1,850
Tax from Betting (£m)	205	27	9	25	11	277

Scenario 5: GBD (6.75%) and responsive bettors**Assumptions**

- Betting shops' turnover falls by 30 per cent and 100 per cent of the existing UK telebetting bettors switch to foreign operators.
- GBD remains at 6.75 per cent and deductions of 9 per cent are paid on all bets placed with UK bookmakers – whether in betting shops, over the telephone or on the internet.
- The £750 million estimated growth in each of the domestic telebetting and internet markets is bet off-shore and so not included in UK bookmakers taxable operations below.
- UK bookmakers attract no international market to their taxable operations.

Extent to which markets fall within UK bookmakers' taxable operations

	UK Market			Fluid International Market		Total
	Betting Shops	Telebetting	Internet	Telebetting	Internet	
Gross Turnover (£m)	4,244	0	0	0	0	4,244
Gross Margin (%)	22.5	-	-	-	-	-
Net Turnover (£m)	955	0	0	0	0	955
Tax from Betting (£m)	286	0	0	0	0	286

Scenario 6: GBD (1.1%) and responsive bettors**Assumptions**

- GBD, at a rate of 1.1 per cent, is levied on bookmakers' gross turnover. On placing a bet, no deductions are levied.
- The 'elasticity assumption' has the effect of increasing consumers' domestic gross turnover.
- UK bookmakers attract 10 per cent of the fluid international market as foreign bettors face no deductions.
- The £750 million estimated growth in each of the domestic telephone and internet betting markets is channelled to UK operators and included in the UK bookmakers figures below.
- The bets previously placed with foreign telephone and internet betting operators return to the UK.

Extent to which markets fall within UK bookmakers' taxable operations

	UK Market			Fluid International Market		Total
	Betting Shops	Telebetting	Internet	Telebetting	Internet	
Gross Turnover (£m)	9,883	2,188	850	4,542	1,946	19,409
Gross Margin (%)	15.5	7.4	7.4	7.4	7.4	-
Net Turnover (£m)	1,532	162	63	336	144	2,237
Tax from Betting (£m)	109	24	9	50	21	213

Scenario 7: POC (1.1%) and responsive bettors**Assumptions**

- POC, at a rate of 1.1 per cent, is levied on all bets with UK bookmakers by customers located in the UK. On placing a bet, no deductions are levied.
- The 'elasticity assumption' has the effect of increasing consumers' domestic gross turnover.
- UK bookmakers attract 10 per cent of the fluid international market as foreign bettors face no deductions, but this turnover is not subject to tax.
- The £750 million estimated growth in each of the domestic telephone and internet betting markets is channelled to UK operators and included in the UK bookmakers figures below.
- The bets previously placed with foreign telephone and internet betting operators return to the UK.

Extent to which markets fall within UK bookmakers' taxable operations

	UK Market			Fluid International Market		Total
	Betting Shops	Telebetting	Internet	Telebetting	Internet	
Gross Turnover (£m)	9,883	2,188	850	4,542	1,946	19,409
Gross Margin (%)	15.5	7.4	7.4	-	-	-
Net Turnover (£m)	1,532	162	63	0	0	1,757
Tax from Betting (£m)	109	24	9	0	0	142

Scenario 8: GPT (15%) and responsive bettors**Assumptions**

- A Gross Profit Tax, at a rate of 15 per cent, is levied on bookmakers' net turnover. On placing a bet, no deductions are levied.
- The 'elasticity assumption' has the effect of increasing consumers' domestic gross turnover.
- UK bookmakers attract 10 per cent of the fluid international market as foreign bettors face no deductions.
- The £750 million estimated growth in each of the domestic telephone and internet betting markets is channelled to UK operators and included in the UK bookmakers figures below.
- The bets previously placed with foreign telephone and internet betting operators return to the UK.

Extent to which markets fall within UK bookmakers' taxable operations

	UK Market			Fluid International Market		Total
	Betting Shops	Telebetting	Internet	Telebetting	Internet	
Gross Turnover (£m)	9,883	2,188	850	4,542	1,946	19,409
Gross Margin (%)	15.5	7.4	7.4	7.4	7.4	-
Net Turnover (£m)	1,532	162	63	336	144	2,237
Tax from Betting (£m)	230	24	9	50	22	335