

# **The Modernisation of Gambling Taxes:**

**Consultation on the  
Evaluation of the Gross  
Profits Tax on Betting –  
One Year On**



**HM Customs and Excise**

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**The Modernisation of Gambling  
Taxes:**

**CONSULTATION ON THE EVALUATION OF  
THE GROSS PROFITS TAX ON BETTING – ONE YEAR ON**

**NOVEMBER 2002**

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# FOREWORD BY ECONOMIC SECRETARY TO THE TREASURY, JOHN HEALEY MP

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Our decision last year to abolish the duty on betting stakes and replace it with a tax on bookmakers' gross profits was a bold one. Indications to date suggest that decision was right.

Over the past year it has been very encouraging to hear the steady stream of reports about the impact of the Government's betting tax reforms. The ending of bookmakers' deductions on punters' stakes; the increase in bookmakers' turnover, up by an average of 35-40 per cent; the re-location by the major bookmakers of their offshore betting operations to the UK; the creation of over 2000 jobs; and the increased financial support for racing.

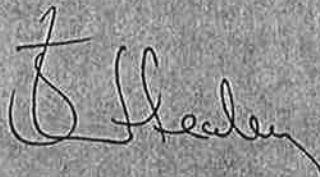
In this context, I can understand why the 6th October 2001, the date when we introduced the Gross Profits Tax, has been heralded by some as "the most important day in the history of betting". Certainly for most of those involved with the betting and racing industries it marks an important milestone.

Given this favourable background it might have been tempting to rest on our laurels. But there is no room for complacency, we know that the radical tax reforms introduced last year were the most significant in betting for over 30 years. We need to make sure that the tax is operating fairly and efficiently, across all areas, and to identify what fine-tuning is required.

So, one year on – as we promised – we now begin a formal review of the gross profits tax on betting. Publication of this consultation document will ensure that punters, bookmakers and anyone else with an interest, have the opportunity to tell us what they think about the changes – how the new system has affected them and how the reforms were implemented.

I also see this evaluation as an opportunity to learn lessons about gambling gross profits taxes more generally. This information will be valuable as the Government continues to modernise in this area of tax law. In particular feedback could help to inform our approach to the tax reforms we agree with the Bingo industry over the coming months.

I hope people will respond to this consultation and help us to build on this encouraging start.



November 2002



# INTRODUCTION

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## PURPOSE OF THE CONSULTATION

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**1.1** The Gross Profits Tax on betting was introduced on 6 October 2001. The new regime represented a fundamental change in the way that betting is taxed, moving from a duty on punters' stakes to a tax on bookmakers' gross profits.

**1.2** Given the significance of these reforms the Government stated at the outset that Customs would review the new regime after it had been in operation for a year. This consultation document provides the industry and other stakeholders with an opportunity to contribute to that evaluation.

**1.3** This document provides an overview of the Government's approach to gambling taxation. It then goes on to look at the reform of betting tax, setting out: why changes were introduced; indications of policy performance to date; and provides a framework for responding to this review.

**1.4** The purpose of this exercise is to obtain views and evidence about the impact of reform. The Government is particularly keen to hear the views of bookmakers, their representative bodies and punters. However, it would also like to receive comments from any other interested parties, including representatives of racing, academic researchers and industry analysts.

**1.5** A summary of responses to this consultation will be published on the Customs & Excise website in the spring of next year and, if appropriate, any further developments announced in the Budget 2003.

## HOW TO RESPOND

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**1.6** A summary of the issues for consultation have been set out at **Annex A**. However, in addition to answers to these questions, the Government would be grateful to receive general comments on the gross profits tax on betting.

**1.7** Responses to this review should be sent to HM Customs and Excise by **31st December 2002**. These (and any other queries) should be addressed to:

Gross Profits Tax on Betting – Consultation  
HM Customs and Excise  
1st Floor West, New Kings Beam House  
22 Upper Ground  
LONDON, SE1 9PJ

betting.tax@hmce.gsi.gov.uk

**1.8** Please note that:

- although all responses to this document will be considered carefully, responses will not be acknowledged individually; and
- responses, and the names of respondents, may be quoted and made available to the public.

**1.9** If you do not want your detailed response to be made public you should clearly state

## INTRODUCTION

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this in your reply. In accordance with the *Code of Practice on Access to Government Information*, you should also provide a summary of your response for publication that includes the specific reason(s) why the full response must remain confidential, for example if it contains any sensitive commercial information.

**1.10** To help the Government evaluate responses, it would be helpful if respondents could explain their interest in the consultation and also make clear if their response is being made on behalf of a group or representative body.

**1.11** Additional copies of this document, or a Welsh language version, can be obtained from the address shown above or from the HM Customs and Excise website [www.hmce.gov.uk](http://www.hmce.gov.uk)

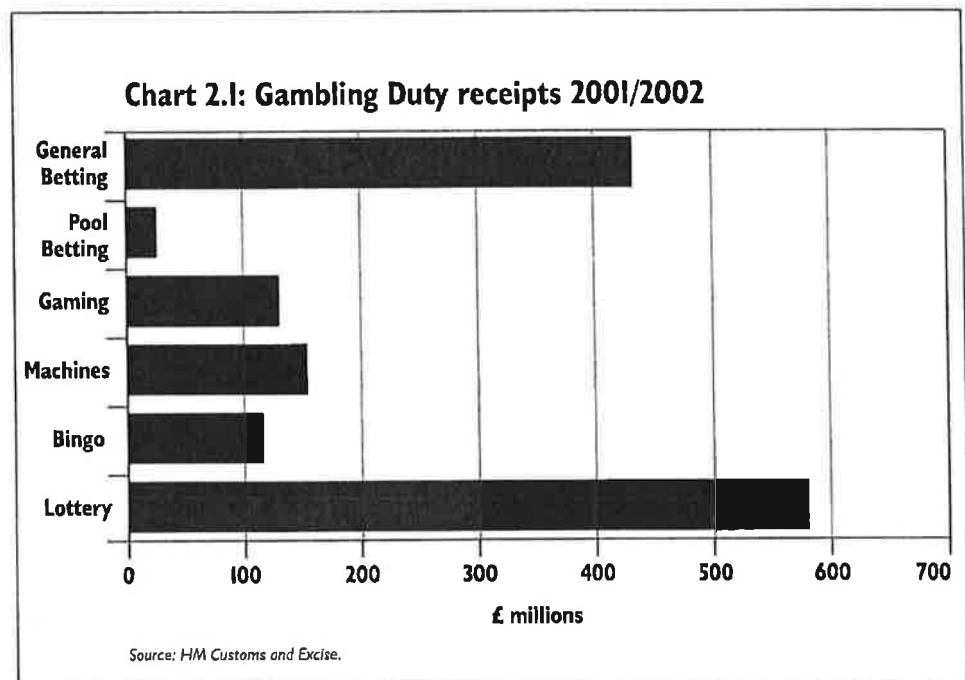
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## TAXATION OF GAMBLING

### THE GOVERNMENT'S APPROACH TO GAMBLING TAXATION

**2.1** The United Kingdom gambling industry has come a long way in the past 40 years and is a very important part of the leisure sector. The industry employs over 100,000 people, generates billions of pounds for the economy, and provides a pastime enjoyed by millions of people in the UK who gamble regularly and responsibly.

**2.2** The gambling industry also makes an important contribution to the revenues required for investment in our public services. In 2001/2002 total indirect tax receipts (including VAT) from this area approached £2 billion.



**2.3** While ensuring that it continues to make a fair contribution to general taxation, the Government is also committed to delivering a business environment which enables the gambling industry to compete and grow. It therefore wants its gambling taxes to operate in a way which is fair, simple and efficient, and which keeps pace with the technological, competitive and regulatory environment in which the industry operates.

**Box 2.1: The deregulation of the gambling industry**

- Following a review conducted by Sir Alan Budd, the Government published *A Safe Bet for Success*, a White Paper heralding the most significant modernisation of the social regulation governing gambling since the 1960s.
- This promises substantial growth for the gambling industry, a major expansion in choice for consumers, and the introduction of robust new controls to protect young and vulnerable people from access to gambling.
- The Government will ensure that this programme of regulatory reform moves forward in concert with its efforts to modernise gambling taxation.

**THE MODERNISATION OF GAMBLING TAXATION**

**2.4** The last two years have seen important steps towards the modernisation of gambling duties. While there may previously have been significant shifts in the relative rates of tax, the structure and design of most gambling taxes had remained largely unchanged since the 1960s.

**2.5** Among the factors influencing the Government's decision to begin modernising the gambling tax regimes were:

- the perception that many of the gambling taxes had become unwieldy, outdated, and overly complex both to administer and to comply with;
- evidence<sup>1</sup> that gross profits tax regimes could offer a more efficient way of taxing gambling businesses than the traditional taxes on punters' stakes; and
- the rapid increase in betting and gaming over the Internet and telephone, challenging the Government to provide a tax system which would allow UK gambling companies to compete effectively for their share of this growing global market from a UK base.

**Box 2.2: How gross profits tax regimes work**

- Moving to a gross profits regime means replacing a tax on turnover (the total amount of stakes placed by punters) with a tax on companies profits (the total amount of stakes received less the winnings paid out).
- According to researchers at Nottingham and Nottingham Trent Universities, a gross profits tax will tend to be *"more allocatively efficient than a revenue equivalent turnover tax, the price faced by consumers will be lower, betting turnover higher and the overall tax burden as a proportion of gross profits faced by firms will also be lower."*
- In some cases, such as the betting tax reforms, the gambling company will pass on the tax saving to the punter, giving them better value for their stake, increasing the incentives for them to place bets, and thereby ensuring a growth in total turnover.
- In other cases, such as the pools tax reforms, the company might pass on the savings by increasing the value of prize payouts or use them to invest in increased marketing, both again having a positive effect on turnover.

<sup>1</sup> *An economic analysis of the options for taxing betting (2000)*, a study conducted by Nottingham and Nottingham Trent Universities.

- Allowing gambling companies to offset winnings paid out against stakes received means that the tax burden on them is related to their ability to pay over any particular period.
- This is particularly important both to encourage new entrants to the market, and to boost the growth of telephone and on-line betting, where margins are generally tighter than on cash betting in shops.
- Moving away from a tax on stakes also removes the incentive for punters to engage in illegal untaxed gambling, helping both to protect the revenue and to ensure that all gambling takes place within a regulated environment.

**2.6** This evaluation of Gross Profits Tax comes at an important time and will inform the way we move forward in other areas. Following reforms of betting and football pools taxation the Government recently announced that it was considering extending the gross profits tax approach to bingo (*Consultation on the Abolition of Bingo Duty* published on 27th August 2002).

**2.7** The Government's objectives for Bingo Duty reform are similar to those for betting, to:

- provide the right environment for the bingo industry to maintain its role in local communities, and to reach its maximum growth potential;
- reduce or eliminate the burden of tax currently falling on bingo players, and ensure that they get a better deal out of playing bingo;
- ensure that any reforms are affordable, and that the bingo industry continues to make a fair contribution to general tax revenues; and
- simplify the structure of bingo taxation, and reduce compliance costs for bingo companies.

**2.8** The evaluation of betting tax reform will be vital in helping Customs to learn lessons that may help in implementing these other changes.

**Box 2.3: The reform of pools taxation**

In the 1980s, the football pools was the most heavily taxed gambling activity, with a peak duty rate of 42.5 per cent on the stakes placed by punters. Following the introduction of the National Lottery, the popularity of the pools went into sharp decline. In response, successive governments introduced small cuts in the rate of duty, but these had only a limited impact.

Nevertheless, the pools remained an important part of the gambling market, enjoyed by millions of people, and the Government was keen to explore more radical options to help the industry survive and grow. Following on the heels of the changes to betting tax, consultation began with the main pools companies with a view to reform. As a result of this consultation, the 2001 Pre-Budget Report announced that:

- the 17.5 per cent duty on pools betting stakes would be abolished and replaced with a 15 per cent tax on pools companies' gross profits;
- the major pools companies would extend their funding of the Foundation for Sport and the Arts and the Football Foundation for a further two years until April 2004, at a rate equivalent to 4 per cent of their gross profits; and
- as part of this reform, the Government would ensure that charities, sports clubs and other bodies running small pools-based fund-raising competitions were taken out of the tax net altogether.

These reforms, introduced in April 2002, have given the pools industry the same modernised tax structure as for other forms of betting, providing a boost for the existing major pools companies, and encouraging new on-line pools companies to consider setting up in the UK.

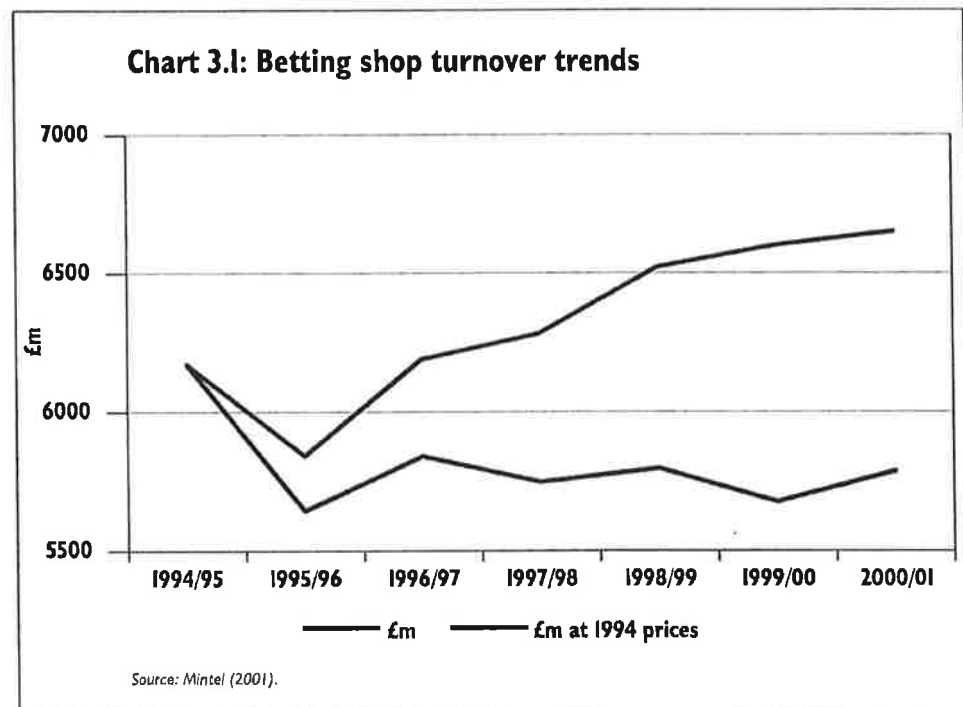
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## BACKGROUND TO THE REFORM OF BETTING TAX

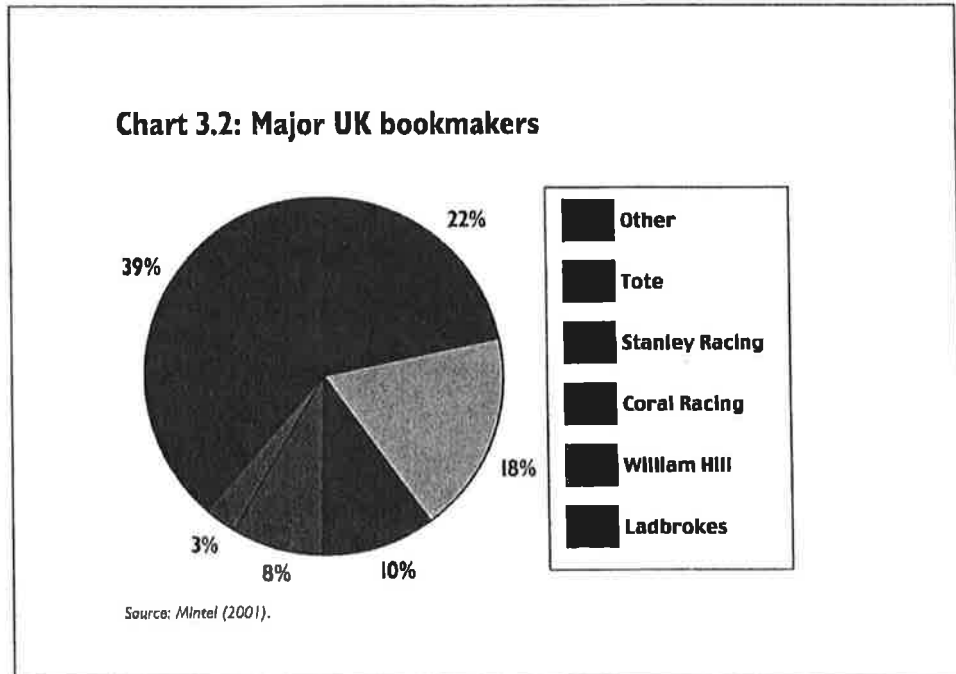
### THE BETTING INDUSTRY – PRE REFORM

3.1 The 1990s was a challenging time for bookmakers. The number of licensed betting shops fell by 15% from around 10,200 to about 8,700, and between 1994 and 2000 the real value of turnover fell – the period was sluggish.

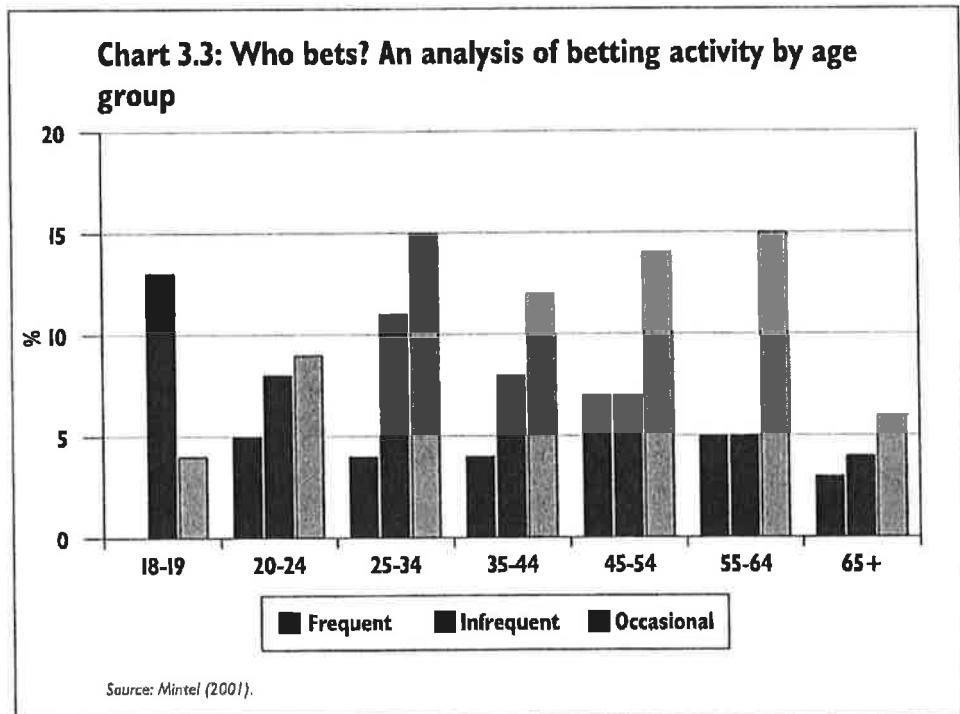
3.2 Analysts suggest that the introduction of the National Lottery in 1994 was a contributory factor. Certainly the strict social regulation of this sector meant that its response to the new competitive situation was limited.



3.3 Despite this licensed betting shops remained an important feature of high streets up and down the country. In 2000 over 30,000 people were employed in betting shops and many thousands more in the British horse and greyhound racing industries were supported by their activity.



3.4 While the decade saw some increase in consumer choice, a significant number of punters, across a range of ages and backgrounds remained loyal to the shop networks.



## THE NEED FOR CHANGE

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**3.5** Prior to the reform of betting taxation, a General Betting Duty of 6.75 per cent applied to all stakes placed with UK off-course bookmakers. Bookmakers generally made a total deduction of 9 per cent on each bet, covering the duty, their contribution to the Horserace Levy, and their administrative costs.

**3.6** In May 1999, telephone-betting firms operating from offshore bases started offering 'tax free' bets to UK customers, commonly applying just a 3 per cent deduction for administrative costs.

**3.7** The largest UK bookmakers eventually felt obliged to follow suit, setting up their own offshore operations so as to retain a foothold in the growing telephone and Internet betting market.

**3.8** Technology and innovation was driving change, new products and services were established e.g. betting exchanges, and these too were testing the traditional approach to taxation.

**3.9** From a niche market accounting for only around 5 per cent of the market just 5 years earlier, according to Europe Economics, by 1999 13 per cent of the UK betting market was channelled through the phone and 1 per cent over the Internet. Worryingly, an increasing amount of this business was going offshore.

**3.10** In March 2000, the Government launched a consultation document, *Our Stake in the Future*, the aim of which was to develop a policy response to this new environment. It also commissioned independent academic research into the options for reform.

**3.11** In taking reform forward the Government's main objectives were that:

- the UK-based betting industry, particularly high-street betting shops employing thousands of people, should continue to thrive;
- bookmakers should be able to take advantage of the expanding global market and the development of new e-commerce opportunities, from a UK base;
- betting should continue to make a fair and effective contribution to general tax revenues both in the short-term and the long-term;
- the UK racing industry should continue to share in the benefits of a thriving betting industry; and that
- punters betting in the UK should get a better deal.

**3.12** By the time of Budget 2001 the Chancellor was able to announce that the tax on stakes would be replaced with a 15 per cent tax on mainstream bookmakers' gross profits; an agreement with the industry had been reached.

**3.13** The Government calculated that the revised rate and structure would allow bookmakers to absorb the new tax and end the deductions charged to punters, enabling them to offer 'tax-free' betting to domestic and global customers from a UK base.

**3.14** Given the UK's existing reputation as a centre of bookmaking integrity and expertise, as well as skilled staff and a strong IT infrastructure, the new tax regime would allow bookmakers to re-locate their offshore sites to the UK, and compete from a position of strength in the global betting market.

**3.15** While reform would mean a short-term fall in betting revenues, the Government also calculated that – in the medium-term – revenues under the new regime should match and then exceed the projected revenue streams under the old system, and remain on a long-term upward path.

**Box 3.1: Initial industry assessment of betting tax reform**

At the time of the Chancellor's announcement the reforms were widely welcomed by the industry:

- **Bob Scott, Chief Executive of Coral Eurobet, plc, said:**  
"This is without doubt the most important day in the history of betting. The Government has made a huge investment in the betting industry, one we will demonstrate has not been misplaced."
- **David Harding, Chief Executive of William Hill, commented:**  
"The abolition of betting duty and the introduction of zero deduction betting will herald a new era for punters and the UK betting industry. William Hill is committed to establishing the UK as the centre of excellence in the global betting market."
- **Chris Bell, Chief Executive of Ladbrokes Worldwide said:**  
"The betting duty reforms will be great for customers, great for bookmakers and ultimately great for the Government."

## THE IMPACT OF THE REFORM OF BETTING TAX – EARLY INDICATIONS

**3.16** A year on from the introduction in October 2001 there are a number of indications that suggest the changes to betting taxation have worked well:

- The major bookmakers re-located their offshore on-line and telephone betting operations to the UK so rapidly that the Government was able to introduce the new tax regime three months ahead of schedule on 6 October 2001;
- Many smaller on-line betting firms have also re-located to, or started up, in the UK to take advantage of the new system;
- Many new jobs have been created within the UK, both in the traditional high-street betting shops and in call centres designed to cater for the growing on-line and telephone betting markets;
- As forecast, bookmakers were able to absorb the new gross profits tax and remove deductions, meaning that – for the first time since 1966 – punters were able to bet 'tax-free' in high-street betting shops;
- As a result, industry turnover has risen by an average 35-40 per cent, with record betting on events like the Grand National and the football World Cup;
- The betting industry has been able to increase its financial support of racing, and these contributions have also been switched to a gross profits basis;

- The major bookmakers have reported a significant decline in the level of illegal bookmaking activity, as a direct result of removing the tax incentive to use unlicensed bookmakers; and
- Revenues collected to date are in line with expectations.

**3.17** During the year there has also been a steady stream of favourable independent academic and industry comment.

**Box 3.2: Assessments of betting tax reform by academics and industry**

- Writing in the **June Economic Journal**, Leighton Vaughan-Williams, David Paton and Donald S Siegel concluded:
 

*“The UK has decided to base its betting taxation policy on economic criteria, such as reducing allocative inefficiency and maintaining competitiveness.*

*“The proposed switch to a gross profits tax is likely to lead to lower prices and enhanced consumer welfare, compared to a situation in which general betting duty is retained.*

*“Further, the switch will reinforce the proposed cut in the overall level of taxation in enhancing the ability of UK betting firms to compete in an increasingly competitive environment.*

*“Under the new tax regime, we predict that the UK betting industry will be better able to cope with further changes in their competitive and technological environments.”*
- In the press release accompanying publication of their second annual report earlier this year, **Global Betting and Gambling Consultants** said that:
 

*“After only eight months since Chancellor Gordon Brown introduced Gross Profits Tax the UK has made great strides in becoming the centre of global gambling.”*

**Box 3.3: And most recently**

John Brown, Chairman of William Hill speaking at the British Horseracing Board AGM in June 2002, commented that the new Gross Profits Tax was:

*“...truly momentous. The significance of this cannot be over estimated. This new tax changes everything – the basis is now fairer, it is set at a sensible rate, and thus enables the bookmaker to stand the tax – without deductions from the punter. It represents forward thinking of the best possible sort, and for all that all of us should be very grateful. In my opinion, GPT will prove to be the single most important and influential development in betting and racing in 30 years. At a stroke it has removed the benefit of betting offshore, or betting illegally. Already more and more overseas business is finding its way to the UK.”*



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## EVALUATION OF THE GROSS PROFITS TAX ON BETTING

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### WHY FORMALLY EVALUATE THE REFORMS?

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**4.1** While it is reasonable to suggest that the new regime appears to have been a success and that further fundamental changes will not be required, the Government is keen that a full evaluation takes place. This will enable Customs to:

- Ensure that all stakeholders, inside and outside the betting industry, have an opportunity to comment on the implementation and effects of the reformed tax base;
- Gather comprehensive data and information to enable a proper evaluation;
- Measure progress against the full range of original policy objectives;
- Identify any specific areas where fine tuning of the new betting tax is required; and
- Learn lessons about their implementation, management and administration of the gross profits tax which may be applicable to reform in other areas e.g. the consideration of changes to Bingo Duty.

### SPECIFIC QUESTIONS FOR THE EVALUATION TO ADDRESS

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#### The right tax system?

**4.2** The move to a tax on bookmakers' gross profits was endorsed by independent academic research, which found that it would be more economically efficient than a tax on turnover, delivering benefits for bookmakers, punters and the Exchequer.

**4.3** The rate of gross profits tax for fixed odds bookmakers was set at 15 per cent. Differential rates for the niche financial and sports spread betting sectors were set at 3 and 10 per cent respectively in recognition of their higher regulatory and operating costs.

**4.4** While early indications are positive we will now critically assess the impact of the changes overall and in each sector, analysing the effect on:

- market competition;
- turnover and profits of bookmakers;
- value for punters;
- jobs in the betting industry;
- the extent to which the UK is securing a share of the world market and longer-term prospects; and
- Government revenues in the medium and longer-term.

#### What has been the effect of reform on emerging sectors?

**4.5** The reforms brought betting exchanges into the duty net for the first time. The Government's objective here was to balance the encouragement of new and innovative companies, by reducing barriers to entry, whilst ensuring fair competition. We believe GPT is

an important element in delivering such a balance because it should take account of a business' ability to pay – its gross profits rather than its turnover.

**4.6** However this is a complex area and the phenomenon of betting exchanges is still relatively new. While there are a number of issues relating to exchanges e.g. in terms of social regulation, the focus of this review will be purely to answer the question 'Is taxation of betting exchanges fair and efficient?'

#### **Proper application of the on-course exemption**

**4.7** The duty exemption for on-course betting was introduced in 1987 to promote a healthy on-course betting market for horse and greyhound racing. However, the law's wording enabled betting at other sports venues (for example, football and cricket grounds) to benefit.

**4.8** The Government believes there is a strong case for closing this loophole but would welcome further views.

#### **What about Customs' administration of GPT?**

**4.9** It is important that Customs consider the management and administration of the new regime and the impact on businesses, in particular compliance costs. An area of obvious interest is that of accounting periods.

**4.10** When implementing the gross profits tax last year, Customs lengthened accounting periods from one month to three months for bookmakers with a turnover under £600,000; financial spread bettors; and any others who had suffered two losing accounting periods in the last twelve months. They want to understand whether the three month accounting periods have delivered the benefits originally envisaged and why eligible businesses have not taken up the option.

**4.11** As part of the reforms, Customs also had to change their internal systems e.g. the returns bookmakers had to submit were adjusted (BD211 and BD211A for spread betting). Are these straightforward to complete? Are the record-keeping requirements consistent with commercial practice?

#### **Communications, guidance and advice provided to support new arrangements**

**4.12** Finally, Customs would welcome feedback about how the changes were implemented:

- Did you attend one of the Department's seminars and if so how useful has it proved?
- Information Notes 1/01 (15 July 2001) and 2/01 (15 September 2001) provided the initial guidance for bookmakers about gross profits tax. Were they clear and were they issued early enough?
- Notice 451, General Betting Duty, May 2002 provides guidance for bookmakers about gross profits tax, is it clear and comprehensive? How could it be improved?
- If you have had cause to call Customs' National Advice Service or make enquiries to their local office network about the gross profits tax, how effective was their service?

**NEXT STEPS**

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**4.13** As well as analysing responses to this consultation document, the Government will continue to consult individual betting companies and industry representatives on their assessment of the gross profits tax for general betting.

**4.14** The Government will consider the lessons learnt from this consultation in the modernisation of other gambling tax regimes under review to ensure that future developments are fair, efficient and sustainable.



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# A

## ANNEX A – A SUMMARY OF THE ISSUES FOR CONSULTATION

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The following list provides a summary of the main issues for this consultation. In providing responses it would be helpful for the Government to understand the rationale behind views put forward.

1. How does the new gross profits tax compare with the previous turnover system, especially in relation to the turnover and profits of bookmakers; value for punters; impact on jobs in the betting industry; and ability of the UK industry to secure a share of the world market and longer-term prospects?
2. What has been the effect of reform been on emerging sectors such as the betting exchanges?
3. The Government believes there is a strong case for closing the duty exemption loophole currently enjoyed by non-racetrack venues. Do you have any views about this?
4. How have you found Customs' administration of the new regime, in particular in relation to the payment and accounting arrangements?
5. Is the guidance on gross profits tax easy to understand and sufficiently comprehensive? How could it be improved?
6. How would you rate Customs' National Advice Service help and other points of contact that you have had, when enquiring about the gross profits tax?

In addition to responses to these issues and questions raised in this document, the Government would welcome any more general views.

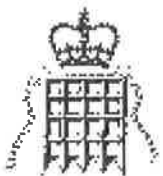
The Government would be happy to receive consolidated responses from relevant trade associations as well as from individual companies and other interested parties. In all cases, it would be helpful if respondents could say what their interest is.

**This consultation ends on 31st December 2002**



# **The Modernisation of Gambling Taxes:**

## **A Report on the Evaluation of the Gross Profits Tax on Betting**



**HM Customs and Excise**

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# The Modernisation of Gambling Taxes:

A REPORT ON THE EVALUATION OF  
THE GROSS PROFITS TAX ON BETTING

MAY 2003

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# INTRODUCTION

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## PURPOSE

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**1.1** On 6 November 2002 the Government published a consultation document entitled 'Modernisation of the Gambling Taxes: Consultation about the Evaluation of the Gross Profits Tax on Betting – One Year On'. The consultation ended on 31 December 2002.

**1.2** The purpose of the evaluation of the Gross Profits Tax on betting (GPT)<sup>1</sup> was to measure performance of the new regime, which was introduced on 6 October 2001, against the original policy objectives that:

- the UK-based betting industry should continue to thrive;
- bookmakers should be able to take advantage of the growing global market and the development of e-commerce opportunities from the UK;
- punters in the UK should get a better deal;
- betting should continue to make a fair and effective contribution to the general tax revenues, both in the short and long-term; and
- the UK racing industry should continue to share in the benefits of a thriving betting industry.

**1.3** This process has enabled the Government to answer the key question i.e. **has the right tax system been delivered – is it fair, efficient and sustainable?** It also provided an opportunity to address supplementary questions to inform Budget deliberations, for example what effect did the changes have on the niche betting sectors and how had the administration of the system worked in practice?

## WHY WAS BETTING TAX REFORMED – A RE-CAP

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**1.4** Prior to the reform of betting taxation, a General Betting Duty of 6.75 per cent applied to all stakes placed with UK off-course bookmakers. Bookmakers generally made a total deduction of 9 per cent on each bet, covering the duty, their contribution to the Horserace Levy, and their administrative costs.

**1.5** In May 1999, telephone-betting firms operating from offshore bases started offering 'tax free' bets to UK customers, commonly applying just a 3 per cent deduction for administrative costs. The largest UK bookmakers eventually followed suit, setting up their own offshore operations so as to retain a foothold in the growing telephone and Internet betting market.

**1.6** Technology and innovation were driving change, new products and services were established, for example betting exchanges; these too were testing the traditional approach to taxation.

**1.7** According to Europe Economics, from a niche position accounting for only around 5 per cent of the market just 5 years earlier, by 1999 13% of the UK betting market was channelled through the phone and 1% over the Internet. Worryingly, an increasing amount of this business was going offshore.

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<sup>1</sup> The legal name for the duty paid by bookmakers is General Betting Duty. However to avoid confusion by switching between terms throughout this document we make reference to the Gross Profits Tax on betting or GPT, as popularised during the reforms.

**I.8** In March 2000, the Government launched a consultation document, *Our Stake in the Future*, the aim of which was to develop a policy response to this new environment. It also commissioned independent academic research into the options for reform, which was undertaken by the Nottingham Universities<sup>2</sup>.

**I.9** By the time of Budget 2001 an agreement with the industry had been reached about a new structure and the Chancellor was able to announce that the tax on stakes would be replaced with a 15 per cent tax on mainstream bookmakers' gross profits.

**I.10** The Government calculated that the revised rate and structure would allow bookmakers to absorb the new tax and end the deductions charged to punters, enabling them to offer 'tax-free' betting to domestic and global customers from a UK base.

## EVALUATION OF REFORM – RESPONSES TO THE CONSULTATION

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**I.11** There was a good response to the consultation exercise. Submissions were received from bookmakers' trade associations and a representative spread of large and smaller bookmakers. Respondents covered the betting shop, telephone and Internet sectors. In addition, responses were received from other stakeholders, for example from representatives of racing.

**I.12** A full list of respondents is provided at Annex A. In light of requests from companies who submitted information to respect the commercial sensitivity of their data, a detailed breakdown of responses will not be published. Instead the key indicators and issues arising from the evaluation are summarised in this report at industry level.

## BACKGROUND TO THE ANALYSIS

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**I.13** The following sections of this report are based on an analysis of the qualitative and quantitative information derived from the consultation exercise, together with data from Customs' accounting centre. The Nottingham Universities have augmented this work by testing their original 2000 research findings.

**I.14** In interpreting base data it was important to bear in mind the different circumstances in 2000-01 and 2001-02, which make direct comparison of, say, turnover or margins inappropriate. For example, the high rate of cancelled race meetings in the winter of 2001 due to foot and mouth disease and poor weather conditions depressed betting activity. Similarly, in the first half of 2002, there was an unusually high proportion of winning favourites, which depressed bookmakers' margins. The advent of betting exchanges has also had an impact. Where possible our analysis has adjusted for these known variables in order to isolate the impact of the implementation of GPT.

**I.15** In the future, changes in the industry's environment will make assessing the impact of GPT equally complex. The BBOA expect the general deregulation of the gambling industry, heralded by the White Paper 'A Safe Bet for Success', to result in increased competition to the betting product. Conversely it is accepted that greater freedoms, for example betting shops will be able to offer Jackpot machines, will be positive for business. While competition from Internet based companies will continue to put pressure on high street margins, the trend away from lower margin UK horseracing towards higher margin sports betting may offset this effect.

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<sup>2</sup> An Economic Analysis of Betting Taxation – 2000.

## POLICY PERFORMANCE

2.1 It is clear from responses to the Government's consultation and by the steady stream of positive feedback during the year that the overwhelming view is that the reform of betting taxation has been a success.

### **Box 2.1: What they said – A sample of the feedback about the Government's betting tax reforms**

- Writing in the June 2002 **Economic Journal**, Leighton Vaughan-Williams, David Paton and Donald S Siegel concluded:

"The UK has decided to base its betting taxation policy on economic criteria, such as reducing allocative inefficiency and maintaining competitiveness. The switch to a gross profits tax is likely to lead to lower prices and enhanced consumer welfare, compared to a situation in which general betting duty is retained. Further, the switch will reinforce the proposed cut in the overall level of [betting] taxation in enhancing the ability of UK betting firms to compete in an increasingly competitive environment.

Under the new tax regime, we predict that the UK betting industry will be better able to cope with further changes in their competitive and technological environments."

- John Brown, **Chairman of William Hill** speaking at the **British Horseracing Board AGM** in June 2002, commented that the new **Gross Profits Tax** was:

"..truly momentous. The significance of this cannot be over estimated. This new tax changes everything – the basis is now fairer, it is set at a sensible rate, and thus enables the bookmaker to stand the tax – without deductions from the punter. It represents forward thinking of the best possible sort, and for all that all of us should be very grateful. In my opinion, GPT will prove to be the single most important and influential development in betting and racing in 30 years. At a stroke it has removed the benefit of betting offshore, or betting illegally. Already more and more overseas business is finding its way to the UK."

- In their December 2002 submission to Customs about the evaluation the **Association of British Bookmakers** said:

"It would be wholly illogical to make any substantive changes to a policy which has, in all its major elements, been conspicuously successful."

## KEY INDICATORS

**2.2** Indicators on turnover, increased international business and job creation have been very positive. While the degree of success reported varied according to the business mix (shop, phone and Internet sales channels) and the scale of particular bookmakers, the good news story was consistent.

**Chart 2.1: A Thriving UK Industry – Key Indicators**

Turnover October 2000 – September 2001	£7.3bn
Turnover October 2001 – September 2002	£13.3bn
% increase in total betting turnover	82%
% increase in total betting turnover attributed to GPT	40-46%
% increase in Betting Shop turnover attributed to GPT	29-35%
% increase in phone/Internet betting turnover attributed to GPT	375-400%

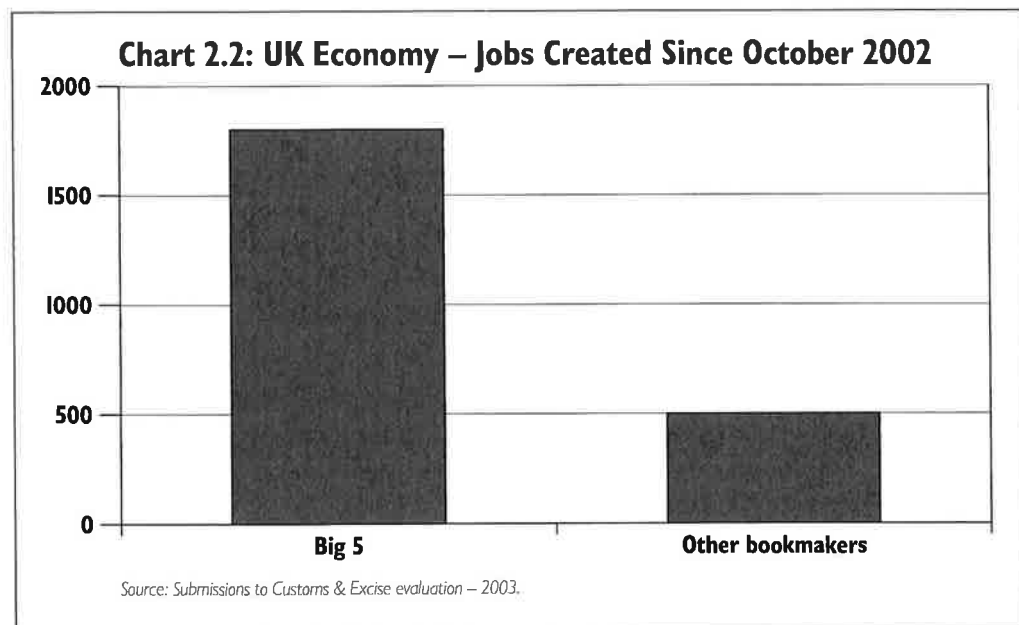
Source: Evaluation of the Gross Profits Tax on betting – Nottingham and Nottingham Trent Universities 2003

**2.3** Turnover is in line with expectations. Bearing in mind adjustments made to base data the increase in turnover attributed to GPT reform is 40-46%. A number of factors have contributed to this significant increase. Most important has been the re-cycling by punters of the savings they made when bookmakers abolished deductions on bets. The repatriation of offshore business provided another boost. Finally, there is the effect of new business, aided by the perception of a better deal for customers.

**2.4** While figures for increased turnover in betting shops have been impressive, there has been a huge increase in phone and Internet betting. This is accounted for by the larger chains' repatriated business, but also the growth in this sector that continues to outstrip mainstream betting.

## BENEFITS FOR THE UK ECONOMY

**2.5** Growth in the UK betting market has led to the creation of over 2000 new full and part time jobs. This has benefited local communities up and down the country as well as providing additional contributions to the Exchequer through direct taxation.

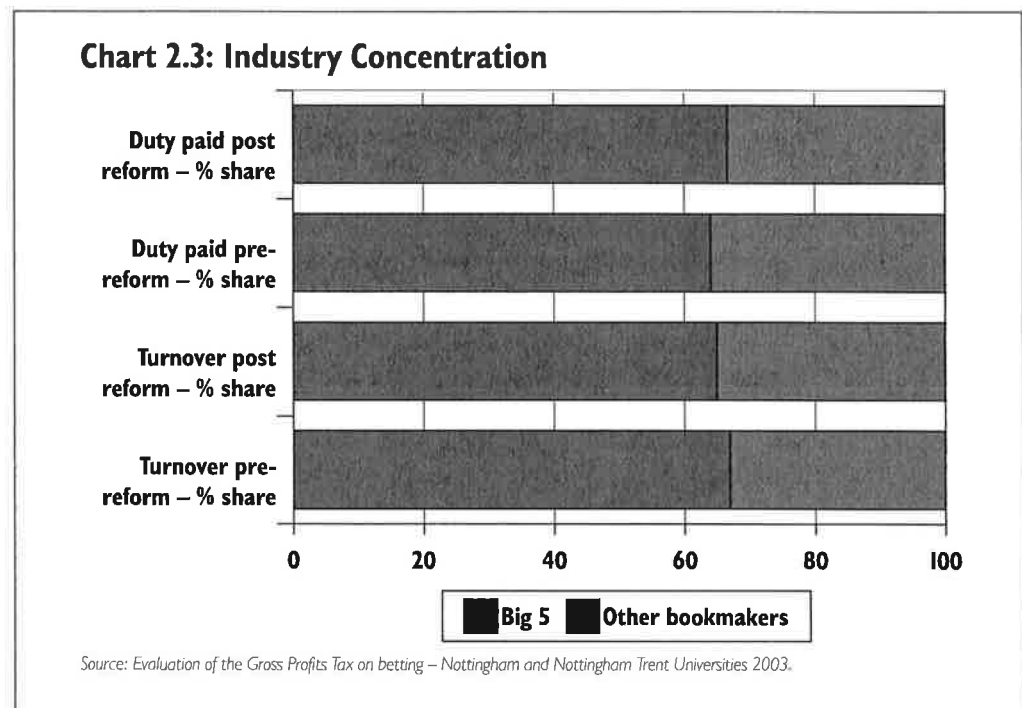


**2.6** It is difficult to extract the specific increase in **international business** secured through the Internet and phone. And one year is too short a time span to gauge if UK providers have secured and retained a substantial foothold in the global market. Nevertheless, there have been some **encouraging signs**.

**2.7** One large chain has reported a 10-fold increase in its overseas sales since reform. Another leading company that already secures 10% of its turnover from overseas expects that in the coming year the bulk of its growth will come from international business.

## IMPACT ON SMALLER BOOKMAKERS

**2.8** The introduction of GPT has benefited smaller bookmakers the most. Original research suggested that a tax based on gross profits would be fairer because it would be related to ability to pay. New work by the Nottingham Universities also demonstrates that since reform there is less concentration in the industry i.e. smaller bookmakers have secured a greater share of total turnover. In addition, they suggest that larger bookmakers are now paying a greater share of the duty.



**2.9** Research also suggests that had the former regime remained some firms would not have been able to withstand the effects of the increased market penetration of Internet-based companies and the growth of betting exchanges.

**2.10** A report commissioned by the BBOA and submitted to the evaluation noted that the historic decline in the number of betting shops had eased in recent years. There were about 15,800 outlets in 1970, this fell to 10,200 by 1990 and today there are around 8,500. Betting shops are a traditional feature of many town and city centres and the tax reforms increase their chances of prospering.

## IMPACT ON EMERGING SECTORS

**2.11** GPT has been a positive boost for the emerging Internet and niche sectors. The reason for this is that the duty structure takes into account a firm's ability to pay, a key factor as many of these new businesses have lower margins than their more established competitors. Under the former regime, these businesses would have found it difficult to grow or some to remain viable.

**2.12** As well as being welcomed by existing major Internet-based companies such as Blue Square, there have been encouraging signs that reforms are attracting overseas investment. In January 2003 one of Australia's major on-line companies announced plans to set-up in the UK. Canbet have invested in new premises and are recruiting 30 staff. Chief Executive, Michael Tomeny, said:

"Once the British Government changed to a 15% gross profits tax we made plans to set up in the UK."

**2.13** Reform has supported an environment in which the UK leads the world in terms of customer choice, from mainstream shops through to Internet based operations, and from new business models such as betting exchanges which have a wide appeal to the niche spread betting sector.

## IMPACT ON PUNTERS

**2.14** The introduction of GPT has meant a better deal for punters. The price of bets, or put another way bookmakers' gross margin, has fallen. This was caused by the reduction in tax being passed onto customers and as the effect of the GPT system, which encourages a low margin/high turnover strategy, has bitten. Although this appears a little more pronounced for smaller bookmakers, less data was available for this sector and so it is probably safer to say that the fall in margins across both groups is similar.

### Chart 2.4: A Better Deal for Punters – Reduction in Gross Margins

Large chains	Up to 4.8%
Smaller independents	Up to 5.5%

*Source: Evaluation of the Gross Profits Tax on betting – Nottingham and Nottingham Trent Universities 2003*

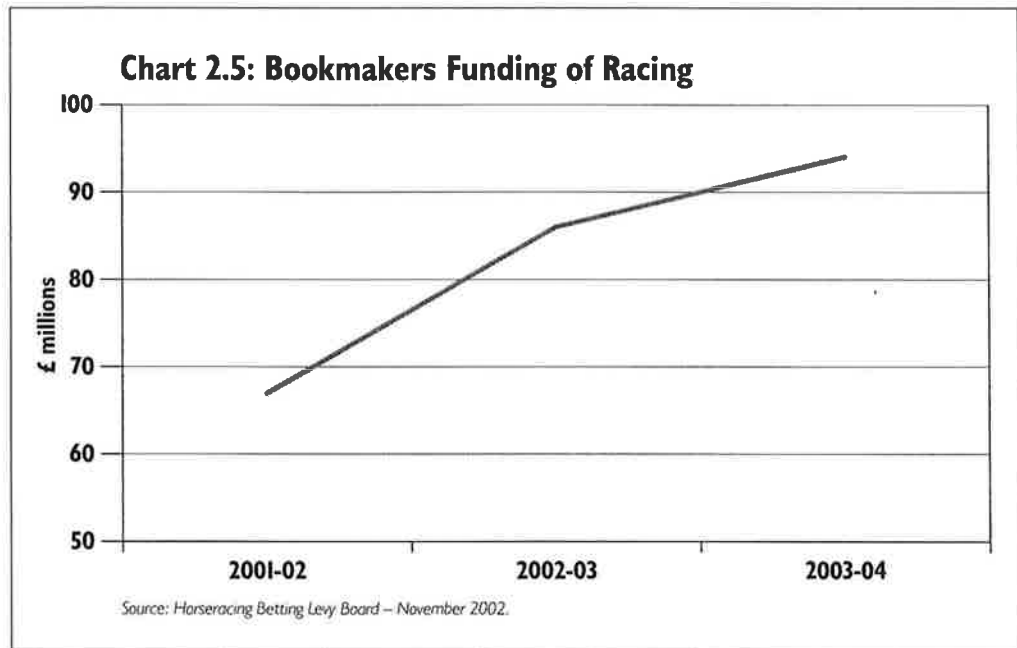
**2.15** The abolition by bookmakers of deductions on bets made it clear to punters that taxation had been reduced. Increased winnings – the BBOA report that its members paid out over 60% more in the past year – led to additional betting activity. Another effect of the reforms was to make short odds bets i.e. betting on favourites, previously unattractive because of the 9% deduction, more popular.

## OTHER INDICATORS

**2.16** Exchequer receipts after 1 year were within 1 per cent of initial projections. The business case for reform acknowledged that there would be a short-term loss of tax revenues. However, no change would have been a big risk. Industry surveys suggested that punters would have increasingly sought better value for money offshore, potentially leading to a significant erosion of duty receipts.

**2.17** Revenue projections remain on course. In the medium to long-term receipts are expected to match and then exceed what might have been achieved under the former tax regime.

**2.18** Racing has benefited from the move to a gross profits tax. The UK racing industry is heavily dependent on bookmakers' financial support, which has traditionally been delivered through the Horserace Betting Levy. The most recent levy agreements have increased funding by over 40%. Without tax reform bookmakers are very unlikely to have been able to deliver this increased support.



**2.19** Finally, the level of illegal bookmaking reported has significantly reduced. The trade associations note that betting shops reporting the biggest increases in sales are in areas where illegal activity had previously been known. Reports to Customs of illegal activity have fallen significantly. This outcome is logical in that the incentive to bet with illegal operators under the former regime, where licensed bookmakers charged deductions, has now been removed.

All of the original policy objectives have been achieved.



# 3

## SUMMARY OF RESPONSES

### THE RIGHT TAX SYSTEM?

**3.1** As part of the evaluation of GPT the Nottingham Universities were asked to revisit their original research and, using the data available from the first year of the new tax regime's operation, critically appraise those findings.

**3.2** In their 2000 report 'An economic analysis of the options for taxing betting', the Nottingham Universities argued that a tax levied on the gross profits of bookmakers would have a number of advantages over a tax levied on stakes. Their main predictions were that a gross profits tax would:

- encourage bookmakers to adopt higher turnover/lower margin strategies;
- be more allocatively efficient, being based on companies ability to pay;
- benefit smaller, independent bookmakers more than the larger chains; and
- enable the UK-based industry to compete effectively internationally.

**3.3** From the analysis of the key performance data in Section 2 and responses to the evaluation it is possible to say with confidence that the Nottingham Universities' research has been substantially borne out by experience. GPT is demonstrably more efficient, fair and sustainable than the former regime.

#### Chart 3.1: The Nottingham Research

Outcomes	Prediction 2000	Outcome 2002
Reduction in bookmakers' gross margins	3.1-3.5%	3.6-4.8%
Increase in turnover	26-41%	40-46%

Source: An economic analysis of betting taxation 2000 and Evaluation of the gross profits tax on betting 2003 – Nottingham and Nottingham Trent University

**3.4** The one area of the GPT system which many respondents said was not working effectively related to the treatment of betting exchanges.

### Betting Exchanges

**3.5** Betting exchanges facilitate betting between private individuals and also enable bookmakers to deepen their markets and hedge. Users are usually categorised as either 'layers' i.e. those customers who offer a price/odds on an event happening, or 'backers' i.e. customers who bet on an event happening at a given price/odds. In matching bets exchanges generate income by charging commission.

**3.6** Betting exchanges were emerging when the GPT reforms were being developed. At the time it was decided to focus, for duty purposes, on the activities of one set of their customers, the layers, and to treat them like bookmakers. This meant exchanges would account for duty on the aggregated winnings of those customers who offered bets i.e. they are taxed on the basis of someone else's gross profit.

# FOREWORD BY ECONOMIC SECRETARY TO THE TREASURY, JOHN HEALEY MP

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This report, which sets out the results from the evaluation of the Government's recent reforms of betting taxation, marks an important stage in our modernisation of gambling taxes.

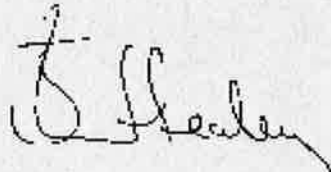
Since implementation of the new system, the UK betting and racing industries have benefited from growth in the market, punters are enjoying more choice and better value than ever before, and bookmakers are continuing to make an effective contribution to Exchequer receipts.

This report also highlights other significant outcomes. The benefits predicted by academics and analysts of moving to a gross profits tax have now been proven in practice. The new system is demonstrably more efficient, fair and sustainable than the previous regime.

We now have a solid foundation on which to build, for example with the implementation of the reforms of Bingo Duty which the Chancellor announced in the Budget. We will also consider the gross profits approach when we look at the taxation of amusement and gaming machines.

Our modernisation of gambling taxes provides a good case-study of robust Government policy-making, from responding to a changing competitive environment and consulting with industry, through to implementation, delivery and rigorous evaluation.

I hope you find the following report as encouraging as I do.



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May 2003



## The main problems with the current approach

**3.7** Most of the larger bookmakers have argued that the process of aggregating the net position of all layers over an accounting period reduces an exchange's tax liability. There is evidence to support this: in the first 12 months of GPT, some exchanges posted some nil accounting returns as layers' losses exceeded winnings. Yet turnover and revenue was growing. Taken as a percentage of commission, exchanges effective rate of duty over the period was about 5%.

**3.8** Exchanges also found the duty provisions problematic. They said basing taxation on the performance of one group of their customers led to volatility in their duty liability. Further, it was argued that betting patterns peculiar to exchanges could lead to liabilities exceeding commission charged – this was evidenced with data for particular days and on certain events. Smaller exchanges suggested that the current arrangements were acting as a barrier to entry.

## How should betting exchanges be taxed?

**3.9** Putting aside the ongoing debate within the industry concerning social regulation in this area (for example many bookmakers argue that all customers laying bets on exchanges should have a bookmaker's permit), there is no doubt that exchanges are in direct competition with bookmakers. The latter have a legitimate interest in businesses operating in the same market being on a level playing field.

**3.10** In proposing alternative GPT arrangements for exchanges many respondents (primarily representing traditional bookmakers) argued that the principle of treating all exchange layers as bookmakers for duty purposes should continue. The one change they advocated was to move away from the process of aggregating the position of all layers over a month, to taxing the profits of just winning layers.

**3.11** The Government has decided not to adopt this approach. This is because it would fail to address the fundamental flaws with current arrangements, for example the lack of any direct link to an exchange's revenue and the volatility of duty liability, indeed these problems would be exacerbated. Had duty been based on the aggregated profits of winning layers the effective rate of tax for exchanges during 2001-02 would have exceeded 30%, threatening the business model.

**3.12** The main alternative is to levy duty on an exchange's commission – effectively the real gross profit for operators. This would relate tax to ability to pay; it would address concerns about the volatility of duty payments under the current system; and liabilities could not exceed commission.

**3.13** The Nottingham Universities conclude that such an approach would be fairer and more efficient than the current system. All betting exchanges that responded to the evaluation believe this approach would be appropriate.

**Chart 3.2: Taxing Exchanges – Alternative Approaches**

	<b>Current System (15% of the aggregated profits of all layers)</b>	<b>15% of exchanges' commission</b>	<b>Winning Layers (15% of the profits of winning layers)</b>
<b>Duty liability as % of commission</b>	<b>5%</b>	<b>15%</b>	<b>33%</b>

*Source: Exchanges' submissions to the evaluation of the gross profits tax on betting – 2003.*

**3.14** The Government considers a duty on exchange commission to be most consistent with its policy objectives. Therefore with effect from 1st June 2003, betting exchanges will pay duty of 15% on their commission.

**3.15** For those using exchanges to do business, any gross profit generated is subject to GPT. Current provisions already cater adequately for this, requiring permit-holding bookmakers using exchange facilities to account for these transactions in their duty returns. Those doing business through exchanges without a permit are breaking social law.

**3.16** Customs is working closely with exchange operators to ensure that those of their users who are liable for duty under existing provisions are making appropriate returns.

## THE RIGHT TAX RATES?

### Mainstream rate

**3.17** In the run up to reform, a range of tax rate options were weighed. A rate of 15% was considered to deliver the best outcome for all stakeholders, balancing a better deal for punters and improving the competitive position of UK bookmakers with revenue to the Exchequer.

**3.18** The performance of GPT over the year, for example the impact on turnover and bookmakers' margins is in line with forecasts. These indicators made a **strong case for the Chancellor's Budget 2003 decision to keep the main rate of duty at 15%**.

### Spread Betting

**3.19** Financial spread bets are usually made on the movement of an index, say the FTSE 100, where punters bet on the direction and scale of any change over a given period. Sports spread bets can be made against a constructed index, for example the total number of goals in a match. The stake placed is per unit of movement and so winnings or losses can be significant.

**3.20** Prior to the introduction of GPT in October 2001, spread betting was taxed at 6.75%, the same rate as fixed odds betting. However, the tax was levied on the unit stake, and thus failed to take account of the true scale of bets made. When betting tax reforms were implemented it was decided that the tax base should be the same as for mainstream bookmakers i.e. total stakes less total winnings.

**3.21** Recognising the higher cost base for this sector, the rate of GPT for sports spread betting was set at 10% and for financial spread betting at 3%. While the rates were not as low as the trade association had hoped for, they appeared to some mainstream bookmakers too favourable. In this context it is right to test if duty rates for spread betting have been set at the right level.

### Is there a case for reducing tax rates for spread betting?

**3.22** In their submission the SBA argue that the original rationale for differential rates still applies. Indeed they continue to make a case for rates of 8% for sports and 2% for financials. One of the main arguments made in support of this case was that the sector's tax bill has increased by over 100% as a result of the reforms. Whilst this is true, it is as expected given the unsatisfactory nature of previous arrangements.

#### Chart 3.3: Spread Betting Operators Duty Paid

Year	Financial Spread Bets		Sports Spread Bets	
	Duty £m	% change	Duty £m	% change
2000-01	1.4	–	0.8	–
2001-02	3.1	+121%	1.5	+88%

Source: Spread Betting Association submission to the evaluation of the gross profits tax on betting – 2003.

**3.23** Another argument is that this sector is a low turnover/high margin business, and logically might find it more difficult to operate within a system that has the opposite incentives.

**3.24** Nevertheless, the sector remains in a healthy state. Indicators on turnover for financial spread betting and gross profits for sports spread betting during the evaluation period have been strong.

### Is there a case for increasing tax rates for spread betting?

**3.25** The case for differential rates remains strong. The business bears much higher costs and risks than conventional bookmakers. For example, the costs of complying with the Financial Services Authority regulations, higher employee wage costs and, for financial spread betting, hedging costs.

**3.26** There is no doubt that the competitive position for spread betting firms has also got tougher since reform, for example bookmakers are offering a wider variety of bets such as 'in-match' betting which was previously the preserve of the spread betting operators.

**3.27** In addition, an increase in tax rates at this time would be undesirable for competitive reasons, for example levelling a 15% duty on this sector could undermine the viability of some companies and lead to concentration in the market.

**3.28** The Government decided not to change duty rates for spread betting in Budget 2003.

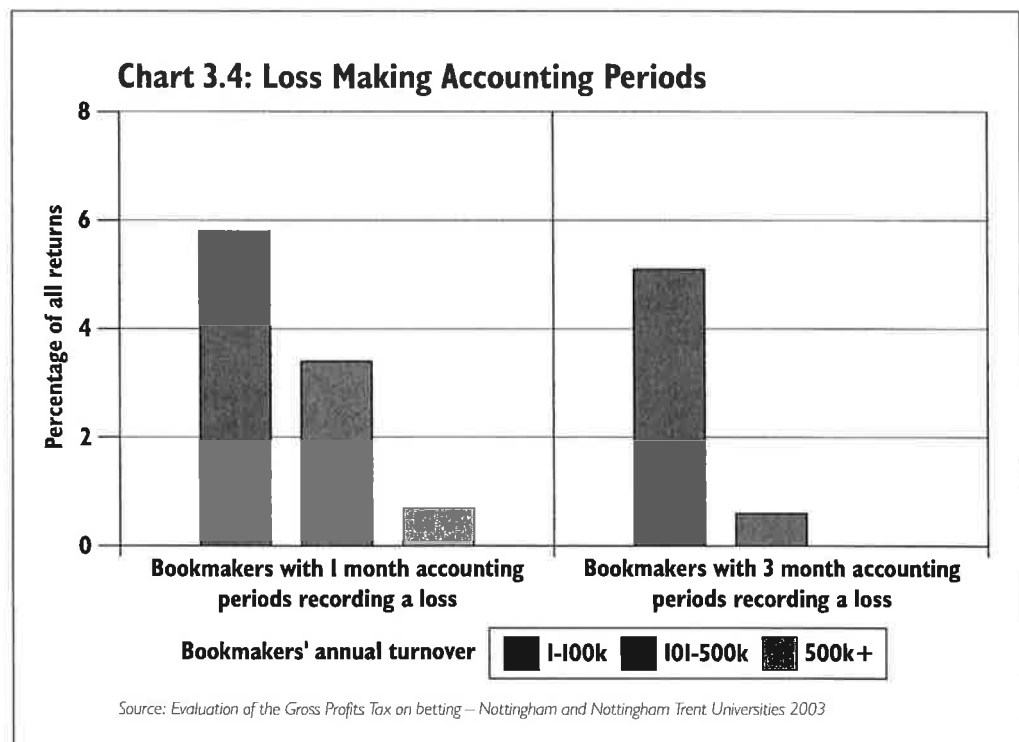
## ADMINISTRATION OF GPT

**3.29** There was little feedback about the administration of GPT. The vast majority appear content with current arrangements.

**3.30** The main request for change related to accounting arrangements. The SBA suggested that a facility should be allowed to carry forward losses between accounting periods. They argued that without such an arrangement companies could end up paying a higher effective rate of duty<sup>3</sup>.

**3.31** Their concern was the potential impact on financial spread betting operators where the markets move in the same direction for a sustained period of time. While no SBA members have recorded loss-making periods exceeding an accounting period (3 months) since the reforms, a small risk remains.

**3.32** The Nottingham Universities analysed the impact of accounting arrangements on mainstream bookmakers. They found that while the use of extended accounting periods introduced last year had eased the problem, a small but significant number of bookmakers still suffer loss making accounting periods. It is interesting to note that some of the businesses entitled to use extended accounting periods have not done so. Customs are considering how to further publicise the facility.



**3.33** Some smaller bookmakers pay a higher effective rate of duty because of accounting arrangements and the financial spread sector continue to run an albeit minor risk of extended loss-making periods. As such the Government believes there is a good case for allowing the carry forward of losses between accounting periods, and will make necessary provision for this effective from September 2003.

<sup>3</sup> For example, if in 4 periods a sports spread betting company made 3 profits of £10,000 and a loss of £5,000, as it could not carry forward that loss then it would pay £3,000 (12% of gross profits) rather than £2,500 (10% of £25,000) in tax.

**3.34** In order to ensure equity of treatment, these arrangements will also apply to Pool Betting Duty.

## **SECONDARY ISSUES ARISING**

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### **The Duty Exemption**

**3.35** In 1987, a duty exemption was introduced for on-course betting. The intention was to promote a healthy on-course betting market for horse and greyhound racing, but the law's vague wording enabled betting at other venues to benefit.

**3.36** The 2001 Budget press notice, announcing the GPT reforms, said:

“The Government recognises the importance of the duty exemption for on-course betting in attracting punters to attend racecourses and greyhound tracks, and in determining the ‘Starting Prices’ used extensively by off-course bookmakers. On-course betting at these venues will therefore continue to be exempt from duty under the GPT. The Government will be consulting on whether to retain the on-course exemption for betting at other sports venues, or to bring betting at these venues into the scope of the new system.”

**3.37** In the latest consultation document plans were again outlined to narrow the duty exemption. Few who responded to the evaluation commented on the duty exemption, those who did remain supportive of the arrangements for horse and greyhound racing.

**3.38** The Government believes there is a good case for defining more clearly which on-course bets should be exempt from GPT i.e. those made at horse and dog race meetings. Amended legislation will come into effect from September 2003.

### **Miscellaneous**

**3.39** The consultation about the evaluation of the reform of betting taxation also generated responses on a number of minor issues that will require further consideration, including the treatment of:

- **agency bets** i.e. where a bookmaker (usually small) passes bets onto another bookmaker (usually larger), with whom he has an agency agreement for those bets where he has calculated that he could not accept the risk himself. Under our current tax provisions, each stage of such a transaction counts as a separate bet;
- **hedged bets** – this is where a bet would be accepted by a bookmaker in its entirety, but where the bookmaker chooses to make his own bet, usually on the same outcome with another bookmaker, to manage his risk. At present no allowance can be made to offset tax liability through use of this tool; and
- **free bets** – bookmakers occasionally market their business through the use of free bets. Current provisions mean that the value of these free or discounted bets must be included in duty returns as stakes received.

**3.40** The Government will explore these areas more thoroughly over the coming months including in discussions with industry representatives.

### **Advertising by overseas bookmakers in the UK**

**3.41** It is an offence under section 9 of the Betting and Gaming Duties Act 1981 for anyone based in the UK to advertise the services of an overseas bookmaker. The ABB and a small number of individual bookmakers raised concerns that this provision was being flouted.

**3.42** Customs is aware of the trade's concerns and takes appropriate action when instances of breach of S9 occur.

### **Fixed Odds Betting Terminals**

**3.43** During last summer Fixed Odds Betting Terminals (FOBTs) became the subject of much debate in the gambling industry. The biggest chains have installed hundreds of terminals, which offer punters a range of games including 'roulette', card games, and virtual racing.

**3.44** Bookmakers have argued that the terminals are betting machines and they are currently paying 15% GPT on machine winnings.

**3.45** The Gaming Board argue that FOBTs, which can offer prizes in excess of £30,000, are gaming machines and therefore illegal since bookmakers are restricted to offering amusement machines with a maximum payout of £25. A test case is currently being prepared.



# 4

## BUDGET 2003

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**4.1** As betting tax reforms have been in place a little over a year and all key indicators are positive, the Government decided that:

- the main 15% rate of GPT would be left undisturbed; and
- the differential rates of 3% and 10% for financial and sports spread betting would also be left unchanged in Budget 2003.

**4.2** However, a small package of measures, which were introduced in Budget 2003, will further enhance the GPT system, improving market competition.

### BETTING EXCHANGES

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**4.3** With effect from accounting periods beginning on or after 1 June 2003 provisions for the taxation of betting exchanges will be modified by moving to levying duty at a rate of 15% on the commission they receive for controlling and facilitating betting.

**4.4** This will make taxation of betting exchanges more effective, fairer and more sustainable. It will relate duty to an exchange's ability to pay and will provide a more level playing field with mainstream bookmakers.

### CARRY OVER OF LOSSES

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**4.5** With effect from accounting periods beginning on or after 1 September 2003 bookmakers and pool betting promoters will be able to carry forward losses between accounting periods.

**4.6** This measure will help a small but significant number of smaller bookmakers who pay a higher effective rate of tax than 15% because they cannot offset all of their loss-making periods. The financial spread betting sector will also benefit.

### THE DUTY EXEMPTION

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**4.7** With effect from 1 September 2003, only bets made at racecourses and greyhound tracks will be exempt from duty.

### FURTHER INFORMATION

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**4.8** Further details about these changes can be found in Customs Budget Notice CE 8/03 which can be found on the website at [www.hmce.gov.uk](http://www.hmce.gov.uk).



## THE WAY AHEAD

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### CONCLUSION

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**5.1 Reform of betting tax is a big success.** Just 16 months since GPT was implemented we can say with confidence that the changes have left the UK betting industry in a healthy state and better able to compete in the global market; smaller businesses have benefited the most from our reforms; and punters have received better value for money and more choice.

**5.2 All of the Government's policy objectives have been met** and more importantly for the future the new gross profits tax model has been proven as more effective, fair and sustainable than the previous regime.

**5.3** After considering the results of the evaluation the Government decided to introduce a small package of measures in the Budget, which will further enhance the GPT system improving market competition:

- betting exchanges will pay duty of 15% on the commission they receive for controlling and facilitating betting activity;
- bookmakers and pools promoters will be allowed to carry forward losses between accounting periods; and
- the on-course betting exemption will be restricted to horserace and greyhound tracks, as originally intended.

### NEXT STEPS

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**5.4** This report provides evidence about what can be achieved by reforming the taxation of the gambling duties. We can now implement the reforms of Bingo Duty announced by the Chancellor in his Budget with confidence.

**5.5** The Chancellor also announced that the Government would now review the taxation of amusement and gaming machines. If you want to find out more about the review, and would like to contribute, a copy of the consultation document 'Modernisation of the Gambling Taxes: A Review of Amusement Machine Licence Duty' can be obtained shortly from the Customs website at [www.hmce.gov.uk](http://www.hmce.gov.uk).

**5.6** If you have any questions about this report or the programme of modernisation of the gambling duties please write to:

Gambling Duties Policy Team  
HM Customs & Excise  
1st Floor West  
New Kings Beam House  
22 Upper Ground  
London  
SE1 9PJ



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# A

## ANNEX A – WHO RESPONDED

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ASSOCIATION OF BRITISH BOOKMAKERS

BACK AND LAY

BETDAQ

BETFAIR

BETTING OFFICE LICENSEE ASSOCIATION

BLUE SQUARE

BRITISH BETTING OFFICE ASSOCIATION

BRITISH GREYHOUND RACING BOARD

BRITISH HORSERACING BOARD

CAMELOT

CHARTERED INSTITUTE OF TAXATION

CORALS

DEPARTMENT OF CULTURE, MEDIA AND SPORT

LADBROKES

LITTLEWOODS LEISURE

NATIONAL JOINT PITCH COUNCIL

SPREAD BETTING ASSOCIATION

TOTE

WILLIAM HILL



