Economic Analysis of Proposed Betting Tax Regimes

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Executive Summary

The approach to betting taxation – and the entire regulatory and legislative structure underpinning betting – requires reform in order to meet the efficiency and equity needs of a modern betting sector.

The betting taxation rate remain at 1% until a more thorough and equitable reform is introduced which would include a new approach to taxation on betting which would encompass:

1. A licensing system which is applied to all betting operators, be they in shops, over the telephone or online
2. Taxation on gross profits, not turnover

The rationale for these proposed reforms is as follows:

1. Under the current taxation system it is betting shops alone that contribute to betting taxation – online, telephone and mobile operators are not within the betting taxation net.
2. New betting platforms have grown very considerably in recent years, leading to a decline in betting being transacted in licensed betting shops and a consequent fall in the amount being raised by betting taxation.
3. The response to this should not be to penalise the one betting platform which is already paying taxation (betting shops) whilst continuing to allow other platforms to avoid taxation.
4. The current system of turnover tax was originally created to be paid by the customer. However, it is now paid by bookmakers who are expressly forbidden from directly passing on this taxation to their customers.
5. The current system of turnover taxation also has no regard to profitability – i.e. betting shops are subject to taxation on turnover, not on profits, so

even shops making a loss are subject to betting taxation. This form of turnover taxation is relatively unique in Europe.

6. Archaic legislation governing the betting sector prevents betting shops from competing on a level playing field with other betting operators.

For these reasons, a simple increase of current betting taxation will have a very negative effect on betting shops as shown in the following analysis. It is likely that a substantial number of shops will be unviable if taxation on turnover is increased, as currently proposed, to a 2% tax on customer winnings, causing substantial job losses and consequent costs in unemployment payments and lost revenue to the exchequer.

The current system of betting taxation in Ireland was developed at a different time and for a very different type of betting sector and betting modes. A thorough overhaul of the approach to taxation in the sector is overdue. This paper outlines a new approach to taxation on betting which would combine a licensing system – applied to all betting operators, be they in shops, over the telephone or online – with taxation on profits, not turnover as was introduced in the UK.

With the rapid technological advancements of recent year, betting has never been more accessible and now takes place not only in retail betting shops but also on-line, on interactive TV, via telephones, iPhones, iPads, and SMS.

Gaming is also readily available. Terrestrial TV channels broadcast gaming shows, a vast number of gaming iPhone applications are downloadable within minutes, and the National Lottery now offers 12 new derivatives from its original concept in addition to operating a “Games Lobby” online.

In addition, gaming terminals, such as poker machines, are now operating in a wide variety of locations across the country including bars, fast food outlets, gaming emporiums, arcades and casinos. It is estimated that up to 10,000 terminals are now in operation paying a minimal AMLD cost.

Betting terminals are currently operating in a legislative grey area which contrasts sharply with the highly regulated approach that retail betting shops must adhere to. The outdated regulatory regime applicable to licensed bookmaking premises, established by the Betting Act, 1931, prohibits bookmakers from adapting their business models in order to respond to customer demand, impacting on their use of technology.

A proposed solution is to embrace technology and, instead of prohibition which only serves to drive business to other available channels legal or otherwise, implement a licensing system to regulate new forms of gambling activity.

Under this approach, licensed betting premises would be permitted to install self service betting terminals and the latest technology available ie iPads or tablet technology. The tablets would accept bets that are available in a betting shop but also allow the customer to use the wider range of betting products now available. The tablets can be easily audited and would pay the agreed tax for the betting products they offer.

This proposed licensing system would raise overall revenue by bringing all betting/gaming and gambling activities into the tax net.

1. Introduction

This paper examines the economic implications of alternate betting tax regimes. In particular it focuses on:

(a) the current proposal to increase the current 1% of turnover tax by moving to a 2% tax on customer winnings and

(b) the impact of betting taxes on the retail bookmaking sector. The context in which a tax is imposed influences its impact.

Consequently the next two sections identify the likely medium term economic environment and the recent performance and representative profitability of the retail bookmaking sector. The principles which should underpin the betting tax system are then examined. Following this, an analysis of the turnover and economic effects of raising the rate to 2% on customer winnings is presented. Alternative tax regimes are then outlined. The final section presents the summary and conclusions.

2. Medium Term Economic Environment

The betting tax proposals are being presented at a time of severe economic difficulty and very constrained public finances (which are of relevance to the funding of HRI) which are likely to continue for several more years. This follows on from weak economic activity since 2008. While economic activity will improve somewhat over the coming years, there will be substantial economic problems and constraints even in 2016. The market environment for overall business and retail betting in particular has been very poor over recent years and this will continue. Unemployment is over 14%, there is an urgency to improve cost competitiveness and very many commercial enterprises in both retail betting and in the wider economy are only barely surviving. The current and future economic circumstances suggest that a very high priority should be given to the maintenance of existing economic activity and the growth of new activities and employment opportunities. The tax proposals should support the volume of employment and business associated with betting.

The volume of total personal consumption in 2016 will be less than its peak in 2007. The consumption change is an important determinant of performance in the retail betting sector as opposed to the GDP change. The medium term consumption situation is bleak.

Table 3.1 below identifies the weak medium term economic prospects following on from the poor performance since 2008.

Table 3.1 Growth in volume of GDP and Consumption 2008 -2016

	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP %	-3.0	-7.0	-0.4	1.2	0.4	2.4	3.0	3.0	3.2
Consumption %	-1.0	-7.0	-0.8	-3.2	-1.7	0	1.0	1.2	1.5
Unemployment rate %			13.6	14.5	14.4	13.5	12.9	11.6	11.0

Sources. 2008-2010 CSO, 2011-2012 Davy, 2013-2015 Government, 2016 Author.

Unemployment will remain high over the period. While the unemployment rate will drop from its current 14.5% it will still exceed 10% in 2016. Aggregate consumption volume will decline in 2012 for the fifth year in a row. There will be no change in 2013 and annual consumption volume will grow by between 1% and 1.5% in 2013 to 2016. Wage inflation is expected to be lower than 1% annually for the next few years.

Because of the state of the public finances the expectation is for increased taxes and lower discretionary income and possibly further reductions in public sector salaries and social welfare payments. The tax proposals are being made in a period of weak consumer expenditure and significant stresses on discretionary income.

Public expenditure will continue to be constrained as the Government reduces its borrowing requirement to below 3% of GDP by 2015. This has implications for supporting HRI. In light of the continuing reductions in overall public expenditure over the strategy period it is surprising that more attention was not devoted to the public expenditure implications of the recommendations.

Overall gross voted current public expenditure is projected to decline from €53.1B in 2011 to €47.4B in 2015, a decline of 10.7% in current terms. It is clear that public expenditure will be under severe strain over the next few years.

3. Performance of the Retail Betting Sector

The bookmakers' sector has been adversely affected by both the general economic decline and the growth of competing betting media such as the internet which is not required to pay the betting duty. This has contributed to a decline of the market share held by bookmakers. Further declines in the betting shop share would be predicted on the basis of international experience and past trends. Comprehensive official data are not available for the Irish gaming and betting market but data which is available shows the recent weak performance of the bookmaker sector.

Overall bookmaker revenue can be estimated from the betting duty receipts. This is done in Table 3.1.

Table 3.1 Estimated Revenue in Betting Shops 2006-2010

	€billion
2006	3.620
2007	3.640
2009	3.670
2009	3.099
2010	3.092
2011	2.7 (latest revenue tax take)

Source. Derived by applying the betting duty rate to the betting duty receipts published by the Revenue Commissioners The rate changed from 2% to 1% in July 2006. The conversion factor used for 2006 was the average of the two rates of 2% and 1%.

There was little change in the betting shop revenue between 2006 and 2008 when it peaked at €3.667b this was due in the main to "Celtic Tiger" and many bookmakers absorbing the tax In the few years before 2006 there was a substantial increase. However, between 2008 and 2009 revenue dropped to €3.1b, a decline of 15.5%. 2010 had a further but lower decline of 0.2%. This decline is in stark contrast to the continuing growth of internet based betting as shown in the 2010 Price Waterhouse Coppers Survey of the Non-Retail Betting and Gaming Sector. This study estimated that the phone and internet non-retail sportsbook betting market (excluding betting exchanges) increased from €704.2m in 2008 to €796.6m in 2009, an increase of 13.1%. This growth has continued in 2010 and 2011 and is now estimated to exceed €900 million. The position is summarised in Table 3.2.

Table 3.2 Retail and non- retail betting market in 2008, 2009 and 2010 €m

	2008	2009	2010	€ change	% change
Retail	3667	3099	3092	-578	**-15.7**
Non-retail	704.2	796.6	850	+145.8	**+20.7**
Total	**4371.2**	**3895.6**	**3942**	**-432.2**	**-9.9**

Source. As for tables 3.1. and PWC. 2010 non-retail is own estimate. Note that the non- retail estimates do not include betting exchanges and may also understate the volume of Irish sourced betting directed to different overseas operations.

The overall betting market declined by 9.9% since 2008 which is not surprising given the large decline in economic activity and consumer expenditure. In 2008 the retail market share of total betting was 83.9%. In 2010 this had dropped to 78.4%. On current betting duty tax rates each €100m lost by the retail sector to the non-retail sector costs the exchequer €1m in lost revenues.

The data on the number of betting shops is inexact. The Revenue Commissioners publish data on the number of bookmaker's licences and bookmaking premises. However, there are substantial fluctuations in the annual totals of premises and licences which are related to the timing of licence renewal and do not appear to coincide with actual changes in the sector. For example, the Revenue data report 1151 premises in 2006, 1554 premises in 2007 and 1093 premises in 2008, 1681 in 2009 and1223 in 2010. Overall, between 2007 and 2010 the number of premises declined by 21.3%. Data from the SIS customer base show a decline in the number of establishments in recent years with latest data indicating 1092 trading units.

The business economics of a reasonably well performing betting shop are illustrated below in Table 3.3. The impact on profitability of a doubling of the tax rate on the existing regime is shown. The data show the relatively weak profit situation of even the representative well performing shop.

Table 3.3 Business economics of a representative reasonably well performing betting shop 2011

Expenditure	€ at 1% tax rate	€ at 2% tax on winnings
Turnover	2,500,000	2,500,000
Gross win at 10%	250,000	250,000
Betting tax at 1% Turnover or 2% of customers winnings	25000	45,000
Gross profit	**225,000**	**205,000**
Cost of inputs, labour, energy, SIS,	190000	190000
Depreciation	10000	10000
Profit before interest and tax	**25000**	**5,000**
Corporation tax	3125	625
Profit	21875	4375

Source. Based on average of 2012 revenue €2.76Bn divided by number of trading units 1092

A weaker small independent betting shop would have lower turnover, a lower gross win and lower costs. Paddy Power average shop turnover €4.3M

It can be readily seen from the above figures that raising the 1% tax rate to 2% tax on customers winnings(and assuming no other changes in the behaviour of suppliers and consumers) would remove an additional €20,000 from this representative betting shop and would virtually eliminate all the profits. This would result in a PBIT of €5K from this representative shop, a very low profit return for a reasonably well performing betting shop. Alternative behaviour in response to the higher tax is considered in section 5. The weaker shop position is illustrated in Table 3.4

Table 3.4 Business economics of a representative smaller average performing betting shop 2011

Expenditure	€ at 1% tax rate	€ at 2% tax on customer winnings
Turnover	1,500,000	1,500,000
Gross win at 8%	120,000	120,000
Betting tax at 1% turnover or 2% of customers winnings	15,000	27,600
Gross profit	105000	92400
Cost of inputs, labour, energy, SIS,	110000	110000
Depreciation	7000	7000
Profit before interest and tax	**Loss of 12000**	**Loss of 24,600**
Corporation tax	**zero**	**zero**
Profit/loss	**Loss of 12000**	**Loss of 24600**

Source. Based on interviews with industry

The smaller shops are not currently viable even at the 1% tax. This is why several are closing. Their only hope is to reduce costs, increase their gross win or boost revenue. As things currently stand this will be difficult but increasing the tax to 2% on customers winnings where it is envisaged the larger players will/may absorb to stay competitive with the on – line space especially the exchanges, would greatly reduce the possibility of successfully responding to the commercial difficulties.

4. Principles underlying a betting tax

The betting/gaming market is comprised of several different competing elements. While the different elements are not perfect substitutes for each other they are in substantial competition. The traditional approach to betting was to physically place a bet off course in a betting shop or on course at a dog or horse track. Providers of services were physically present at the place of betting. The internet mobile phone technology has fundamentally changed the betting/gambling market and will continue to do so at a fast pace in the future as the younger more "technology friendly" population segment increases as a proportion of the population. **Physical presence either locally or nationally is no longer a priority**

This has given rise to mobile operators who locate their internet operations in competitive low tax economies and customers who can place a bet or engage in other gambling with an operator in any location. The different types of betting and gambling and different modes are in competition with each other and it is no longer necessary for an economy to have a domestic supply capacity to satisfy the demand for betting/gambling products.

This different reality is an important factor in designing an appropriate taxation regime

There are three principles which should underpin the Government's approach to betting taxation.

- It should not be pitched at a level which poses a threat to the retail betting sector.
- It should be non-discriminatory and should apply to all betting/gambling activities regardless of medium used to provide the service.
- It should be competitive internationally and contribute to the development of Ireland as a location for both local and international internet operators.

It is recognised that there are significant difficulties in devising an appropriate tax regime for betting/gambling because of the internet. If domestic providers, both retail and internet, are excessively taxed through, for example, a turnover tax, customers will switch to overseas suppliers of betting services. Domestic internet operators may move off shore to avoid the tax. It is a generally accepted principle of internet business transactions that the expenditure or turnover tax regime of the country of supply applies rather than the country of demand. There is no return to the Irish exchequer if Irish based bets are made with providers in other countries.

The difficulties attached to the betting duty are illustrated by the regular adjustments in the rate reflecting changing perceptions of its impact. Before 1985 the rate was 20%. Between then and 1999 it was 10%. In July 1999 it was reduced to 5%. In May 2002 it was reduced to 2%. The current 1% rate was introduced in 2006. More recently, in light of the public financial crisis, the previous Government considered raising the duty to 2%, partly for general revenue and partly to finance HRI. However, on consideration of its impact on retail bookmakers the proposed increase was not implemented. The current Government has reopened the possibility of increasing the tax to 2% on customers winnings which theoretically will be borne by the consumer. In the distant past, these higher rates were effectively paid by customers as they were passed on by the bookmakers. The legislation governing the 1% prohibits its passing on to customers. Even without this legislative requirement, in the present environment it might not be possible to pass it on either directly or indirectly to customers. It seems that the current intention is that the proposed new 2% tax on winnings would be directly charged to customers as a winnings tax. The winnings tax would be absorbed by betting shops as an additional cost if competition issues prevented it being levied on customers. The intense competition with internet betting and between retail bookmakers would make the passing on of this tax to the customers very difficult even if the legislative requirement was no longer present.

5. Impact of proposed 2% tax on customer winnings

The impact of the proposed 2% tax on customer's winnings depends on the behaviour of the suppliers and customers and on the assumptions made about behaviour of customers in recycling their winnings or payout into additional betting. An initial expectation might be that the tax take from 2% on customer winning's would simply almost double the tax revenue from €27.6 million to €52.44 million. It might also be argued that this increase would have no effect on profitability/sustainability if the new tax was levied on customers as an expenditure tax. In effect customers would not change their behaviour and would bear the full incidence of the tax. The analysis in this paper suggests that this relatively optimistic scenario is unlikely.

Betting activity would move from retail establishments to the internet as the “price” of retail betting increased relative to the untaxed internet providers. To avoid loss of customers and turnover some of the better performing bookmakers would absorb the higher tax. This would place additional competitive pressure on the other bookmakers to replicate this approach despite their weak commercial position. If they did not absorb the tax their product would be less attractive than those who had absorbed the tax. In addition the higher tax would reduce the amount of payback to customers which would result in a lower level of recycling of winnings into additional betting. This recycling effect is discussed below.

The recycling behaviour of customers can have different forms. Bookmakers often argue that a typical customer will start with an amount of money and will “reinvest” any winnings in additional bets. Clearly this is not the case for all customers. Some may add to their winnings to maintain a particular level of betting over a period. Others may place a seldom bet and retain any winnings. Overall, however, it is argued that the total turnover in a period eg the €3.092 billion in 2010 is not all new money but is partly recycled money from previous winnings. For example, if turnover in period 1 is € 1m and payout in that period is €900k (90%), some of the period 1 payout of €900k will be placed in bets in period 2. If all of the €900k is bet the payout in period 2 from the €900k will be € 810k which will be bet in period 3. The bet of €810k in period 3 will generate a payout of €729k which will form the resources for bets in period 4. The amount being carried forward to each period declines by the amount of the gross win(10%) and eventually there will be only negligible amounts carried forward. This is the recycling effect. There would be no recycling effect if every bet was a new decision unrelated to previous bets and pay-outs or was a bet by a different person. Of course, some small proportion of people who bet rarely get winnings. Their continued betting requires new funds. Some end the year with a net winning situation and withdraw funds from the customer to bookmaker to customer circle. On balance, however, a given annual revenue on balance produces a gross win for the bookmakers and a loss for the betting public.

The flow is described in Figure 1. We assume 100% recycling, that is all the winnings in a previous bet is placed on another bet.

Figure 1

	Turnover€	gross win €	payout€	available for new bets
Period 1	1000k	100k	900k	900k
Period 2	900k	90k	810k	810k
Period 3	810k	81k	729k	729k
Period 4	729k	73k	656k	656k
Period 4	656k	66k	590k	590k
Period 4	590k	59k	531k	531k
Period 5	531k	53k	478k	478k
Period 6	478k	48k	430k	430k
Period 7	430k	43k	387k	387k
Period 8	387k	39k	348k	348k
Period 9	348k	35k	313k	313k
Period 10	313k	31k	282k	282k
Period 11	282k	28k	254k	254k
Period 12	254k	25k	229k	229k
Period 13	229k	23k	206k	206k
Period 14	206k	21k	185k	185k
Period 15	185k	19k	166k	166k
Period 17	166k	17k	149k	149k
Periods ongoing……………….				
Eventually total	10000k	1000k	9000k	

The above process will continue until the entire initial €1000k turnover is retained as a gross win and the eventual total turnover will be 10000k. Eventually there will be only tiny amounts coming back as new bets. This process is known mathematically as a geometric series for which there is a formula. The eventual impact can be calculated by the formula as opposed to working it out step by step. The formula is 1 divided by (1-the proportion passed on (0.9)). In the above example the formula works out as 1 divided by 0.1 which is 10. The eventual change in turnover will be the initial turnover of €1000k multiplied by 10 which is €10000k. If we think of the initial €1000k turnover as cash, the paid out cash keeps coming back until the bookkeeper retains all the cash. The same cash is coming in and going out. The figure 10 can be described as a turnover multiplier related to the initial turnover of €1000k.

This process is reduced if, for example, there is a 2% tax imposed on consumers. It is illustrated below for a few periods. The tax could be on turnover or winnings. We calculate it on turnover.

Figure 2

	T/O	Return to Customer	2% Tax on Rtns	Payout	Available for new bets
Period 1	1000	900	18	882	882
Period 2	882	794	16	778	778
Period 3	778	700	14	686	686
Period 4	686	618	12	605	605
Period 5	605	545	11	534	534
Periods ongoing..					

The process will continue as it did without the 2% tax but the tax reduces the amount going back to the customer in each period or step and consequently reduces the amount which is recycled into new bets. This will reduce the overall turnover and the new formula is 1 divided by (1-0.882+0.02) (which is the tax proportion)). The turnover multiplier is now 8.49 (1 divided by 0.0113). The initial €1000 turnover will eventually result in €8470k turnover through the 100% recycling and the new customer tax. The difference in turnover between the two examples above is a lower turnover of 15.3% with the introduction of the tax. This of course reduces the gross win and the fund available to the retail sector to operate the business and cover costs.

An alternative way of interpreting the 100% recycling effect is that from each initial bet the amount returned to the customer and available for additional betting is the initial bet less the gross margin proportion (10%) and less the tax on winnings (2% of winnings and equivalent to 1.8% of turnover) From each initial bet 11.8% of turnover is not returned to the customer and 88.2% is returned.

Based on the above assumptions of a 100% recycling of winnings the impact of a 2% tax on customers would not be that turnover would stay the same with only the 2% removed to the exchequer. The turnover multiplier would be lower and the total turnover would be lower. This would worsen the commercial position of the bookmaker sector.

In addition to the lower multiplier, it is likely that another negative effect would be the possible response of customers to the effectively higher price of retail bets. For every €1000 they are getting a return of €900 less €1.80c they are getting €100 worth of bet with a theoretical return to customer of 90% and €1.80c is going to the exchequer. This effectively increases the “price” of a bet. This would reduce demand for retail betting and would cause a shift to internet services and “the black market” (illegal gambling). The scale of the impact is unclear but some estimates have suggested values of price elasticity of demand of between 0.6 and 1.1 covering both the switch to internet and reduced demand.

Even if we use the lower of these estimates a 2% levied on customers returns would reduce demand by 1.2% in addition to the recycling effect. This would increase the decline in retail turnover from 15.3% to 16.2%.

Of course there is currently a 1% tax on turnover so the current and proposed situation is not one of a zero tax compared to a 2% tax. However, in the current regime the 1% tax is levied as a cost to operators of retail establishments as opposed to being borne by the customers. In the absence of the current 1% tax bookmakers could offer better "prices" from the financial savings arising from not paying the tax and this would promote turnover or they could simply increase profits or reduce losses. On the assumption of tax level of €31 million being paid back to customers and a multiplier of 10, there would be an increase in turnover of €310 million on the 2010 level. With the elasticity effect this would be about €329 million. This would suggest that the current tax regime costs the sector €329m in turnover compared to a no tax regime while the proposed new tax regime of 2% on winnings would cost the sector €511 million compared to a no tax regime. This gives a net loss of €182 million in turnover.

If customers absorbed the full amount of the tax and paid it on each bet in addition to the existing value of the bet there would be no negative effect on the existing level of turnover situation. For example, an initial bet of €1000k would theoretically return €882 after the 2% tax on winnings is applied €18 to the exchequer. The €882 which is recycled in period 2 would theoretically become €778 which is returned to the customer €16 to the exchequer. As already argued this is unlikely due to normal consumer behaviour relative to price and due to competitive forces within the retail market and between it and the internet sector.

On the assumption of the model with 100% recycling and some reduction in demand for retail betting due to the 2% tax on customer returns the 2010 turnover of €3.092 billion would decline by 16.2%. This would lower turnover to €2.591. The estimated 2011 retail turnover is €2.7 billion. A 16.2% would decrease turnover by €437 million. The exchequer would still collect more revenue. At the €2.7 billion at 1% it collects €27 million. At the lower turnover of €2.3 billion at 2% on customers winnings it would collect €41 million.

The increased tax revenue would be at the expense of customers using the retail network and at the expense of the demise of many of the independent and smaller betting shops with consequent loss of employment. The estimates are sensitive to the demand response and to the recycling assumption. It is unlikely that there is

100% recycling of initial bets. Some turnover is “new” money unrelated to previous winnings and some winnings would be withdrawn from the bookmaker/customer cycle for other spending or saving purposes. However, a substantial amount of recycling does occur. It is also possible that the 2% tax on customers returns could cause a substantial behavioural shift to the internet beyond the level of the estimated price elasticity’s based on marginal changes to price with tastes otherwise unchanged.

The equity of such an approach relative to having no or different tax charges on competing internet operators is also open to question. A universal non-discriminatory tax regime for all betting can be designed which would be equitable, would support the local retail betting sector and would support Ireland as a location for internet based operations.

6. Alternative tax regimes

As already noted a betting tax regime should be non-discriminatory should enhance Ireland as a location for internet based activities and should not penalise the retail sector. In addition it has to collect revenue. The level of revenue is related to the impact on the individual sectors. We have seen that a 2% tax on customer returns the retail sector could generate €41m instead of the current €27 million but at the demise of many small betting shops most of which will be in Rural Ireland

There are sound economic reasons for introducing **a licence fee plus gross profits margin tax** which would be applied universally and the rate at which the GPT is applied will have direct consequences on independent operators for example a simple 10% GPT equates to 1% turnover tax on the betting shop models used in this report (thus independents would still struggle) The IBA proposal of licence tax plus 7.5% GPT would still yield the OTC levels currently enjoyed with additional revenue potential coming from extended trading and tablet technology (iPads). It also offers a guaranteed minimum payment as Licence fees are paid by all.

The rates for licences and rate of gross profit tax should be set to minimise the overall tax burden, to reduce the tax burden on the retail sector and to maintain

Ireland as a competitive location for the operation of indigenous and international internet betting activities.

The approximate indicative breakdown of betting tax revenues from a gross profit tax and licence regime is as follows. The assumptions are, gross profit tax of 7.5%, gross win of 11% in retail establishments on average, gross win of 7% in the internet betting sector, graduated licence fee structure for betting shops based on revenue bands, success in attracting more international internet betting operations and a licence system for betting exchanges.

In addition a more liberalised system with licences, for technology use in betting shops is included.

	Option: Licence fee Plus Gross Profits Tax @ 7.5% (assume Gross Win 11%)
Gross Profits Tax Rate:	**7.5% plus Licence Fee**
Retail Gross Profits Tax Take	**€27,500,000**
Retail Extended Trading - additional Tax*	**€1,288,000**
Retail Tablets - Additional Tax**	**€1,161,775**
Sub Total from Retail	**€29,949,775**
On Line Licence	**€3,000,000**
On Line Sportsbook estimated Turnover c€760,000,000 (assume 7% Gross Win) **Gross Profits Tax :**	**€3,990,000**
tax on exchanges (Irish business)	**€5,000,000**
Licence for Exchanges	**€500,000**
Sub Total from Online	**€12,490,000**
Total Tax	**€42,439,775**

The above system meets the operating principles in that;

- the weaker retail operations are supported thus protecting employment,
- the overall tax burden on the retail sector is not worsened,
- the system is broadly non-discriminatory between types of betting,
- the system is competitive relative to international betting tax regimes and
- will support the operation of online betting operations in Ireland.

This regime would facilitate international competitiveness, equity and support for the retail sector.

A gross profits tax is beneficial in that it removes any disincentive to maximise revenue, employment and activity. It also has good distribution effects in that the tax burden on lower margin smaller operators is reduced relative to higher margin operators. It also removes any direct tax on customers.

The draft legislation proposes a 1% turnover tax for online bookmakers and shops, but distinguishes those from betting exchanges for which a 15% "Betting Intermediary Duty" is proposed. This clearly creates a possible tax loophole as illustrated below.

Betfair's total bets placed between October 2010 and May 2011 was £31bn [1].. On each exchange bet there is a "backer" betting on the selection to win and a "layer" offering the same bet for the same value in the hope the selection loses. Therefore, the total bets backed on Betfair in the same period amounts to £15.5bn.

In the equivalent period, based on Betfair's quarterly financial results, we estimate Betfair's exchange commission to be £149.4m. Therefore, Betfair's commission as a proportion of its total bets backed or turnover equals 1% (i.e. £149.4m / £15.5bn) [1].

[1] *Calculated based on the value of bets matched in Oct '10 to May '11 per http://data.betfair.com (£31.0b of bets placed) and Betfair's estimated non-risk exchange commission revenue in the equivalent period of £149.4m (per quarterly reporting of financial results).*

Example: Exchange Tax Loophole

- If an Irish based customer stakes €100 on Liverpool with an online operator, the betting duty charged at 1% of turnover equals €1, whereas

- If an Irish based customer stakes €100 on Liverpool on an exchange such as Betfair, the commission received by betfair on average is 1% and the betting intermediary duty of 15% generates just €0.15 in tax (€100*1%*15%)

Under the tax proposals therefore, Irish Retail Bookmakers pays seven times more tax than Betfair for an equivalent bet.

The fairest and simplest remedy to this loophole is apply a Gross profit tax to the layers on the exchanges, as they are acting as bookmakers and therefore should be taxed in same manner. There is international precedent in other jurisdictions such as New South Wales, Australia, for no distinction to be made between fixed odds bookmakers and betting exchanges.

7. Summary and Conclusions

The economic environment is very weak and elements of this weakness will persist for several years. The retail bookmaking sector has declined in recent years with declining turnover and enterprise closures. Competition with internet betting providers has intensified and the retail share of the betting market has declined. A tax regime for the retail sector should be framed in light of these difficulties.

Profitability is low or non-existent in many betting enterprises. This paper presented some scenarios which highlighted the negative effect on commercial viability of a 2% betting tax on customer winnings. The current tax regime is inequitable in that other forms of betting are not taxed. Current Government proposals intend some tax to be collected from internet operators but its proposals would still leave the retail sector providing a very large share of betting tax revenue.

Using a model which takes into account demand responses to betting price increases which takes account of recycling of winnings into other bets (the turnover multiplier) the proposed 2% tax on consumer's returns could reduce retail turnover by 16.2% compared to no tax.

A more equitable and internationally competitive tax regime would include licence to operate fees and a tax on gross profits. This would increase betting tax revenue from its current level and provide a more equitable tax burden across the different betting sectors.