



SA's Proposed Wagering Tax

The face of gambling is changing with the rise of sports betting and particularly online betting. The tax system needs to keep up with these changes.

With the rise of online betting on sports and racing, international bookmakers have set up shop in virtual gambling tax havens. The revenue they get from South Australian punters is then taxed in the Northern Territory or Norfolk Island where gambling taxes are capped at very low levels. That is not fair to local bookies who pay gambling taxes here, or to the South Australian community who miss out on the revenue which could pay for vital services – including the harm caused by gambling.

South Australia's proposed wagering tax closes this tax loophole and taxes bookies' winnings where the bets are made – not in whatever jurisdiction the corporation holds its bookmaking licence. It would see the big online bookmakers pay gambling taxes in South Australia for the first time.

A place of consumption Wagering Tax also operates in the United Kingdom and was proposed for Australia in SACOSS' recent report on gambling taxes: "[Losing the Jackpot: South Australia's Gambling Taxes](#)" (June 2016).

What is the Proposed Wagering Tax?

As part of the 2016-17 State Budget the SA Government announced the introduction of [a place of consumption tax of 15%](#) on the Net Wagering Revenue (NWR) of betting companies offering services to South Australia.

NWR is the difference between the total money staked with bookies and the money paid back on winning bets. Effectively then, the bookies will pay 15% tax on all their winnings from South Australian punters. (The Wagering Tax in the UK is also set at 15%.)

The SA wagering tax will come into effect on 1 July 2017 and will apply to revenue from bets on:

- horse, harness and greyhound racing,
- sports (eg. AFL, cricket and soccer), and
- events (eg. elections or novelty items).

SA will be the first Australian jurisdiction to introduce a wagering tax based on the place of consumption.

There will be a tax-free threshold of \$150 000 NWR per year which will exempt small bookmakers.

The Budget estimates the Wagering Tax will raise \$9.2m in new tax revenue each year. Betting companies who will be liable to pay the tax include:

- UBet, other SA licensed bookmakers,
- Authorised Interstate Betting Operators (including TABs in other states), and
- Online bookmakers such as Sportsbet, Bet365, William Hill and Ladbrokes - who will pay tax in SA on sports bets for the first time.

The legislation establishing the Wagering Tax mandates \$500,000 per year from the wagering tax will go to the Gamblers Rehabilitation Fund to support problem gamblers. It is the first time that betting taxes will contribute to the Fund which has until now been supported by poker machine taxes.

The proposed Wagering Tax is contained in the 2016-17 State Budget legislation and is due to be debated by parliament in late September 2016.

SACOSS is calling on all parties in the parliament to pass the legislation without delay.

Gambling Harm: Case Study

Peter, a forty-something male, received a redundancy payment of approximately \$60,000. Sitting at home with no work he became depressed. There was also a death in the family. He started gambling online with two different sportsbetting companies and lost his entire redundancy payout within two months. He also took out payday loans and pawned most of the household goods. His family had no money for food or bills – and he was not eligible for Newstart Allowance as the retrenchment payout is counted as income.

(Source: FCA, 2015)

Gambling Harm: Case Study

Tim had huge debts from sports betting. He had embezzled funds from his employer to fund his addiction. At one point, he attempted suicide. After Tim came out of hospital he found emails in his inbox inviting him to come to a big boxing match...

(Source: FCA, 2015)

Background – Gambling Taxes, Revenue and Online Betting

Gambling taxes are the 5th biggest South Australian tax. In 2014-15, SA gambling taxes amounted to \$388m, which was 8.9% of all state taxes.

Gambling taxes are in addition to other “normal” business taxes and are justified because gambling is a regulated market that allows for above average profits, and because it causes harm that costs the community as a whole.

Gambling taxes have declined over the last decade, leaving a \$111m p.a hole in the South Australian budget in real terms.

The wagering tax reform will contribute to repair the SA Budget – modestly at first, but increasing if sports betting continues its rapid growth.

Online betting and sports betting in particular, are in fact changing the gambling landscape in Australia. While poker machines remain the main form of gambling in South Australia (and in all states bar WA), sports betting is the biggest gambling growth area.

In South Australia since 2000-01, total real gambling expenditure has declined by 14%, while expenditure on sports betting increased 10-fold.

Much of this growth, fuelled by huge advertising efforts, is in online betting.

Roy Morgan Research (2014b) shows that of those who placed a bet of some kind in the last year, 21% did via the internet. This is not substantial in itself, but it was a 50% increase from just 3 years before, while O’Farrell (2015) cites figures of a fourfold increase in the number of online sports betting accounts in Australia over the past decade.

The industry body, the Australian Wagering Council (AWC, 2015) suggests that there is an ongoing shift of all wagering from physical venues to online channels including mobile devices. Further, the AWC suggests that there has also been a shift from betting on racing to betting on sport (AWC, 2015).

These are significant changes in gambling and the tax system needs to be updated to reflect and properly capture this new gambling market.

Gambling Harm: Case Study

A gambling financial counsellor at one agency said her organisation asked every new gambling client two questions as part of the intake process:

‘Have you ever thought of suicide? — most say ‘yes’.

‘Have you ever actually attempted—10% say ‘yes’.

(Source: FCA, 2015)

Why We Need the Proposed Wagering Tax

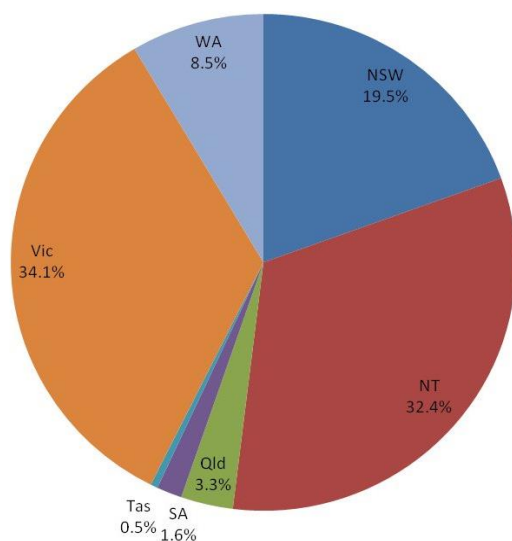
Sports betting is lightly taxed by comparison with poker machines and lotteries. The proposed 15% wagering tax compares to a tax of 41% of NGR on lotteries and variable rates for pokies, but averaging around the same 41% of NGR.

But where that sports betting is online the South Australian government may receive no gambling tax (although the SA community has to pay the price for the damages caused by problem gambling in sports betting).

Betting is taxed by the jurisdiction where a betting company is licensed, not where the bet is actually placed. Online bookies are free to “jurisdiction shop” to get licensed where there are the lowest taxes and/or lowest regulation for legal tax avoidance. The Northern Territory caps gambling tax payable at \$550,000 per licence, while Norfolk Island’s cap is even lower at \$300,000 (although the future of gambling licences there is uncertain).

This creates a very skewed distribution of online betting, and therefore taxation – and one in which South Australia is clearly missing out.

Shares of Sports Betting Expenditure (by location of bookies)



Example: Sportsbet in 2015¹

(Largest online bookie in Australia)

Takings: \$4,149m in bets in Australia,

Net revenue of \$470m

Gambling Taxes Paid: \$550,000 (NT)

Effective gambling tax rate: 0.1%

Revenue increase on previous year:
41%

Gambling tax increase on that
revenue increase: \$0

SACOSS does not know the South Australian component of Sportsbet turnover, but if it was proportionate to our population share, it would be approximately \$294m bet for a net revenue of \$33m. **Sportsbet currently pay no SA gambling tax on this revenue, while under the proposed tax they would pay approximately \$4.9m to the South Australian government.**

¹ Figures sourced from Annual Report of Sportsbet parent company, Paddy Power

Harm Prevention

The growth of online gambling, both sports betting and other gambling, raises particular harm prevention issues due to the:

- Convenience and 24 hour access to gambling
- Ability to play when intoxicated
- Lack of player protection features on the “machines”
- Abstract nature of activity which is played alone with “electronic” cash
- Ability to play multiple games/sites at once
- Difficulty in avoiding the platform (ie. you can avoid going to a race track, but you can’t avoid phones, computers and the internet)
- Inducements to bet, in particular through offers of uncontrolled credit.

There are also broader concerns among harm prevention advocates about the long term cultural impacts of sport being used to legitimate gambling and of gambling coming to be seen as integral to sport, not least via blanket advertising (AGR, 2015).

The Gamblers Rehabilitation Fund

There are a range of things required to minimise harm from sports betting. Financial Counselling Australia recommended an outright ban on bookies providing *inducements* to bet - ‘free credit’, ‘bonus bets’ and ‘free bets’, and other promotions, and the Australian Gambling Reform Alliance is calling for limitations on advertising.

The proposed Wagering Tax will contribute to harm minimisation by providing \$500,000 p.a. to the Gamblers Rehabilitation Fund. This is a modest contribution of 5.4% of anticipated receipts from the tax, but will be the first time that the betting industry, including online and sports bet corporate bookies, have contributed to the Gamblers Rehabilitation Fund.

In 2014-15 the Fund’s income was \$6.2m (Govt of SA, 2015a), comprised of a combination of a statutory amount of \$3.845m received from gaming machine taxes and voluntary contributions from the gaming industry. The Fund, which has gone up in nominal terms over the last decade due to the industry contribution, has seen a 12% decline in real terms.

SACOSS has called the amount of revenue directed to the Gamblers Rehabilitation Fund to be indexed to maintain the real value of the support provided by those funds. Accordingly, we would support indexation of the amount from the new Wagering Tax.

Gambling Harm: Case Study

Pete, a young adult living at home, used his parents’ credit card one weekend and lost a few thousand dollars through online sports betting. He knew his parents would find out when they checked their account. He committed suicide, leaving an explanatory note apologising and explaining his shame.

(Source: FCA. 2015)

The Online Bookies' Scare Campaign

In response to the proposed Wagering Tax, the big online bookmakers have launched a scare campaign in defence of their current cosy tax arrangements. They have taken out full page newspaper advertisements, direct marketing and social media campaigns against what they are calling a “punters tax”.

The campaign has more than a few dubious claims. Firstly, it is a tax on bookies, not on punters. Then, as the social media graphic here shows, they claim it will massively reduce payouts to punters. It is not clear how a 15% tax on bookies could lead to a 40% reduction in odds.

The final dubious claim in the online bookies' campaign is simply that they have the punters' interest at heart. They are simply defending their ability to utilise tax havens, and that comes at a cost to the South Australian community.



However, the gambling industry is split on the proposed Wagering Tax. Bookies who have investment in “bricks and mortar” establishments in South Australia (eg TABs) support the tax. Ubet's South Australian General Manager, called it a “fair and reasonable tax on wagering profits” (Richardson, 2016).

Gambling Harm: Case Study

An employee of a sports betting company described his conversations with the court bailiff about serving court orders on the indebted gambler. He said that it happened often enough to know that [a number of] ‘accidental deaths’ were related to the sports betting debts that the company was vigorously pursuing through their debt collectors and the courts. He challenged us to get a list of sports betting clients and cross-reference them to accidental deaths, including car and train accidents.

(Source: FCA, 2015)

Illegal Offshore Betting

The bookies have also raised a fear that the Wagering Tax would induce punters to move to unlicensed offshore operators. There is a genuine issue around overseas online bookers who pay no tax in Australia and are not subject to our (minimal) gambling regulations. That is not fair competition either, and it is even more dangerous for punters and our community.

The federal government's recent "*Review of Offshore Wagering*" report (O'Farrell, 2015) makes a number of recommendations around limiting illegal online gambling. SACOSS supports these as first steps, but believes these protections can be much stronger.

If the gambling tax system was fixed, and if there were stronger harm minimisation measures around things like inducements to bet and reasonable limitations on advertising, then SACOSS would be keen to work with the gambling industry to ensure that there were strong barriers to accessing illegal overseas bookmakers. However, we can't do that until we have a proper tax system and some agreed harm minimisation measures such as reasonable limitations on advertising. In short, if the gambling industry in Australia wants support – it needs to be worth supporting.

Gambling Harm: Case Study

A former sports betting company employee recalled customers saying to him that 'I'm in the shit, I'm wiped out, can't pay'. He said that they were fearful of their spouses finding out. Some threatened that they were going to kill themselves and begged "can you do anything for me?" He said "if they were worth looking after we might do it".

(Source: FCA, 2015)

Conclusion

The proposed Wagering Tax is a fair and reasonable tax on revenue bookmakers get from South Australian punters. And it is only reasonable that that revenue be taxed in South Australia, where the money comes from and where any harm from that gambling accrues.

With the traditional gambling tax base in decline, the next gambling wave is clearly online betting and we need to act now to set up the tax system to deal with this and ensure that the South Australian community gets the revenue we need to fund vital services – including those necessary to repair gambling harm.

It makes sense to fix the tax system before even larger sums and bigger vested interests are locked in.

The proposed Wagering Tax should be supported by all sides of politics and passed through the parliament without delay.

FOR FURTHER INFORMATION

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