LOSING THE JACKPOT: SOUTH AUSTRALIA'S GAMBLING TAXES

SACOSS
South Australian Council of Social Service

Losing the Jackpot: South Australia's Gambling Taxes

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Context

Taxes pay for all the services that our community needs, like schools, hospitals, roads, police and support for vulnerable members of our community, and gambling taxes are a major source of revenue for South Australia and for state governments across the country.

Gambling taxes are regressive: they account for 1.15% of household expenditure for the lowest income quintile, almost double the average for all households (0.66%). For people earning in the lowest two income quintiles gambling taxes represent a greater household cost than vehicle registration, insurance duties or the emergency service levy.

Gambling is a source of major social problems and considerable part of the gambling tax base is the losses of addicted and problem gamblers. The Productivity Commission estimates that 40% of gaming machine (pokies) revenue comes from problem gambling.

There are four rationales for taxing gambling more than the usual business and consumption taxes:

- Taxing extra-ordinary profits derived from regulation of the market
- Paying for the costs caused by gambling
- Sending a price signal to discourage gambling
- Raising revenue for government services.

Gambling Taxes and Revenue

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

Within the gambling tax mix, South Australia has a proportionately heavier reliance on gaming machines than other Australian states and territories (74.5% of gambling taxes).

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

- Tax receipts from lotteries, the casino and the TAB all decreased over the last decade primarily due to changes in government policy.
- Poker machine taxes have fallen over the last decade because of decreased expenditure due to declining household incomes as well as the introduction of smoking bans in gaming areas.

Some gambling taxes will bounce back if the economy picks up, but overall gambling taxes are unlikely to be maintained at previous levels due to:

- The continuation of smoking bans in gaming areas as a good public health measure;
- The areas of gambling with the highest projected growth (casino gaming and sports betting) having relatively low levels of taxes; and
- New competition from online gambling limiting the amount of tax that is collectable.

Sports Betting and Online Gambling

Sports betting is Australia's fastest growing form of gambling and about half of sports bets are placed online. Since 2000-01, total real gambling expenditure in South Australia has declined by 14%, while expenditure on sports betting increased 10-fold.

Despite recent growth, the expenditure on sports betting is still relatively small:

- Sports betting currently represents just 3-5% of total gambling expenditure in Australia
- Total sports betting expenditure with SA bookmakers in 2013-14 was just over $10m, which translated into a tax take of $600,000. This represents less than one-fifth of one percent of all gambling tax in SA.

Sports betting is lightly taxed by comparison with poker machines and lotteries, and online bookmakers "jurisdiction shop" to get licensed where there are lowest taxes and/or regulation (eg. Norfolk Island, Northern Territory).

The NT has 32% of the Australian sports betting market, while SA has only 1.6%. If SA sports betting expenditure matched population share, the South Australian government would have collected an extra $2.1m in taxes in 2013-14. This would have been 3.5 times higher than the tax actually collected.

Point of consumption gambling taxes were flagged in April last year, and the SA government was to lead national conversations, with the Commonwealth also reviewing illegal overseas gambling. However, no regulatory or tax changes have come of these processes yet.

Tax Expenditures

In 2014-15, gambling tax expenditures (ie. taxes foregone due to concessions and exemptions) amounted to $37.9m, an amount equivalent to 9.8% of SA gambling taxes.

The largest tax concessions in South Australia relate to the Adelaide casino. At $19.2m in 2014-15, the casino tax expenditure was approximately equal to the amount of gambling tax actually paid by the casino.

Non-profit clubs pay a different rate of gaming machine tax than hotels and commercial licencees. The clubs pay between 6.5% and 10% less than hotels pay, at cost of $8m cost to the SA budget. A club receiving $1.5m in gaming machine expenditure would pay $123,000 less gambling tax than a hotel with the same gaming machine revenue.

The Gambling Tax Funds

The funds established under the *SA Lotteries Act* to direct money to hospitals and to recreation and sport, and the requirement for a significant proportion of race wagering expenditure to go back to the industry, do not address the externalised costs associated with gambling.

The four funds set up under the *Gaming Machines Act* do address issues arising from gaming machines, but account for less than 12% of tax collected from gaming machines.

The funds are not indexed and their real value has declined by 25% over the last decade.

A Sovereign Wealth Fund
Beyond the hypothecated funds, gambling taxes go into consolidated revenue – creating a problematic reliance on a tax base which is regressive and drawn, at least in part, from the addictions of problem gamblers.

Even if gambling taxes were not used for current expenditure, they would still contribute to retiring debt or reducing deficits – which simply takes pressure off other parts of the budget and does not reduce the reliance on the gambling tax base.

Key Recommendations

2.1 Gambling taxes should not be relied on as a significant part of the tax base, and gambling tax reform should be focused on fairness and harm minimisation rather than revenue sustainability.

3.1 Online betting should be taxed at the point of consumption (the place of betting), rather than the nominal location of the gambling licence holder.

- 3.1.1 Point of consumption should be taxed by state and territory governments under a negotiated agreement (with the South Australian government promoting this option).
- 3.1.2 If state and territory point of consumption taxation is not possible, the Commonwealth should tax online gambling and distribute the money to the states and territories.

3.2 As a starting point for discouraging illegal online gambling and protecting the integrity of Australian gambling taxes, the Federal government should implement Recommendations 17, 18 and 19 of the O'Farrell report in relation to clarifying and strengthening the enforcement of the *Interactive Gambling Act*, and blocking payments and internet access to illegal gambling websites.

3.3 As an interim measure, the South Australian government should immediately and substantially increase the licence fee charged to interstate registered online gambling business operating in South Australia.

4.1 The tax concessions offered to the Adelaide Casino should be monitored in relation to income and tax revenue over the coming years with a view to winding back some of those concessions at a later date.

4.2 The gaming machine tax concessions available to clubs should be changed so that only clubs that implement a pre-commitment scheme and limit their gaming machine to $1 bets per button push are entitled to the concessional tax rates. Clubs that wish to run high intensity gaming machines should pay the full gaming tax rate applicable to hotels.

4.3 The state government should model the potential uptake and impact of extending the clubs' concessional gaming machine tax rates to all venues which adopt pre-commitment schemes and $1 bet limits.

4.4 In addition to, or as a variation of proposals 4.2 and 4.3, the state government should consider removing the tax-free threshold from gaming machine venues operating high intensity machines and with no pre-commitment schemes.

5.1 The hypothecated funds under the *SA Lotteries Act* should be abolished.

5.2 The funds established under s72 of the *Gaming Machines Act* should be retained and the amount of revenue directed to those funds should be indexed to retain their real value.

6.1 Apart from the hypothecated funds above, gambling taxes should be paid into a sovereign wealth fund rather than being utilised for current government expenditure.

6.2 The sovereign wealth fund should be phased in over ten year period to minimise the immediate budget impact.

The SACOSS Model

We need a tax system which taxes gambling, but does not make the government reliant on gambling taxes.

The SACOSS proposals promote a gambling tax regime that has:

- some gambling taxes imposed to cover the costs associated with gambling and problem gambling in particular;
- differential tax rates and concessions used to provide incentives to stronger harm minimisation measures; and
- the remaining gambling taxes directed into a sovereign wealth fund where only the earnings of that fund go to consolidated revenue and current expenditure. This sovereign wealth fund would:
    - Limit the impact on the budget of volatility of gambling taxes; and
    - Provide for future revenue without making current governments reliant on taxing the poor and vulnerable.

With the traditional gambling tax base in decline, the next gambling wave (sports betting) rising, and online gambling changing the landscape, the time to set up the gambling tax regime for the future is now!

1. Introduction

Taxes are the means by which we, as a community, pay for public goods and services like schools, hospitals, roads, police and support for vulnerable and disadvantaged people. Put simply, without taxes the vital services we need (and often take for granted) will disappear. Because vulnerable and disadvantaged people rely on many of these services, and don't have the resource to obtain similar or substitute services elsewhere, SACOSS is concerned to ensure that governments have an adequate and sustainable revenue base to continue to pay for necessary public goods and services. This is particularly the case in relation to state governments where revenue options are limited, especially in South Australia where economic downturn is putting further pressure on the tax base at a time when government initiatives are most needed.

In this context, gambling taxes are seen as a major source of revenue for state governments. The last South Australian state budget estimated that gambling taxes in 2014-15 would amount to $388m (Govt of SA, 2015a). This was 8.9% of total SA state taxes, making gambling taxes the fifth largest source of state's own-source tax revenue.

However, fairness is also crucial in any tax system, and this makes gambling taxes problematic because they fall disproportionately on the lowest income households. South Australian gambling taxes account for 1.15% of household expenditure for the lowest income quintile, by comparison with a 0.66% average for all households. For the lowest two income quintiles, gambling taxes represented a greater household cost than vehicle registration, insurance duties or the emergency service levy (DTF, 2015, p 23). Obviously though gambling taxes do not apply to all households and many low income households pay no gambling tax – which means that those households who do have gambling expenditure are spending (and being taxed) far more than the quintile average. Overall the tax literature is fairly clear that gambling taxes are regressive (Smith, 1999, p 16).

The other key reason for concern around gambling taxes is that, while gambling is a legal and legitimate pursuit in Australia, it is also a potentially dangerous consumer product which can result in large and unaffordable debt. This in turn can lead to stress and mental health problems, substance abuse, bankruptcy and/or homelessness. The Australian government (2016a) estimates that up to 500,000 people nationwide are problem gamblers or are at risk of becoming problem gamblers, while the recent report from the Victorian Responsible Gambling Foundation found that harm can occur well before diagnostic criteria of addiction or problem gambling are met. In fact, on aggregate, gambling harm to non-problem gamblers was considerably greater than the harm to problem gamblers (Browne et al, 2016).

Importantly, the costs of gambling are not limited to the individuals involved. There are clear social dimensions, in part because some of the results of problem gambling like crime, relationship breakdown, and family violence issues mean that many of the victims of problem gambling are not the gamblers themselves. The Australian government (2016a) estimates that the actions of one problem gambler negatively impacts on 5-10 other people. There is also a social dimension because poker machine addiction in particular is driven not simply by individual choices or failures, but also by the well-resourced application of sophisticated psychological and marketing techniques by large corporations aimed precisely at encouraging such addictive over-expenditure. With the Productivity Commission (2010, p 2) estimating that 40% of gaming machine revenue comes from problem gambling, there is both a moral issue in relying on it as a tax base and a potential conflict of interest with the government's regulatory role to prevent or minimise harm from gambling.

Four Rationales for Gambling Taxes

Given these broad concerns, and the fact that gambling taxes generally exist in addition to normal business and consumption taxes (eg. business income tax, payroll tax, and GST), it is worth beginning by considering the rationale or justification for this extra taxation. This report considers four such rationales as starting points for discussion:

- Taxing scarcity rents
- A Pigouvian-style tax on externalised costs
- A price signal
- General revenue raising.

The purpose here is not to determine the actual or historic rationale or to argue for any one rationale. There can be a mix of reasons and the current tax system has partial reflections of all four. However, the consideration of these four starting points provides a lens through which gambling taxes may best be viewed and provides a useful background for considering more detailed gambling tax policy.

Taxing Scarcity Rents

There is an element of "economic rent" in the income derived from gambling – where "rent" refers to the extra-ordinary profits gained from the higher prices derived from a limited market, for instance where supply is restricted or the number of suppliers limited. In the gambling market, the supply of services is primarily limited by government regulation. In South Australia the number of gaming machines in the market is limited by regulation, and the casino and SA TAB (currently) have monopoly rights in their market niches. Given that this rent is a function of government policy, taxing gambling beyond the rates applying to other goods and services is justified in terms of sharing some of this government-provided windfall (Freebairn, 2015, p 27).

Economic rents can be captured either through direct taxation or by auctioning licences to gambling providers, and while to some extent these rents are products of economic theory rather than actual financial transactions, the theory is well-established and such rent is viewed as an efficient tax base. The Henry Report into Australia's tax system recommended that taxing economic rent should be *the* guiding principle of gambling tax policy (Henry, 2010, Recommendation 76).

The rent taxing argument is important both as a specific rationale for gambling taxes, but also because of its implications when markets are opened up to competition – including by the introduction of online gambling. If local gambling markets which may have been dominated by a single state-licenced entity are opened to more gambling providers either through registering new providers or through illegal overseas providers, this in theory reduces the amount of the rent attainable from supply-limitations, and therefore the level of tax that is appropriate.

Pigouvian Tax

A Pigouvian tax, named after economist, Arthur C Pigou, is a tax levied on activities that generate "negative externalities" – that is, costs (often social or environmental) that are not accounted for in the normal market price. A Pigouvian tax is set at a level intended to equal the social costs and therefore remove the inefficient or sub-optimal market outcome. The result is that in theory the individual consumer is making a standard market choice based on their preferences, but with all the social consequences covered in the price. In terms of gambling taxes, this would mean that a Pigouvian tax would be imposed to cover all the social and economic costs of gambling.

While there are elements of this cost-covering in South Australian gambling taxes, they are not clearly or simply Pigouvian taxes. There have been some reports on the social and economic costs of gambling in South Australia (eg. SACES, 2006), but there is no definitive or ongoing assessment to determine the amount of tax required to be collected to cover all such externalities. Accordingly, there is no clear Pigouvian *rate* of tax.

There are however a series of funds established in legislation to direct gambling revenue into particular social benefit funds, but these do not necessarily perform the functions associated with a Pigouvian tax. The SA *State Lotteries Act 1966* hypothecates the tax collected to two separate funds, but the purposes of these funds (recreation and sport, and hospitals) do not seem to be directly related to gambling externalities. Similarly, the Racing Distribution Agreement under the *Authorised Betting Operations Act* requires payment of 45% of NGR on horse and dog race betting to be paid back to the racing industry. This is not quite a tax as the money is not paid to government, but in any case the purpose is not to address or capture gambling externalities.

By contrast, the four funds established under the SA *Gaming Machines Act* do directly address particular external costs arising from the gambling, such as problem gambling, the loss of live music venues, and loss of fundraising opportunities for community organisations (*Gaming Machines Act 1992*, s73A-C). However, these funds are not indexed to keep pace with changing costs and in 2014-15 they accounted for less than 12% of gaming machine taxes (SACOSS estimate based on Govt of SA, *2014-2015*a).

There is also doubt among economists whether earmarking gambling tax revenues actually increases the funding of the destination areas of the budget – it simply relieves budget pressures elsewhere by allowing funds that would have gone to the hypothecated funded areas to be spent elsewhere (Smith, 1999, p 17). For instance, the $69m provided from the Hospital Fund in 2014-15 is only a tiny fraction of the $5.3bn budget of the Department of Health and Ageing (Govt of SA, 2015a, 2015c), and if that Fund simply went to consolidated revenue, the hospital expenditure would in all likelihood remain the same.

Given all of the above, it is clear that the SA gambling tax regime is not about or goes well beyond the Pigouvian logic of covering externalities.

Price Signal
Beyond the simple covering of externalities, a tax could establish a price signal to alter behaviour to discourage a particular activity deemed undesirable. While the Pigouvian tax aims for a "market neutral" decision, a price signal tax clearly aims to change consumer behaviour. This could be for social, ethical or moral reasons – including where a Pigouvian equivalised decision yields unacceptable outcomes (for instance, an "economically rational" suicide where all the costs are accounted for) or where non-market outcomes can't be adequately factored into market calculus – for instance, because the personal traumas and mental health costs caused by problem gambling are greater than simply the "treatment" costs.

However, price signals are a problem in relation to gambling because of the nature of the market. The gambling market – or at least crucial parts of it – is characterised by fairly inelastic demand (ie. demand is not particularly responsive to price/cost changes). There is some debate about what the "price" of gambling is (eg. the rate of return or the expenditure/cost), but for the most casual gambler who plays very occasionally or just wants to get rid of spare coins on a scratch ticket or at the end of a night at the club, the rate of return is irrelevant and the expenditure is trivial – so price is not a factor and demand is likely to be inelastic.

Davies (2015) suggests that location and increased access to gaming machines are crucial factors effecting demand and elasticity. This in turn implies that location and convenience is more important than "shopping around" for the best rates of return (which therefore suggests limited price elasticity). That said, where such shopping around is relatively easy (eg. for online betting, or between different gaming machines in a venue), the rate of return – or perceptions of it – may be important. But perhaps more importantly, at the extreme end of the scale, a problem gambler's addiction is by definition a loss of control so that the rational decision-maker of economic theory is absent (Hawke, 2000). Problem gamblers are least likely to respond to a price signal, and in the worst case scenarios – caught in the zone and chasing losses – the demand curve may (in a sense) even be inverted with higher losses leading to more demand.

The state government itself appears to recognise the problem of gambling taxes not being a price signal – albeit in fairly obscure language:

> because gambling taxes are efficient, they are not likely to be an effective mechanism to mitigate the impact of problem gambling (DTF, 2015, p 46)
> *Ed's note: efficiency here means having minimum effect on consumer behaviour.*

That said, while demand may be inelastic and gamblers may not respond quickly to price signals, this paper will canvass some possibilities of using the tax regime to send price signals to gambling providers who are likely to be more responsive.

General Revenue Source
The final starting point for considering the (extra) taxation of gambling is that, as noted above, gambling taxes are a significant source of revenue for the South Australian government. This was a major consideration when poker machines were first legalised in 1992 by a cash-strapped Bannon government reeling from the State Bank collapse, and

given that the gambling tax revenue far exceeds the legislated off-set funds and that the government itself recognises that gambling taxes do not send efficient price signals, it is fair to assume that at least a considerable proportion of gambling taxes are simply about revenue-raising.

However, it is this reliance on gambling taxes for general revenue purposes that raises concerns about governments being "addicted" to gambling revenue (and to poker machine revenue in particular) and about the potential conflict with the government's regulatory role and public health responsibilities (see for instance, Steketee, 2015). Of course financial interest is not necessarily determinative and governments may act in the public good and at the expense of their revenue base, (for instance, the implementation of smoking bans in gaming machine areas in South Australia), but the structural conflict and perception will always be there. The extent of this government reliance on gambling revenue is considered in the next section and is a major focus of this report.

2. Gambling Taxes and Revenue

Contribution to Revenue

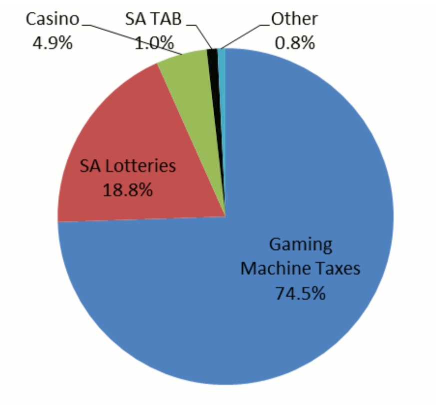
As noted above, gambling taxes are the fifth largest source of South Australian government taxation, although state taxes are only one source of state government revenue alongside Commonwealth grants (including a share of GST revenue) and other non-tax income. In 2014-15, state taxes comprised 27% of South Australian state government revenue. With gambling taxes making up 8.9% of these state taxes, gambling taxes were therefore 2.4% of total SA government revenue (SACOSS calculations from Govt of SA, 2015a).

Most Australian states and territories also rely significantly on gambling taxation. The most gambling tax reliant jurisdictions are Tasmania and the Northern Territory, with gambling taxes comprising 11.1% and 10.7% of state taxes respectively. Western Australia has the lowest reliance at just 3.3% of state taxes, largely due to the absence of gaming machine revenues (because poker machines are limited to the casino). South Australia rated fourth for reliance on gambling taxes (SACOSS calculations from state/territory Budget Papers 2015[1]).

The gambling taxes themselves are made up of a number of different taxes, dominated by gaming (ie. poker) machine taxes. Table 1 shows the gambling tax mix in South Australia.

Table 1: South Australian Gambling Taxes, 2014-15

Tax	$ m
Gaming Machines	289
SA Lotteries	73
Casino	19
SA TAB	4
Other	3
TOTAL	388



Source: Government of South Australia (2015a) 2015-2016 Budget Paper 3

This gambling tax mix is unusual in that South Australia has a heavier reliance on gaming machines than elsewhere. The states with the next highest reliance on pokies are Queensland and Victoria at around 60% of gambling taxes, while in NSW, the ACT and the Northern Territory gaming machine taxes account for between 30% and 40% of the gambling tax mix (Note: Tasmanian data not available in in this comparison).[1] Given that the Productivity Commission (2010, p 13) noted that people playing gaming machines face much greater risks than those gambling on lotteries and that gaming machines are where most harm gambling arises, the heavy reliance of South Australian on gaming machine revenue is particularly problematic and might suggest a higher requirement for Pigouvian style taxes.

[1] ACT Govt, (2015); Govt of SA, (2015a); NSW Govt, (2015); NT Gov, (2015); QLD Govt (2015); TAS Govt, (2015); VIC Govt, (2015); WA Govt, (2015)

As is the case with all taxation, tax revenues are a product of the rate and the tax base. In gambling terms this translates as the mix of gambling expenditure and the tax rates on that expenditure. Using a different data set to Table 1 above, Table 2 shows the relationship between gambling expenditure and the tax revenue collected for various types of gambling. Clearly different forms of gambling have very different effective tax rates. Poker machines raise the most tax and at a substantial rate with over a third of expenditure going to tax, while lotteries have the highest tax collection per dollar of expenditure. Race wagering (ie. betting on horse and greyhound racing) has a comparatively low rate and raises relatively little gambling tax, although there are regulatory requirements for substantial payments to the racing industry.

Table 2: SA Gambling Expenditure and Revenue, Selected Years

	Gambling Expenditure $m	% of Total Gambling Expenditure	Tax Revenue $m	% of Gambling Tax	Tax as % of Expenditure
Gaming Machines (2013-14)	731.0	71.1	288.2	74.2	39.4
Lotteries (2013-14)	139.8	13.6	72.4.0	18.7	51.9
Casino (2013-14)	147.6	14.4	19.8	5.1	13.4
Race Wagering* (2012-13)	99.6	9.7	0.9	0.2	0.9
Sports Betting (2013-14)	10.1	1.0	0.6	0.2	5.9

* Race Wagering figures are from 2012 as the 2013-14 figures were incomplete. Source: Qld Treasury (2015)

Total gambling expenditure in South Australia in 2012-13 (the last year all figures were available) was $1133m, with an effective tax rate of 37.2%.

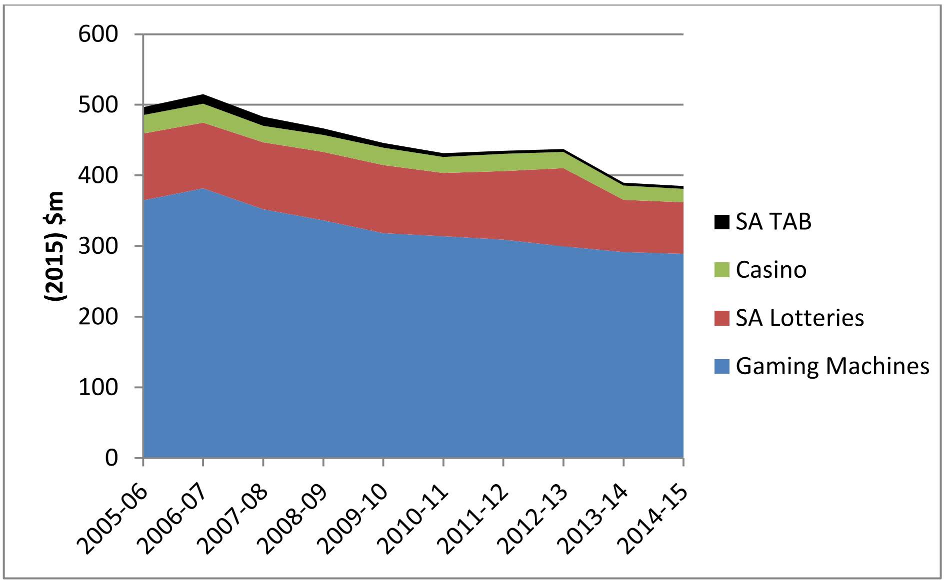
Declining Gambling Tax Revenue

The statistics above are a snapshot of current South Australian gambling taxes, but do not show changes over time. Figure 1 extends the analysis over the last decade and shows that there has been a substantial overall decline in gambling tax revenue.

The numbers here are significant. While the nominal budget figures show a reduction in gambling taxes from $401m in 2005-06 to $388m a decade later, in real terms this translates to a loss in revenue of $111m p.a in 2015 dollars (SACOSS calculations Govt of SA, 2006; 2015a). That is to say, *if gambling revenue had been maintained at the 2005-06 level over the last decade, then adjusted for inflation the state government would have had $111m more revenue in 2014-15.* This is clearly a significant (if somewhat hidden) revenue blow to the SA state budget.

This fall in the real value of gambling tax revenue also translated into a similar fall in the relative importance of gambling taxes in the state budget, from 13.46% of state taxes in 2005-06 to just 8.9% in 2014-15. (SACOSS calculations based on Govt of SA, 2006; 2015a)

Figure 1: Real Gambling Revenue, 2005-06 to 2014-15



Source: Govt of SA, Budget Papers, various years

However, as Table 3 shows not all types of gambling revenue declined at the same rate. Not surprisingly, as the largest component of gambling taxes, gaming machines contributed most to the overall fall in revenue, but the percentage decline is actually less than the other gambling taxes. This meant that over the decade poker machines became a more dominant part of the gambling tax revenue, while TAB race betting almost disappeared as a source of revenue.

The one exception to the general decline in all gambling taxes over the last decade is the phenomenal growth of sports betting. This will be considered in a separate section of this report, but it suffices to say here that this high growth was from a very small base. At present sports betting is still too small to rate a separate category in the SA state budget or reverse to the overall decline in gambling revenue.

Table 3: Components of Real Revenue Decline

	Revenue Difference 2005-06 to 2014-15 $m (2015)	**Percentage Decline in Real Revenue %**	**Proportion of Total Revenue Decline %**
Gaming Machines	- 75.7	20.8	68.1
SA Lotteries	- 21.6	22.8	19.4
Casino	- 7.1	27.3	6.4
SA TAB	- 7.2	64.3	6.5
TOTAL	**- $111.1**	**22.3%**	

Source: SACOSS calculation based on (Govt of SA, 2006; 2015a)

It should also be noted that while there has undoubtedly been a fall in gambling tax revenue over the last decade, the forward estimates in the 2015-16 Budget are projecting an overall growth in gambling revenue. This increase is expected to be driven by increases in gaming machine revenue, and particularly by tax revenue from the casino – which is predicted to more than double over the next 4 years (Govt of SA, 2015a). However, these estimates should be treated with caution as in recent years we have seen a consistent writing down of forward revenue as the projected growth has not materialised. The 2015-16 Mid-Year Budget Review has already reduced projected gambling tax receipts by $11m to $13m each year of the forward estimates from the figures in the Budget (Govt of SA, 2015b, p 8), while the optimistic casino revenue growth forecasts are still a $27m write-down from the estimates of the 2014-15 Budget. Forward estimates are genuinely difficult and intrinsically changeable, but the last firm data we have are the estimated results for 2014-15 which show the substantial drop in revenue – and are themselves some $100m below the 2014-15 figures that first appeared in the forward estimates (Govt of SA, 2010).

More will be said about the likely future gambling tax revenues below when we consider the causes of the gambling decline over the last decade.

Causes of Revenue Decline

There are a range of reasons for this marked decline in gambling revenue over the last ten years. Some are macro factors relating to changing patterns of gambling expenditure, and some are regulatory or policy changes which impact on particular gambling tax revenues, so it is appropriate to consider each gambling type and revenue stream separately.

Lotteries

From 2005-06 to 2013-14 expenditure on lotteries, keno and pools remained basically steady in real terms at around $140m (in 2015 dollars), while lotteries tax revenue fell by 31% in the same period (SACOSS calculations based on Qld Treasury, 2015). These statistics differ from the SA Lotteries statistics in the South Australian Budget Papers which are in Table 2, presumably due to different categorisations or anomalies, but the downward trends is the same. A more detailed analysis however shows that lotteries tax revenue was in fact steady for most of the period at between $105m and $109m p.a. in real (2015) terms. It jumped 9% in 2012-13 on the back of a spike in expenditure, but then fell massively to $73m in 2013-14 (Qld Treasury, 2015 [Again, SA Budget figures are different, by show similar trends])

The reason for the dramatic fall was that the government effectively sold-off the licence to run lotteries from that year. The new arrangement meant that the government lost access to the distribution of net income equivalents which had previously formed part of the lotteries tax take (Govt of SA, 2010, 2015a). Tax revenue fell as a share of expenditure from around 76% prior to 2013-14 to just 51.9% (See Appendix 1).

This policy change accounts for basically all the decline in lotteries revenue over the period.

SA TAB

Gambling on horse and greyhound racing has been more volatile than lotteries expenditure, but like the lotteries, the real story of the decline in TAB revenues is about government policy – and over a much longer period.

Twenty years ago tax revenue from racing accounted for 22% of race wagering expenditure, but by 2013-14 it was less than 1%. In 2001 the Bookmakers' Tax which had been worth around half a million dollars a year was abolished, followed in July 2006 with the abolition of the On-course Totaliser Tax (which was netting around $1.5m p.a. in real terms).

However, the much bigger change, which was described in the 2010-11 Budget Papers as a "decision to further assist the South Australian racing codes" was the phasing out of the wagering tax on SA TAB race betting operations from 2008-09. The 6% tax on NGR was replaced with a commensurate increase in the payment to industry under the Racing Distribution Agreement, but the estimated cost to the budget was $3.5m in 2008-09, increasing to $7.4m by 2011-12 when the tax was finally abolished (Govt of SA, 2010).

The result has been in a decline in SA TAB revenue to around $4m p.a. in recent years. With the forthcoming cessation of the current $3m fixed amount payment and the end of exclusivity arrangements in 2016-17 the revenue is projected to drop to just $1m per year over the forward estimates.

Casino

Gaming expenditure at the casino has been around $150m p.a. in real terms (2015 dollars) for much of the period since 2005-06, although with a drop between 2012 and 2014 – presumably in part due to renovations and other physical changes at the casino. By contrast to this relatively stable expenditure, tax revenue from the casino has seen a steady decline from a high point of $27.3m in 2006-07 to $19m in 2014-15 (Qld Treasury, 2015; Govt of SA, 2015a). Again, expenditure and revenue are predicted to rise in future years with tax revenues predicted to double over the forward estimates (Govt of SA, 2015a), but as noted earlier, these estimates are themselves a gamble.

Of more immediate importance is the fact that the decline in tax revenue from the casino over the last decade represented a drop from 17% to 13.4% of casino gaming expenditure. This was the result of changes in tax arrangements which are part negotiated and part legislated. These will be discussed more fully in the section of this report on tax expenditures, but it is significant to note that (as with Lotteries and the TAB) the reasons for the decline in revenue are largely changes in government policy, not broader economic factors or expenditure changes.

Gaming Machines

The mainstay of SA gambling taxes are poker machines and, as is evident in Table 2, gaming taxes were the single greatest contributor to the overall decline in gambling revenue. There is a mix of reasons for declining gaming machine revenues. The SA *State Tax Review* suggested that:

> When gaming machines were first introduced they went through a rapid growth phase, but the market is now more mature and their use has also been affected by

various measures introduced by the government to address problem gambling (DTF, 2015, p 21).

The Independent Gambling Authority (IGA) provides some empirical data on these trends using Net Gaming Revenue (NGR). The Net Gaming Revenue is the difference between the total money put into gaming machines less the total payouts – in other words, net expenditure, or the amount of player losses. The NGR is also important because it is the basis of gaming machine taxation which is calculated as a percentage of NGR.

According to the IGA,

> … the average daily NGR per machine increased on an "annual basis" from $98 in 1994-95 to $172 for 2006-07. The decrease to $164 for 2007-08 and $162 for 2008-09 can be attributed to the phasing in of progressive smoking bans [in gaming areas] and softening economic conditions.
>
> The further decline in NGR to $157 for 2009-10 was likely due to a reduction in discretionary income, following interest rate rises, the global financial crisis and a fluctuating economic climate. Growth in NGR to $160 per machine per day during 2010-11 was maintained in 2011-12, with only a minor reduction in 2012-13 to $159 per machine per day. The average daily NGR remained at $159 per machine per day in 2013-14 with a slight increase in 2014-15 to $160 per machine per day (IGA, 2015, p 44).

Essentially, Net Gaming Revenue hit its high point in 2006-07, declined over the next few years due to smoking bans and general economic hardship, before stabilising at that lower level in the later part of the last decade.

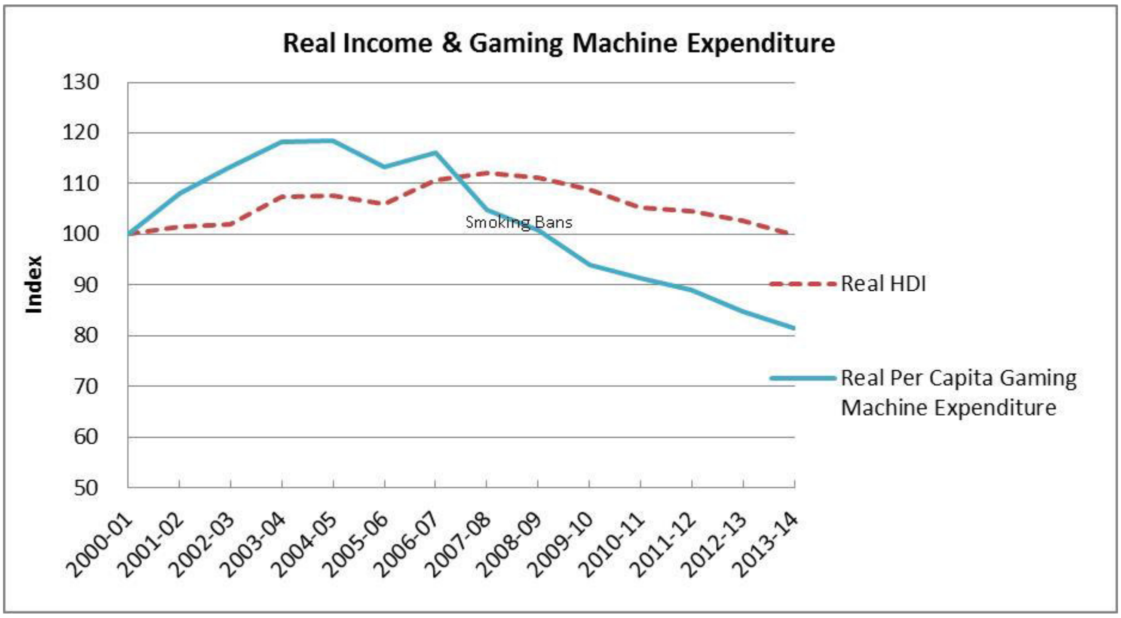
However, this is not accurate – or at least not the full story.

The NGR statistics from the IGA are in current dollars, so the stablisation is misleading. In real terms (2015 dollars), the "smoking bans and softening economic conditions" saw a fall in total gaming machine tax from $382m in 2006-07 to $336m in 2008-09 (a decrease of $45.3m), with a further $18m drop in the following year (a 16% drop in three years)(SACOSS calculations from SA Govt Budget Papers, various years). However, as the introduction of smoking bans coincided with the global economic crisis and the beginning of the fall in household disposable income it is difficult to separate the reasons for the decline. Clearly though, not all the decline in those years can be attributed to smoking bans, and it is significant that since then there has been a further decline in real terms in the gaming machines tax revenue. By 2014-15 the revenue figure had dropped to $289m, $29m lower than the "post smoking ban" figure 5 years before.

This continued fall in revenue moves us beyond smoking bans, but also brings in to question the government explanation of a "maturing" gaming machine market. Such a maturing market should see a plateau-ing of revenue, not the decline evident in the figures.

The last explanation noted in the government reports, the impact of difficult economic times is probably more significant – but over a much longer time frame than the IGA report claims. For many people, tightening economic conditions leads to less expenditure on a range of non-essential goods and services, and gaming machine expenditure fell by $195m from 2005-06 to 2013-14. The economic underpinnings of this can be seen in Figure 2 which plots changes in gaming machine expenditure against changes in household disposable income from the ABS Survey of Household Income and Wealth (ABS, 2015). There is a broad similarity in income and gambling expenditure patterns, but it appears that when disposable incomes were increasing gambling expenditure grew faster than the growth in disposable income, and when incomes were decreasing, gambling expenditure was cut back proportionately more. For instance, between 2007-08 and 2013-14, real Household Disposable Income declined by 11% while real per capita gaming machine expenditure decreased by 22% (SACOSS calculations from ABS, 2015, and Qld Treasury, 2015).

Figure 2: Gaming Machine Expenditure and Household Income



Source: SACOSS calculations based on ABS (2015), Qld Treasury (2015).

This "income elasticity of demand" (ie. demand responding more than proportionately to changes in income[2]) is potentially important as the figure is crucial for predicting future gambling expenditure and therefore revenue. Given that the State Tax Review Discussion Paper suggested that gambling taxes are not particularly sensitive to broader economic changes (DTF, 2015, p 21), a higher income elasticity may go some way to explaining the continued recent budget gambling revenue write-downs. However, the findings here are tentative and closer modelling is required as there is considerable debate in the literature about the level of income elasticity of gambling demand. The Productivity Commission (1999) noted a range of estimates – but also a dearth of good Australian data, and a recent report by Davies (2015) finds evidence of both inelastic and elastic demand responses to income change.

[2] Income elasticity of demand is different to the price elasticity of demand (ie. demand being relatively unresponsive to changes in the price/cost of gambling) and it is possible to have a relatively elastic income elasticity of demand with a relatively inelastic price elasticity of demand.

Beyond the suggestion for more modelling, for the purposes of this report it is enough simply to note that gaming machine expenditure clearly does change (with whatever degree of elasticity) in relation to broader economic circumstances – as evident in Figure 2 (albeit skewed slightly by the rapid decline in gambling expenditure from 2006-07 to 2007-08 – the smoking ban affect).

However, a further note of caution is warranted here as other data on household disposable income and gambling shows contradictory trends. Queensland Treasury's *Australian Gambling Statistics* (2015) use aggregate income figures from the Australian National Accounts which show that total household disposable income has increased over the past decade and that gambling is falling as a percent of overall household expenditure. If this was true then economic factors would be less important in explaining declining gambling tax revenue, but there would be other important implications for tax revenue of a long term change in consumption patterns and gambling expenditure. However, this report generally prefers the ABS household income data survey data to the overall economic aggregates as the former are likely to provide a more accurate picture of what is happening for actual households.

Will the Revenue Bounce Back?

The impact of broader economic factors appears to apply more to gaming machines than other forms of gambling. Again, lotteries, TAB and casino expenditure remained relatively stable in real terms over the decade. However, because of the relative importance of gaming machine revenue in the gambling tax mix the economic factors are important overall, and doubly so because the logic of the argument suggests that when/if the economy improves gambling tax revenue will bounce back.

A revenue bounce would be good news for government coffers and the services that are provided by taxes, although less so for those concerned about government reliance on an ethically dubious and regressive tax base. Either way though, there are a number of challenges to this bounce-back scenario.

Firstly, while it was argued above that the government reports may have exaggerated the impact of the smoking bans in gaming areas, they were nonetheless clearly significant in the decline of expenditure on pokies. These bans remain in place, and as a good public health measure (in terms of both gambling harm and health affects) they should remain in place. However, this will mitigate against a return to the real gaming machine tax levels of a decade ago.

The second factor challenging a revenue bounce-back is that not all gambling taxes are equal revenue earners (refer Table 2) and the areas of gambling expenditure which are expected to grow fastest are relatively lightly taxed areas of gambling. As noted above, the 2015-16 State Budget projects growth in casino taxes. Given that the casino is among the lowest effective tax efforts, this will require a disproportionate growth in casino expenditure which may be hard to achieve. The other area of gambling growth, which will be examined in the next section of this report, is online gambling and sports betting. Sports betting has the second lowest tax to expenditure ratio (and has an added problem of much of it being domiciled and taxed interstate [or overseas]) – again suggesting that larger than normal increases in expenditure may be required to get the revenue bounce in these areas. For instance, (based on the figures in Table 2) to get a $20m growth in tax revenue would require approximately a $50m growth in poker machine expenditure, while casino expenditure would have to increase by $150m for the same revenue growth: sports betting would need to increase by $340m growth. Obviously, if there was a shift from lotteries or gaming machines to sports betting and casino gaming with no change in overall gambling expenditure, tax revenue would fall.

Finally, while online betting is still currently only a small part of the gambling picture and its growth may increase gambling expenditure overall, as we will see in the next section, online gambling isn't, can't and arguably shouldn't be taxed at the same rates as traditional gambling. Again, if over time we see a substantial replacement of pokies with online gambling, then there would be a considerable hole in state revenues.

Despite the optimistic forward estimates, it is not clear when or if gambling tax revenue will recover – or recover fully to previous levels.

This note of pessimism, and the broader point that gambling tax revenue relies on expenditure which is some function of wider economic circumstances, both suggest that gambling taxes are a more volatile and less useful tax base than often thought. While gambling taxes are still obviously important in the state tax mix, from a tax reform perspective, both the recent decline in gambling taxes and the economic volatility suggest that gambling tax should not be relied on as a significant part of an adequate and sustainable state tax base. This is *in addition* to the ethical issues of government's relying on a tax base built on proceeds of gambling addiction and the losses of low income households.

The obvious conclusion therefore is that the main reform work aimed at (re)building the government's broad tax base should be focused on the more stable state revenue sources like land and payroll tax, rather than declining or peripheral taxes like gambling taxes. In a sense, the South Australian government recognised this in that its State Tax Review last year (DTF, 2015) contained only two minor proposals in relation to gambling taxes (investigating online gambling taxation and removing the clubs concession). Both of these will be discussed below, but even if adopted will not add greatly to state revenue.

This is not to suggest that no gambling tax reform is necessary. As will be clear in the remainder of this report, there is a need for reform of gambling taxes to achieve greater fairness and consistency in the tax system (and also making some small contribution to revenue). But the argument here is simply that we need to be clear about what tax reform for what purpose, and in that equation, reform of gambling taxes is generally around fairness and harm minimisation, rather than revenue sustainability.

3. Sports Betting and Online Gambling

Extent and Growth of Online Gambling and Sports Betting

Anyone with even minimal social media presence will inevitably have been subjected to unprompted advertisements for online casinos and virtual poker machines, while it is almost impossible to watch sport on television without being bombarded by online sports-betting advertisements. However, it is difficult to estimate the extent of this change or the exact size of the online gambling market, partly because some online gambling activity is illegal.

The federal *Interactive Gambling Act 2001* outlaws online gaming in Australia, as well as "in-play" sports betting (ie. after the start of a game).[3] However, the Act is aimed at gambling suppliers not consumers, and punters can still access overseas websites offering both gaming and wagering. Some estimates suggest that almost $2 out of every $3 spent on online gambling is with an illegal offshore provider (AWC, 2015), while the figures in the O'Farrell report (2015, p 45) suggest that the growth in Australian-registered interactive gambling has seen it eclipse offshore gambling in recent years.

The other reason the extent of online gambling is difficult to quantify is that most gambling statistics are built on pre-online categories. For instance racing and sports betting categories include online, telephone and shopfront wagering, and the one online provider may offer both race wagering and sports betting. Similarly, online lotteries are simply included in the relevant lottery category and there is no aggregation of all online activities.

However, while there are lotteries and race wagering online, the big growth area appears to be sports betting – but despite the advertising hype, it is still a small part of total gambling expenditure. The *Australian Gambling Statistics* (2015) suggest sports betting represented just 3% of Australia's total annual gambling spend in 2013-14 (Qld Treasury, 2015), while Roy Morgan's gambling statistics put the figure at 5% (RMR, 2014a). That is all sports betting, but online sports betting is estimated to be only one-half of that (AWC, 2015). Accordingly, online sports betting is only a very small player in the gambling market and this is echoed in the revenue figures. As noted in Table 2, in 2013-14 sports betting expenditure in South Australia, that is, sports bets placed with SA-licenced bookmakers) was just over $10m, which translated into a tax take of $600,000. That is less than one-fifth of one percent of all gambling tax in South Australia.

That said, there is little doubt that online betting (and sports betting in particular) is a growing industry. The industry body, the Australian Wagering Council (AWC) suggests that there is an ongoing shift of all wagering from physical venues to online channels (including mobile devices) "in line with consumer spending patterns in other retail sectors such as books, clothing and electronic goods". 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

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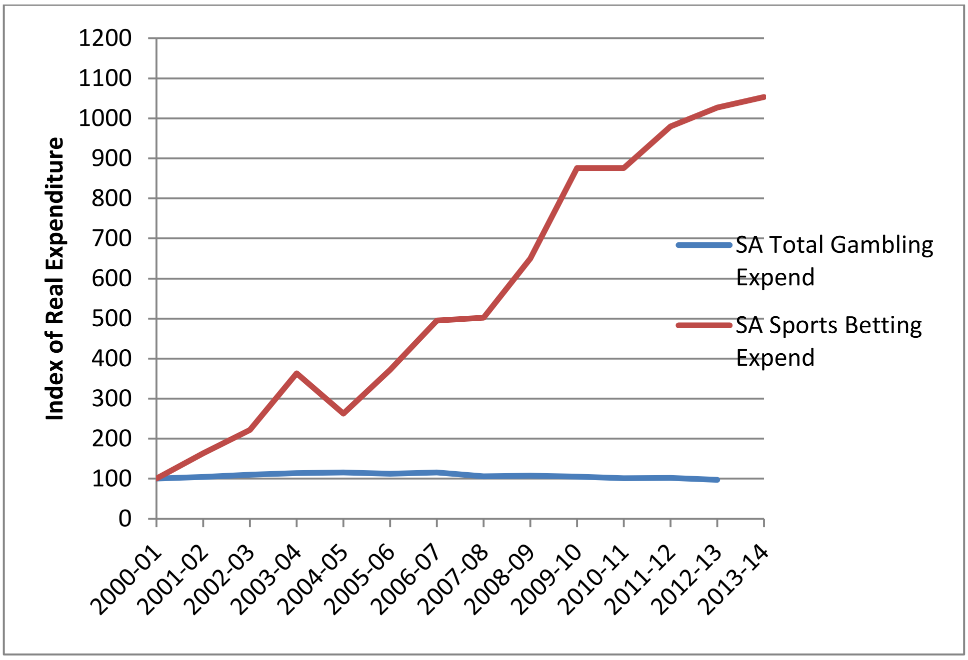
[3] In-play bets are legal when made by phone (but not online) and some of the major online sports betting businesses have got around the restriction by using VOIP "phone" calls to create an essentially online platform. The Federal government has recently announced its intention to close this loop-hole by amending the Act (Tudge, 2016), but given the truncated parliament and early election, the future and timing of any changes remains unclear.

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. Further, the AWC suggests that there has also been a shift from betting on racing to betting on sport (AWC, 2015).

The extent of the growth in sports betting (admittedly off a low base) is evident in Figure 3 which tracks changes in expenditure on sports betting against total gambling expenditure. The figures are dramatic. Since 2000-01, total real gambling expenditure has remained fairly steady, while expenditure on sports betting increased 10-fold (SACOSS calculations derived from Qld Treasury, 2015, Table 35).

Figure 3: Growth of Sports Betting



Note: 2001-02 data not available. Figure above is averaged from surrounding years. 2013-14 total gambling expenditure figure not available. Source: SACOSS Calculations from (Qld Treasury, 2015).

This growth of sports betting, with half of it being online, and also the development of other online gambling opportunities raises particular harm prevention issues. Some research suggests prevalence of problem gambling among online gamblers is three to four times higher than non-internet gamblers. The reasons for this include:

- Greater convenience and 24 hour access
- Ability to play when intoxicated
- Lack of player protection features on the "machines"
- The abstract nature of the activity as it is played alone and with "electronic" cash
- The ability to play multiples games/sites at once
- The difficulty of avoiding the "platform" (ie. for most people it is easier to avoid physical casinos or racetracks than to avoid computers and the internet) (AGR, 2015, p 5-6).

While the Productivity Commission pointed to some countervailling influences, they remained concerned around the high prevalence of problem gamblers online (PC, 2010, p

15.9). Financial Counselling Australia (2015) also documents cases of gamblers losing their savings, their homes, redundancy and superannuation payments through sports betting, and in the worst case scenarios attempting or committing suicide.

Obviously, given their share of the gambling market, poker machines remain the major area of gambling problems, but online betting (with its competition from illegal overseas platforms) may also prove hard to regulate for harm prevention. And in relation to sports betting, 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 (AGR, 2015, p 9-11).

Taxation Issues

In terms of taxation, these concerns about the impacts of online gambling may suggest increasing social costs which would in turn impact on the appropriate level of any Pigouvian component of gambling taxes.

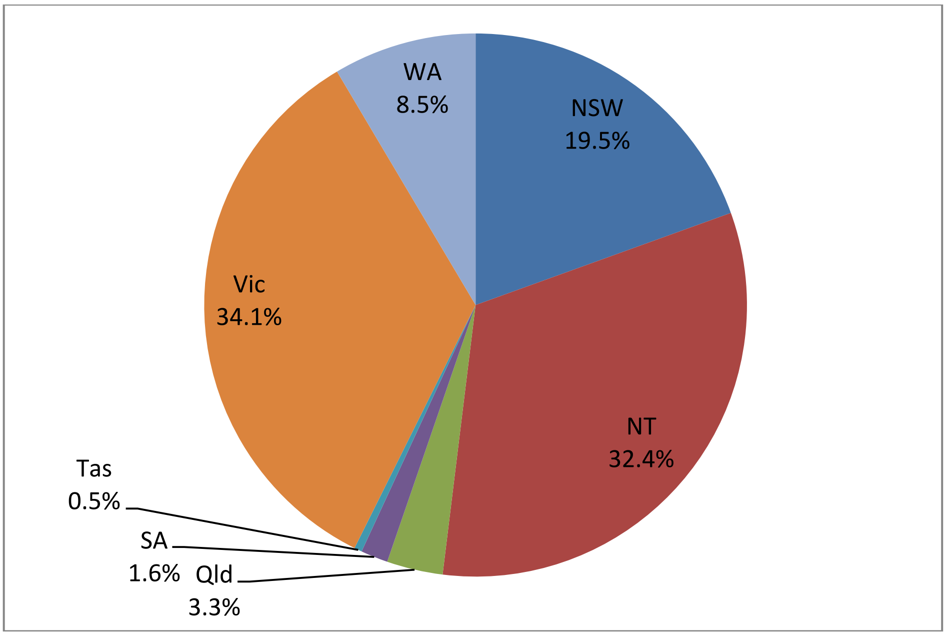
Further, a shift from traditional physical-venue gambling to online gambling may not be revenue-neutral (even if the total amount of gambling expenditure remains the same). Where online gambling is illegal (ie. with overseas suppliers), it is by definition not taxed at all, while legal online betting may shift the tax collection out of South Australia. The effective rate of taxation may also be reduced either because, as noted in Table 2, sports betting is more lightly taxed than other forms of taxation and/or because competition in the market suggests that arguably gambling *should* be taxed at a lower rate.

The extent of these issues is hard to quantify. The Productivity Commission (2010, p 2.5) estimated that in 2008-09 illegal offshore gambling was worth $790m nationally – consisting mainly of online poker and online casinos. This only amounted to about 4% of legal gambling expenditure, but it still represents (among other things) a revenue loss to Australian governments. O'Farrell cites higher offshore gambling figures ($1.2bn in 2009) including online wagering, but suggests that more recently the ability (since 2008) of Australian-registered bookmakers to advertise has seen overseas operators "come onshore" resulting in significant decreases in offshore wagering (O'Farrell, 2015, p 45, 49). Obviously though, this refers only to wagering, not online gaming.

O'Farrell also notes the difficulty in estimating overseas online gambling – and the numbers in that report vary considerably and the tax implications are not broken down by Australian state. However, using the Productivity Commission estimate as an order of magnitude assessment, SACOSS calculates that if the geographic spread and gambling-type mix of illegal gambling was the roughly the same as legal gambling, then hypothetically the illegal gambling – if it could be taxed – would have added $15m to South Australian revenue in 2014-15 (based simply on 4% of the legal SA gambling taxation).

Perhaps more importantly (because it can be taxed), legal online gambling presents different challenges, as evident in relation to the geographic spread of sports betting expenditure. As is evident in Figure 4, South Australia's share of the national sports betting market is clearly well below our population share, while the Northern Territory – with only a small population – has captured nearly one-third of the market. This is because online platforms mean that gamblers and gambling providers may be in different jurisdictions. The expenditure data (and the tax payable) is based on the location of the licenced gambling provider, and some of the largest online sports betting agencies (SportsBet, Bet365, and William Hill) are licenced in the Northern Territory where the taxation and regulation is most favourable to the gambling corporations.

Figure 4: State and Territory Shares of Sports Betting Expenditure, 2013-14



Source: SACOSS calculation based on (Qld Treasury, 2015).

The issue is even clearer when one of the world's largest betting corporations, Ladbrokes, has its Australian operations licenced in Norfolk Island - as have a number of smaller bookmakers. Norfolk Island is an external Australian territory, which has been largely self-governing. As such it issued its own gambling licences – which then entitled companies with those licences to operate throughout Australia. While the future of this system with the end of self-government in July 2016 is unclear, the Norfolk Island Gambling Authority is still open for licence applications (http://www.gaming.gov.nf/). Licencees don't have to be incorporated or be resident on the Island, they simply need their game servers based there (although other computing operations can be done elsewhere) to take advantage of generous tax provisions which cap taxes payable for a licence at $300,000 (Addisons, 2013). There are also a range of regulatory issues with this arrangement and integrity concerns have been raised over the licensing of BetHQ which is known to be linked to Citibet, argued to be one of the world's biggest illegal gambling operators (Smith, 2016).

This geographic issue is important for taxation because it means that sports bets made by South Australian punters (including those on South Australian events) are taxed by other state or territory governments – effectively depriving the SA government of that revenue. Currently the SA government only imposes a small ($1500 p.a.) fee for inter-state licenced online gambling companies to operate in South Australia, and the licencees are required to comply with the South Australian Gambling Code of Practice. However, there is no South

Australian tax on their South Australian transactions (Kemp, 2015). SACOSS calculates that, if South Australian sports betting expenditure matched its population share, the South Australian government would have collected an extra $2.1m in taxes in 2013-14. Again, the numbers here are small because sports betting is still relatively minor, but this figure is 3.5 times the tax actually collected by the South Australian government. Further, these figures only relate to Australian registered sports betting (not illegal overseas or Norfolk Island betting operations), so there is potentially more money at stake and the extent of the structural tax loss will increase as sports betting grows.

This loss of potential revenue from expenditure that would traditionally have been taxed in the home jurisdiction is not a problem unique to Australia (although it is exacerbated by competitive federalism). It has led places like the United Kingdom to move to tax online gambling at point of consumption (rather than where the head office or licenced address of the gambling supplier is located) (HMRC, 2014). This approach has also had some success in encouraging offshore providers to register in the UK and be subject to local regulation and taxation (O'Farrell, 2015).

Similar proposals are now being considered in Australia with the South Australian Treasury charged with leading national policy in this area (Kemp, 2015). To some extent those efforts have been waiting on the Commonwealth review of offshore illegal wagering, but the recently released final report avoided tax issues (as being beyond scope) (O'Farrell, 2015, p 147), so the ball is clearly back with the South Australian government.

Again though, with sports betting tax revenue nationally being only $29.8m nationally in 2013-14 (Qld Treasury, 2015), the sums of money involved and therefore the political momentum for change is not huge. However, the rates of growth of sports betting suggest that these issues will need attention in the near future, and it is surely important and easier to address issues and set up a good tax structure before the sums of money and the extent of vested interests gets too large – and in terms of regulation, before gambling harm is actually done.

There is also further taxation issue in relation to the growth of online gambling in that the increased number of gambling providers means more market competition, and therefore in theory less economic rent able to be extracted by supplier(s). For gaming machines this competition is limited to illegal overseas websites, but online betting companies have opened up more avenues of race wagering than the traditional TAB and bookmakers, while the extent of sports betting advertising clearly indicates an emerging competitive market.

The impact on the taxation is not just theoretical. There are also practical implications for the ability to impose taxes in an online gambling world. Taxes push up business costs and will make tax-paying (and regulated) Australian-based providers less competitive as illegal overseas competition will be able to offer better odds or returns. That said, as with all such globalisation arguments, it is a question of degrees and counter-balances (for instance, the reputational advantages of being legal and registered locally – see Productivity Commission, 2010, p 15.19) and the competitive impacts of these market changes would need to be modelled.

It should also be remembered that taxing economic rent is only one rationale for gambling taxation. However, if, or to the extent that the rationale for gambling taxes is taxing economic rent, then an increase in gambling suppliers or types of gambling would suggest that the tax rates should and will need to be lower than those in the old "protected" markets. To some extent this is already the case in that sports betting and race wagering are the most lightly taxed forms of gambling, but it does suggest an ongoing challenge for maintaining gambling tax revenue.

Proposals for Change

The phenomenal growth of online gambling, and of sports betting in particular, suggests that at least in the medium term it will be imperative that methods are found to regulate and tax online gambling. This is both because it is a potentially more dangerous gambling product than the physical versions and in order to fill the revenue hole left by traditional gambling.

Fairly obviously the existence of offshore online gambling and the figures above which show South Australia as having only a small fraction of the national sports betting market mean that the South Australian government is missing out on revenue from online gambling in this state. Moreover, the competitive federalism which sees the Northern Territory with such a big share of the national sports betting market puts downward pressure on gambling tax and regulation (as jurisdictions may compete to house online gambling providers and skim revenue from other state's gamblers). For these reasons, ***SACOSS supports moves to point of consumption taxation of online gambling and calls on the South Australian government to reinvigorate national discussions on this issue***.

Given that online gambling requires the establishment of user accounts, there is no doubt that the data to identify the residential location of the gambler is or could be available, and could be aggregated to provide the basis for point of consumption taxation. Currently, such data is provided to the South Australian government by the licenced online gambling agencies, but it is unaudited and lacks sufficient robustness for a tax base. There may also be issues about who should be entitled to tax an online gambling expenditure made while a person is not in their home state. For instance, who should tax a South Australian resident placing a bet while in Victoria with an NT licenced gambling agency on a sports event in Sydney (or Singapore).

All these issues suggest the need for national agreement on point of consumption taxation, and auditing and residence principles, although it is hard to see why those jurisdictions which benefit from having large resident online gambling businesses would agree to changes that would move their current taxation to other jurisdictions. Getting national agreement could be difficult, but if the data about where bets are placed is available then state and territories should tax at that point of consumption – not cede tax power to another jurisdiction where the licence is nominally acquired.

An alternative to point of consumption taxation levied by the relevant state or territory government would be for the Commonwealth to use its telecommunication powers to regulate and tax online gambling. In practice (to avoid duplication) this would require the states and territories to give up those regulatory and taxation powers. This would obviously worsen the vertical fiscal imbalance in Australian taxation, but would provide a uniform national operating environment for betting companies. However, given the fiscal weakness of state and territory governments relative to the Commonwealth, if the Commonwealth was to take over this (growing) area of taxation, then the revenue should be returned to the states/territories – either directly based on point of consumption, or through the Commonwealth Grants Commissions processes alongside the GST. However, the CGC processes are not without controversy, and given that the traditional (terrestrial) betting remains regulated by state/territory governments, then ***SACOSS would prefer to see state and territory governments levying point of consumption online gambling taxes. If this is not possible though, the Commonwealth taxation option would still be better than the current 'system'.***

In either case, to buttress point of consumption taxation in Australia (and for harm minimisation regulation), it would be desirable to limit the possibilities of illegal offshore gambling. This is easier said than done, but any interrupting of access to offshore sites will make gambling with Australian registered (and regulated/taxed) suppliers more attractive (despite the extra tax paid). The O'Farrell Report (2015, s5.2) draws on the experience of overseas jurisdictions and considers various methods of blocking access to illegal overseas gambling websites and of blocking gambling payments. There are, as the report notes, concerns around the effectiveness of such measures, but it is important to recognise that the aim is to shepherd punters from illegal (untaxed, less regulated) overseas websites to Australian-registered online gambling – it is not to construct a tax base (where compliance would be more of an issue). In this context, *any* interruptions or extra hoops to be gone through to open and operate an account with an overseas online gambling corporation would be useful.

The O'Farrell report makes a number of recommendations around limiting illegal online gambling. Specifically, the report recommends:

- strengthening the provisions of the *Interactive Gaming Act* to enable better clarity and enforcement of its ban on illegal online gambling (Recommendation 17)
- working with banks and credit card providers on strategies to block payments to illegal offshore gambling providers (Recommendation 18);
- pursuing voluntary agreements with Internet Service Providers to block identified illegal gambling websites (Recommendation 19).

The Federal government has agreed (at least in principle) with all these measures (Australian Government, 2016b), although the Federal election may see a change or delay in policy. SACOSS believes that many of these steps are minimal, Seeking to "work with" banks and to "pursue voluntary agreements" with ISPs are soft-governance and do not use the full force of the law in *requiring* payment/website blocking (as is required for instance in relation to child exploitation). However, as a first step and in the context of simply trying to shepherd gamblers to Australian registered gambling providers, ***SACOSS supports Recommendations 17, 18 and 19 of the O'Farrell report and encourages the Federal government to implement these as soon as possible.***

All of above processes, a move to point of consumption taxation or a Commonwealth takeover of online gambling taxes and the disruption of illegal online gambling sites, will take negotiation and time. In the interim, ***SACOSS calls on the South Australian government to immediately and substantially increase the licence fee charged to interstate registered online gambling businesses operating in South Australia.*** The fee should be substantive – in the tens of thousands – rather than the current nominal fee. While, this is admittedly a blunt instrument, the growth of online gambling means that the current fixed fee is becoming a smaller share of the takings of gambling providers. There is also a Pigouvian logic in that the online gambling which takes money from low income and problem gamblers (and the community) in South Australia creates impacts here, while the tax to pay the cost of addressing those impacts accrues elsewhere.

There is obviously much more community discussion to be had around regulation of online gambling, but for both tax revenue and harm minimisation reasons it would seem that online gambling should be taxed at least at the same level as other gambling. In theory, this could be a win for Australian gambling providers, government treasuries and for harm minimisation.

4. Tax Expenditures

Another important aspect of gambling taxes in South Australia are the tax expenditures, that is, taxes forgone due to concessions or exemptions. These are included in considerations of taxation because they are the economic equivalent of collecting taxes at a full rate and then giving the amount of the concession back in a grant (in which case it would clearly be measured as taxation and expenditure).

Taxation expenditures can arise for a variety of reasons (some good, some dubious). While tax expenditures are relatively easy to define, they are notoriously hard to measure and they do not translate straightforwardly to potentially collectable revenue (due to potential behaviour changes if the concession or exemption is removed). However, the Budget Papers contain estimates of a range of tax expenditures, and the gambling ones are summarised in Table 4.

Table 4: SA Gambling Tax Expenditures, 2014-15

Tax Expenditure	$m
Different Treatment of NFPs	8
$75K NGR Threshold Exemption	10.7
Casino	19.2
TOTAL	**37.9**

Source: Govt of SA (2015a, p 167).

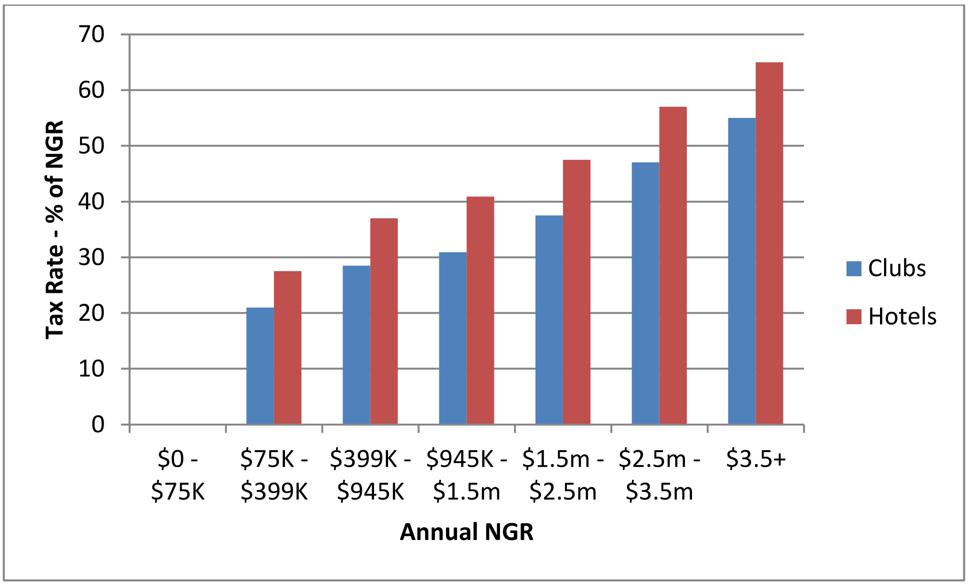
This total of $37.9m represents 9.8% of gambling taxes collected in South Australia in 2014-15 (SACOSS calculation from Govt of SA, 2015a).

It is also arguable that the regulatory requirement under the Racing Distribution Agreement that 45% of NGR on race wagering be distributed to the racing industry is a form of tax expenditure. As was evident with the replacement of the 6% NGR tax and the commensurate increase in the distribution from 39% to 45% of NGR, the distribution required by regulation is the equivalent of a hypothecated tax and industry subsidy package. The sums of money here would be substantial given gambling expenditure on racing is in the order of $100m p.a. (see Appendix 1), but as these do not appear as tax expenditures in the Budget Papers they won't be considered further here.

The original gambling tax concession was a differential tax rate for gaming machines run by not-for-profit clubs than those run by hotels. In 2005-06, this was worth some $6.8m, growing to $8m a decade later (in current dollars). In 2003 a threshold was introduced so that there was no tax liability for proprietors with a NGR of under $75,000. This did not appear in the tax expenditure statement until 2006-07 when it was worth around $11.2m. It has remained around $11m p.a. in nominal terms since then (meaning its real value has declined).

The extent of the concession can be seen in the differential tax rates in Figure 5. The exact rates are in Appendix 2, but the concessions are clearly significant. For instance, a club receiving net gaming expenditure of $1.5m would be paying $123,000 less tax than a hotel with the same gaming machine revenue. The only reason these discounted rates do not translate into bigger tax expenditures for government is that (at 30 June 2015) clubs and accounted for only 14.65% of all SA poker machines (IGA, 2015, Tables 12, 13).

Figure 5: Gaming Machine Tax Rates for SA Clubs and Hotels



Source: DTF (2015)

While these concessions are significant, as can be seen in Table 4, the largest tax expenditures are those related to the Adelaide casino. Governed by its own Act of parliament and separate licence arrangements, the rates of tax applied to the casino are different to other gaming establishments – even in relation to gaming machines. Prior to February 2014, the casino paid a flat tax rate on NGR from gaming machines and this rate was less than the rates applying to hotels. This tax expenditure only began being listed in the Budget Papers from the 2010-11 financial year, but in that year it was estimated at $17.5m.

From February 2014 a new system was introduced with different tax rates applying to premium and non-premium gaming machines at the casino. The standard machines are now taxed at closer to the average tax rates paid by hotels (41% of NGR), while the premium gaming machines are taxed at a heavily discounted rate of 10.91% of NGR – a rate aimed at bringing that tax into line with those of interstate casinos who are competing in the very mobile premium gambling market. In a sense, this distinction recognises the smaller economic rent in the more competitive premium gaming market, but the overall result of the changes was a $1.5m increase in the concession to the casino, bringing it to $19.2m in 2014-15 (Govt of SA, 2015a).

It remains to be seen what the impact of the new concessional rates will be when casino expenditures normalise after renovations and changes, but it is clearly a significant concession. In fact, it is approximately equal to the amount of gambling tax actually received from the casino ($19m in 2014-15). In other words, in that year the casino paid only half the gambling tax it would have otherwise been liable for if not for the concessional arrangements.

These tax expenditures contribute to the casino being relatively lightly taxed. In 2013-14 it accounted for 14.4% of total net gambling expenditure in South Australia, but paid 5.2% of gambling taxes (SACOSS calculations from Qld Treasury, 2015). This is not to suggest that the casino has acted improperly in its tax affairs, and it is true that to some extent the casino is operating in a different gambling market. However, given that it also has the benefit of exclusive operating rights in South Australia and accounts for more than half of all gambling tax expenditures, it is fair to question the extent of tax concessions in the current arrangements.

Proposals for Change

Given the sums of money involved and SACOSS' long-standing general concern about the need for an adequate revenue base to fund vital services, there are good reasons to review gambling tax concessions. This is even more the case when the tax expenditures do not meet other tax rationales outlined at the beginning of this paper (ie. covering external costs or sending a price signal to discourage bad outcomes). Indeed, SACOSS recommends that at least some tax concessions should explicitly be tied to harm minimisation measure – thus using tax to positively influence gambling behaviour.

As noted above, the largest tax expenditures relate to the casino, but the tax arrangements here are relatively recent and are embedded in complex contractual and political relationships which involve infrastructure and development beyond simply gaming. In this context SACOSS recognises that it may not be appropriate or possible to re-open those arrangements in the short-term. However, ***the extent of the tax concessions should be monitored in relation to income and tax revenue over the coming years with a view to winding back some of those concessions at a later date***.

Beyond the casino, the SA government's *State Taxation Review Discussion Paper* last year did canvass the possibility of removing the gaming machine tax concession for clubs (DTF, 2015, p 47). This followed a similar recommendation from the Henry Review (2010, Recommendation 77, p 463). There was predictable opposition from the Clubs and the state government did not proceed with the proposal. However, this proposal was pitched as a straight revenue exercise – or at least an exercise in competitive neutrality and efficiency. It was not tied to harm reduction measures.

While SACOSS supports tax concessions for not-for-profit community organisations and clubs in recognition of their community base and public benefit, these clubs already receive general tax concessions applying to NGOs. We see no reason why they should also receive extra concessions garnered from services which are arguably not for the public benefit and are at least potentially dangerous. Further, we see nothing inherent in the fact of a club being not-for-profit to suggest that gaming there is going to be less harmful or that harm minimisation will be uniformly better than in hotels.

Accordingly, as we proposed in our submission to the State Tax Review, the gaming tax concession should relate to the adoption of harm minimisation measures – not to the incorporation status of the venue (SACOSS, 2015, p 9). Our recommendation then, and again here is that ***any club that implements a pre-commitment scheme and limits their gaming machines to $1 bet per button push would be entitled to the concessional tax***

rates, while those who wish to run high intensity gaming machines would pay the full gaming tax rate applicable to hotels.

The $1 bet limit was a key recommendation of the Productivity Commission Inquiry (2010, Recommendation 11.1). At most though, this proposed change would only apply to 74 of South Australia's 546 gaming machine venues (2014-15 figures from IGA, 2015, Table 8.1) and would therefore have a minimal impact on state revenue (although potentially good behaviour change outcomes in the adoption of stricter harm minimisation measures).

In response to this proposal, the Clubs lobby will no doubt point to hardship caused to small community clubs, but there is already a significant tax-free threshold ($75,000 per year NGR) so that small clubs with minimal gaming machine revenue would still pay a heavily discounted effective tax rate. More importantly though, the clubs would all have the option of changing their machines to low intensity gaming to maintain the concession.

However, in addition to above and because the clubs are only a small part of the gaming machine industry, ***we recommend that the state government model the potential uptake and impact of extending the concessional tax rates to all venues which adopt pre-commitment schemes and $1 bet limits***. SACOSS does not know the extent of any potential take-up of such an arrangement or the potential impact on government revenue, hence the call for modelling – but it would provide incentive for the widespread adoption of the highest levels of harm minimisation measures.

A variation of this proposal, which could be instead of or in addition to the above, would be to remove the tax-free threshold from those venues operating high-intensity machines and with no pre-commitment schemes. In 2014-15, only 64 hotels and 8 clubs were wholly below the threshold and paid no gaming machine tax (IGA, 2015, Table 8.1), but the threshold clearly provides a tax-free income for all venues – and hence could be used to provide incentives for adoption of stronger harm minimisation measures.

These proposals would essentially change the concession arrangements from being based totally on size or incorporations status to being based on the adoption of harm minimisation measures. This would be a better, more gambling-relevant way of providing concessions and is an example of expanding the rationale of the tax system beyond simple revenue collection to send price signals aimed at achieving better social outcomes.

5. The Gambling Tax Funds

The SA *State Lotteries Act 1966* (s16) requires that money received by the government from lotteries based on the outcome of a sports or recreation activity be paid into the Recreation and Sport Fund, and that money from other lotteries go to the Hospitals Fund. In both cases 41% of specified revenue is put directly into the funds, and then topped up by the net proceeds of the Lotteries Commission in running those lotteries. However, since the purpose of these Funds is not closely related to gambling harm, and as the payment is set at a percentage of the take, it is clearly only a contribution to general recreation and sports funding and hospital funding – not a set amount to provide particular services to offset impacts of gambling. There may be an argument that the hypothecation of taxes from sports lotteries to the Sport and Recreation Fund keeps the money spent on sport within sport, but the connection is weak at best – and problematic as it pretends that gambling on sport is the same as sport. In any case, there is no equivalent argument in relation to the Hospital Fund. Given this, it is not clear why the Funds are not simply paid into consolidated revenue as is the case with revenue from the casino and wagering.

By contrast, the Funds established in relation to poker machine revenue are established to directly address problems caused or exacerbated by poker machines, although the quantities of money are generally fixed by legislation. s72A of the *Gaming Machines Act 1992* provides that revenue received from gaming machine taxes each year be paid as follows:

- $3.5 million into the *Sport and Recreation Fund*;
- $4 million into the *Charitable and Social Welfare Fund*;
- $3.845 million into the *Gamblers Rehabilitation Fund*;
- $20 million into the *Community Development Fund*;

with the remainder going into consolidated revenue.

The Gamblers Rehabilitation Fund (GRF) is also buttressed by voluntary contributions from the gambling industry, so that in 2014-15 the fund's income was $6.2m (Govt of SA, 2015a). However, while this extra funding is undoubtedly welcome, it also legitimises the industry's individualist model of gambling harm (as opposed to a public health issue/approach) and creates a potential conflict of interest in giving the industry a stake in gambling rehabilitation. If this money is needed and willingly given, then arguably it should simply be taxed and allocated as with the statutory amount.

Taken together in 2005-06 (shortly after the last revision of the amounts stipulated in the Act), these four specific hypothecated funds represented 11.7% of gaming machine taxes (SACOSS calculation from Govt of SA, 2015a). Because gaming machine expenditure has decreased in real terms over the past decade, the funds have remained a fairly steady proportion of gambling revenue – but given inflation in that period, the real value of the community support supplied from the funds has declined by around 25%. Put another way, the amount of support provided by the hypothecated gaming machine funds is only three-quarters that provided for a decade ago. Even the GRF, which has gone up in nominal terms due to the industry contribution, has seen a 12% decline in real value.

Proposals for Change
SACOSS is generally suspicious of hypothecation of tax revenue as it can create false expectations in the community about funding, may not result in genuine re-allocation of funds or if it does it may limit flexibility of government and the ability to allocate funds to where they are most needed. Hypothecation also risks turning taxation into a beauty contest where less "sexy" programs will struggle for funding. However, where the hypothecation is directly related to addressing issues arising from the tax base itself, such as the funds under the *Gaming Machines Act*, there is a better (pseudo-Pigouvian) rationale. Accordingly, SACOSS makes two recommendations in relation to the gaming machine hypothecated funds.

***SACOSS recommends the removal of the current hypothecated funds under the SA Lotteries Act*.** These funds do not relate to gambling harm and have no clear rationale. However, the removal of the funds need not change the allocation of those funds to recreation and sport, or to hospitals – it would simply remove the unnecessary hypothecation and the extra accounting and administration that goes with it.

SACOSS also recommends that, because there is a clearer rationale of addressing gambling harm, ***the funds established under s72 of the Gaming Machines Act should be retained and the amount of revenue directed to the funds should be indexed to maintain the real value of support provided by those funds.*** Ideally this indexation would be to CPI to maintain real value, but with declining revenues this would mean that the funds would be an increasing part of gaming machine tax revenue. The indexation might then be capped, but it should be capped at considerably above the current 11% of gaming machine tax revenue.

6. A Sovereign Wealth Fund

The proposals above in relation to the existing hypothecated funds only deal with part of the problem of gambling taxes. Those hypothecated funds are only a small proportion of the taxes raised from gambling, and even if the tax rates are used to provide incentives for stronger harm minimisation measures, there remains the moral and social problem of the government being reliant on a tax base which is drawn – in part at least – from the addictions of problem gamblers. For this reason, ACOSS has recently called for governments not to rely on so-called “sin taxes” for core revenue-raising. However, if the taxes are raised (to socialise the economic rent or for whatever reason), it is difficult for the money not to become a regular part of the budget. Even if gambling taxes were not spent on current expenditure, they would still contribute to retiring debt or reducing the deficit which is still part of the overall budget strategy and would simply take pressure of other budget lines. The only way to address this problem is to remove the gambling tax revenue from current budget expenditure entirely.

Accordingly, SACOSS is proposing the establishment of a sovereign wealth fund for gambling taxes. Essentially, we propose that the proportion of gambling taxes which are not utilised in the (remaining) hypothecated funds should be put into a fund which is not accessible for current government expenditure (and arguably also not for government capital expenditure). The fund would simply accumulate wealth and only the interest/earnings of the fund would go into consolidated revenue.

SACOSS (2015) has in the past proposed a similar strategy for the introduction of some form of estate taxes (mimicking the funding strategies used by many charities through bequest trusts). To ensure public confidence that this money would be wisely used there would need to be strict rules around investment (for instance, investment only in blue-ribbon companies, and prohibiting government use [“raiding”] of the fund’s capital [even for infrastructure]). The purpose of the fund would be solely to act as a rentier to generate a future revenue stream. The idea of a gambling tax sovereign wealth fund and a bequest fund are not incompatible (and indeed, the same fund could be used).

Putting gambling funds into a sovereign wealth fund would mean that the government would still be taxing economic rent, would still be able to use taxes to provide an incentive for stronger harm minimisation measures, and would still be raising revenue, but would not itself be directly reliant on those taxes. The ethical and potential conflict of interest issues in the current regime would not disappear, but they would recede as there would be some distance between the actions of government and the revenue stream drawn from gambling.

The use of a sovereign wealth fund would also help address the macro-economic problems of gambling taxes identified in this paper: namely, the volatility of the gambling taxes and the potential longer term decline as online competition reduced the ability to tax economic rent and opens up gambling taxes to pressures of competitive federalism. The income from a sovereign wealth fund would be stable and would continue into the future even if poker machines and gaming machine taxes succumb to the changing betting patterns and platforms.

Obviously though, given the importance of gambling taxation to current government revenue, and no matter how sound a long term strategy, directing these taxes into a sovereign wealth fund, would create a short term revenue problem. This may be addressed by changing taxes as part of broader tax reform, but it may also be possible to phase in such a strategy over the medium term by allocating an increasing proportion of gambling taxes to the sovereign wealth fund each year. A ten year phase in period would give time for adjustment, while beginning to create a substantial fund in the early years.

7. Conclusions

Noting the importance of gambling taxes in state tax revenue, this paper has identified a major decline in real terms in those gambling taxes over the last decade. The result of this decline is that the state budget revenue is some $111m worse off in 2014-15 than it would have been if gambling taxes had been maintained at the 2005-06 level (adjusted for inflation).

There are various reasons for this decline including changes to tax regimes and the abolition of various taxes in relation to lotteries, race wagering and the casino, as well as declining gaming machine taxes due to reduced expenditure on poker machines – which itself a product of both government policy (eg. smoking bans in gaming areas) and economic downturn.

In addition, over the last decade we have seen changing gambling preference and platforms with the rise of online betting, and sports betting in particular. While still only small, this has implications for gambling taxes as competition decreases the economic rent available to be taxed, while online platforms potentially move the tax base out of South Australia and open up tax regimes to pressures of competitive federalism.

The report has made a series of recommendations to address some of the issues arising from these changes, from stagnation in the hypothecated harm reduction funds to point-of-consumption taxation. These specific recommendations take us some way to what SACOSS would see as an appropriate gambling tax regime given both the ongoing issue of gambling revenue being based (at least in part) on the takings from low income and problem gamblers, and also the various rationales for gambling taxation. The four justifications presented provide not just a rationale, but also some general principles which would help shape a better tax system.

The model SACOSS is putting forward would see some gambling taxes imposed to cover the costs associated with gambling and problem gambling in particular, as well as using those taxes to provide incentives to stronger harm minimisation measures. SACOSS has also proposed that the remaining gambling taxes, those that are either taxing economic rent or simply raising revenue, should be directed into a sovereign wealth fund where only the earnings of that fund go to consolidated revenue and current expenditure. Although there would be fiscal difficulties in establishing such fund, this plan would provide greater revenue stability in the long term and address some of the ethical issues of governments being reliant on gambling taxes.

Taken as a whole, these proposals draw on the four rationales for gambling taxes and would provide a better revenue base in the long term for South Australia. With the traditional gambling tax base in decline, the next gambling wave (sports betting) rising, and online gambling changing the landscape, now is the time to set up the gambling tax regime for the future.

APPENDIX 1:

SA Gambling Expenditure and Revenue, 2000-01 to 2013-14, by Category

	Total Gambling Expend - Current $m	Real $2015m	Total Gambling Taxes - Current $m	Real $2015m		Gaming Machine Expend - Current $m	Real $2015m	Tax from Gaming Machines - $m	Real $2015m		Lotteries, Pools & Keno Expend - $m	Real $2015m	Tax from Lotteries, Pools & Keno - $m	Real $2015m
2000-01	838.2	1,216	288	418.3		543.5	788.6	189.9	275.6		103.3	149.9	78.8	114.3
2001-02	901.4	1,272	308	434.4		608.8	858.9	213.1	300.6		103.6	146.2	76.0	107.2
2002-03	981.7	1,334	335	455.6		669.1	909.1	245.3	333.3		108.9	147.9	81.5	110.8
2003-04	1053.0	1,390	377	497.8		723.6	955.3	283.5	374.3		111.8	147.6	83.3	109.9
2004-05	1087.1	1,404	401	517.9		749.3	967.6	296.3	382.6		115.9	149.6	84.4	109.0
2005-06	1098.0	1,367	401	499.1		751.0	934.9	293.4	365.2		112.9	140.5	85.3	106.2
2006-07	1152.0	1,409	422	516.3		792.6	969.7	313.8	384.0		112.2	137.3	86.1	105.3
2007-08	1102.5	1,290	415	485.5		758.5	887.2	295.0	345.1		118.4	138.5	91.7	107.2
2008-09	1133.8	1,306	407	468.9		750.7	864.8	292.7	337.3		127.5	146.9	95.1	109.6
2009-10	1140.8	1,278	402	450.5		729.4	817.4	282.7	316.8		128.1	143.6	97.0	108.7
2010-11	1145.1	1,235	404	435.8		745.5	804.2	291.6	314.6		124.5	134.3	94.2	101.6
2011-12	1163.7	1,240	411	438.1		742.8	791.7	290.9	310.1		134.7	143.6	102.7	109.4
2012-13	1132.7	1,183	422	440.6		730.6	762.7	285.9	298.5		149.2	155.8	114.2	119.2
2013-14	1028.6	1,041	388	392.8		731.0	740.0	288.2	291.8		139.8	141.5	72.5	73.4

Note: 2013-14 Total Gambling Expenditure figure is incomplete and does not include SA TAB receipts (probably around $100m).

	Racing Expend - $m	Real $2015m	Tax from Racing - $m	Real $2015m		Sports Betting Expend - $m	Real $2015m	Tax on Sports Betting - $m	Real $2015m		Casino Gaming Expend - $m	Real $2015m	Casino Gaming Tax - $m	Real $2015m
2000-01	110.0	159.7	15.7	22.8		0.671	1.0	0.1	0.2		80.7	117.2	14.0	20.3
2001-02	99.1	139.8	N/A			1.13	1.6	0.0	0.0		91.8	129.5	16.0	22.5
2002-03	102.0	138.6	7.2	9.8		1.589	2.2	0.1	0.1		100.2	136.1	17.4	23.6
2003-04	107.0	141.2	7.3	9.7		2.681	3.5	0.1	0.2		107.9	142.5	17.0	22.5
2004-05	114.4	147.7	7.9	10.1		1.977	2.6	0.1	0.2		105.7	136.4	18.0	23.3
2005-06	105.9	131.9	6.6	8.2		2.912	3.6	0.3	0.3		125.2	155.8	21.0	26.1
2006-07	111.7	136.6	7.3	8.9		3.94	4.8	0.2	0.3		131.6	160.9	22.3	27.3
2007-08	97.0	113.5	6.9	8.0		4.177	4.9	0.3	0.3		124.4	145.5	20.2	23.7
2008-09	115.6	133.2	7.5	8.7		5.49	6.3	0.3	0.4		134.5	155.0	21.3	24.5
2009-10	135.4	151.7	6.6	7.4		7.613	8.5	0.5	0.5		140.4	157.3	21.6	24.2
2010-11	127.1	137.1	1.5	1.6		7.907	8.5	0.5	0.5		139.3	150.3	21.4	23.0
2011-12	130.0	138.5	0.8	0.8		8.954	9.5	0.5	0.6		147.3	157.0	23.3	24.8
2012-13	99.6	104.0	0.9	0.9		9.576	10.0	N/A			143.7	150.0	21.3	22.2
2013-14	N/A		0.9			10.135	10.3	0.6	0.6		147.7	149.5	19.8	20.1

Source: Qld Treasury, 2015.

APPENDIX 2: SA Gambling Tax Rates

Source: DTF, 2015, Appendix A1.3

Gaming Machines

Net Gaming Expenditure per year	Non-profit Clubs	Hotels
Less than $75,000	nil	nil
$75,000 - $399,000	21% of NGR over $75,000	27.5% of NGR over $75,000
$399,000 - $945,000	$68,040 plus 28.5% of NGR over $399,000	$89,100 plus 37% of NGR over $399,000
$945,000 - $1.5m	$223,650 plus 30.91% of NGR over $945,000	$291,120 plus 40.91% of NGR over $945,000
$1.5m - $2.5m	$395,200.50 plus 37.5% of NGR over $1.5m	$518,170.50 plus 47.5% NGR over $1.5m
$2.5m - $3.5m	$770,200.50 plus 47% of NGR over $2.5m	$993,170.50 plus 57% of NGR over $2.5m
More than $3.5m	$1,240,200.50 plus 55% of NGR over $3.5m	$1,563,170.50 plus 65% of NGR over $3.5m

Casino

	Normal Gaming	Premium	Automated
Gaming Machines	41% of NGR	10.91% of NGR	
Table & Other Gambling	3.41% of NGR	0.91% of NGR	10.91% of NGR

SA Lotteries

41% of NGR

SA TAB

Fixed annual amount of $3m (to be removed on 30 June 2016)

Sports Betting

6% of NGR (from 1 July 2016)

$1,500 p.a. for interstate licenced operators

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Independent Gambling Authority Act 1995
Lottery and Gaming Act 1936
State Lotteries Act 1966

Commonwealth

Interactive Gambling Act 2001