Agenda paper: 2016-50

Purpose: Information

Inquiry: 2020 Review

Prepared for meeting of: 23 November 2016

WHAT STATES DO — GAMBLING TAXATION

REASON

This paper provides reference material on how States impose taxes on gambling. This material is to inform the development of an assessment in the next review.

ISSUES

- Whether there is a conceptual case for assessing gambling taxation
- Whether it is possible to develop a measure of gambling taxation capacity, for which there is a conceptual case, and whether it can be measured in a way that is both policy neutral and material?

REFERENCES

Agenda papers: AP 2016-18 Gambling taxation — Data limitations
AP 2015-20 History of the gambling assessment

RECOMMENDATIONS

Putting the what States do paper on the CGC cloud

It is recommended the factual part of the 'What States do' paper be uploaded on the CGC cloud. Staff would remove any discussions of assessment issues and the recommendations. The paper would be uploaded as a Commission staff research paper.

Other recommendations

Staff recommend the Commission:

- note the different ways States collect gambling taxation
- approve a program of future research that would examine:

- the conceptual case for a gambling assessment
- the reliability of data on the level of gambling activity
- the degree of substitutability between the different forms of gambling
- whether it is possible to derive policy neutral capacity measures for each form of gambling
- whether it is possible to derive a policy neutral broad capacity measure for total gambling that is also material
- whether there are reasons to make adjustments to chosen capacity measure and what those adjustments would be
- whether any elasticity effects are material and, if they are, whether (with the aid of a consultant) it is possible to measure them reliably.

Contact officer Dermot Doherty

Confidentiality statement

This document does not contain confidential material.
Statement provided by Dermot Doherty.

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SUMMARY

1 States raise revenue from a mix of licence fees, mandatory contributions and direct taxes on lotteries, casinos, gaming machines and race and sports betting.

2 These revenues are included in the Other revenue category and assessed equal per capita. This means States are deemed to have the same per capita revenue capacity. As a consequence, gambling taxation does not affect States' assessed GST shares.

3 The Commission assesses gambling taxation equal per capita because it has been unable to develop:

- policy neutral assessments for the different forms of gambling due to the influence of State policy choices
- a policy neutral broad indicator assessment for total gambling that is also material.

4 The last time the Commission made a differential assessment of gambling taxation was in 2009. It used a discounted broad indicator assessment (household disposable income). This assessment was discontinued because it was not material.

INTRODUCTION

5 This paper provides background information on how States tax gambling. Currently, these revenues are assessed equal per capita (EPC) in the Other revenue category. This treatment means they do not affect a State's assessed revenue capacity.

6 States may wish to comment on our findings.

Gambling data

7 This paper uses data from a number of sources.

- The Australian Bureau of Statistics' Government Finance Statistics (GFS) collection is the primary source of revenue data. GFS data are not available for the final year of an update, so States provide data from the Uniform Presentation Framework statements in their budget papers.
- Revenue data are also sourced from the Australian Gambling Statistics publication prepared by the Queensland Government Statisticians Office (QGSO).
- Gambling expenditure data are sourced from QGSO.

8 There are data issues. For example, GFS and QGSO revenue data do not always agree. There are gaps in the gambling expenditure data, with data being unavailable or data being classified differently in different States or different years.

OVERVIEW OF THE ASSESMENT

What is included in the assessment?

9 Gambling taxation comprises a mix of licence fees, mandatory contributions and direct taxes on the four forms of gambling: lotteries, casinos, gaming machines, and race and sports betting.

10 Table 1 shows gambling taxation totalled $5.8 billion in 2014-15.

Table 1 Gambling taxation, 2014-15

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Gambling taxation	2 067	1 781	1 077	231	383	95	52	68	5 754

Source: ABS GFS data.

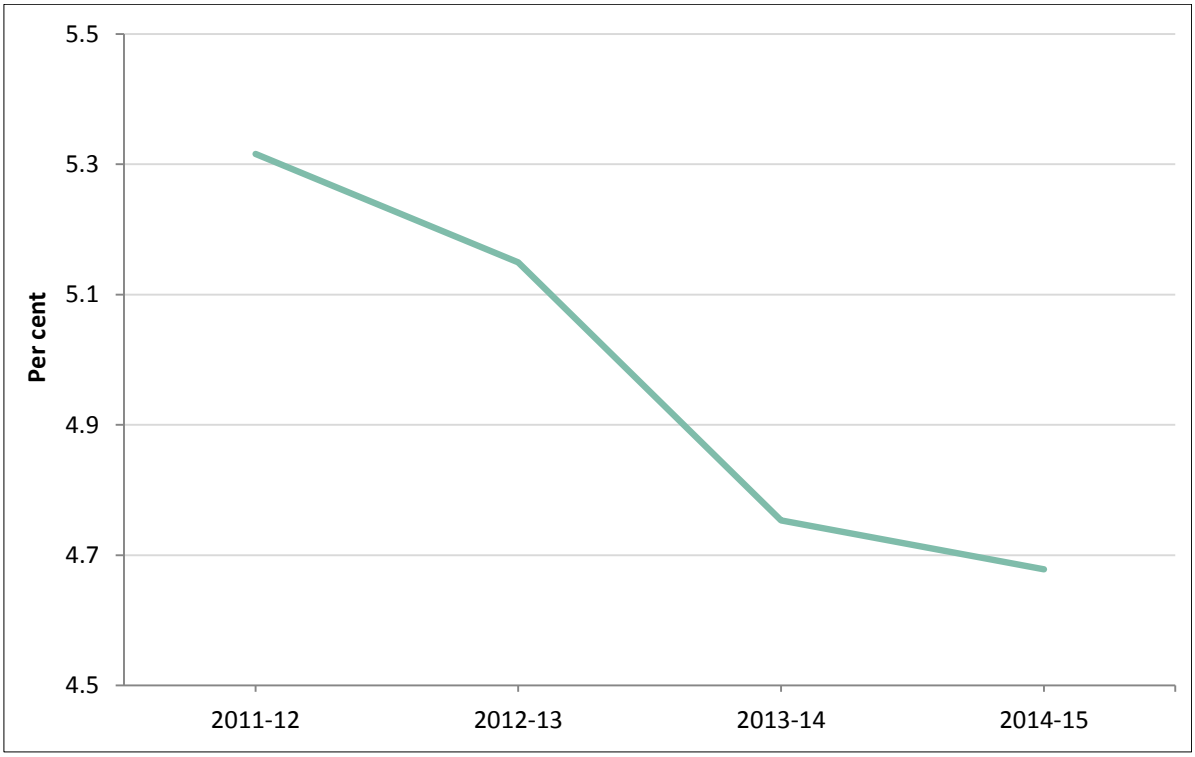
11 If separately assessed, Gambling taxation would be the second smallest revenue category. The smallest is Insurance taxation ($5.0 billion in 2014-15). Table 2 shows Gambling taxation comprised 4.7% of States' own source revenues in 2014-15, but its share is declining (Figure 1).

Table 2 Gambling taxation as a percentage of total State own source revenue, 2014-15

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	%	%	%	%	%	%	%	%	%
Total	5.3	6.6	4.4	1.2	5.0	5.2	2.2	3.8	4.7

Source: ABS GFS data.

Figure 1 Gambling taxation as a percentage of total own-source revenue



Source: ABS GFS data and State data returns for 2014-15.

Overview of the assessment

12 In the 2015 Review, gambling taxation was assessed EPC because the Commission was unable to develop:

- policy neutral assessments for the different forms of gambling due to the influence of State policy choices
- a policy neutral broad indicator assessment for total gambling that was also material.

Ratio of assessed to average revenue

13 The EPC assessment means each State is assessed to have the same per capita revenue capacity. Consequently, each State's ratio of assessed to average revenue is 100.

Ratio of actual to assessed revenue

14 Table 3 shows each State's ratio of actual to assessed revenue[1] for total gambling and for the each form of gambling. It is derived by dividing a State's actual revenue per capita by its assessed revenue per capita.

[1] This is also known as the State's revenue effort ratio.

- A ratio of 100 suggests a State is raising revenue at average levels.
- A ratio greater than 100 suggests it is raising more than the average, given its revenue base.
- A ratio below 100 suggests it is raising less than the average, given its revenue base.

15 Differences between actual and assessed revenue can be due to: State policies, efficiency of revenue collection, disabilities not assessed (either because they could not be reliably measured or because they were not material[2]), lack of reliability of the data, or discounting applied to some influences when there was uncertainty surrounding the results.

16 An EPC assessment means each State's per capita assessed gambling taxation is set equal to the average revenue. In 2014-15, New South Wales, Victoria and the Northern Territory had total gambling taxation that exceeded their assessed revenue (that is, they had above average revenue). They were the only States to have actual revenue above average revenue for three of the four forms of gambling.

17 Figure 2 compares States' 2014-15 actual and assessed revenue per capita from gambling. Consistent with Table 3, it shows New South Wales, Victoria and the Northern Territory raised above average revenue in that year. New South Wales and Victoria raised the most revenue from gaming machines. New South Wales had the second highest number of gaming machines per capita and Victoria had the highest tax revenue per gaming machine. The Northern Territory had the highest number of casino gaming machines.[3]

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[2] Unless otherwise stated, materiality means a disability changes the GST distribution for at least one State by more than $30 per capita.

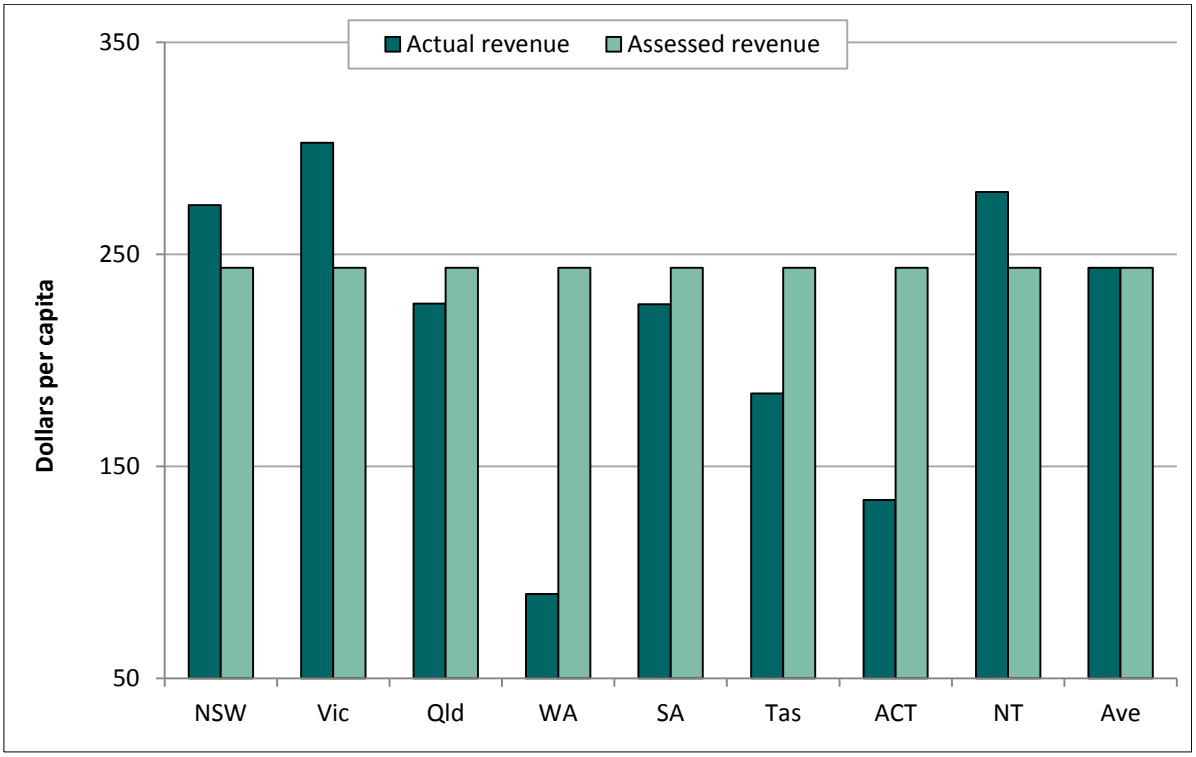
[3] Tax revenue from gaming machines located in casinos is reported as casino taxation, not gaming machine taxation.

Table 3 Ratio of actual to assessed revenue, 2014-15

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
Lotteries									
2011-12	85.4	124.4	97.9	93.2	95.5	121.5	65.2	118.8	100.0
2012-13	84.2	130.3	100.1	81.0	89.9	123.9	70.1	125.8	100.0
2013-14	84.4	129.4	101.2	83.2	77.4	133.0	75.3	157.5	100.0
2014-15	84.1	132.6	99.1	85.1	73.7	126.9	64.5	169.0	100.0
Gaming machines									
2011-12	112.8	129.3	97.0	0.0	125.4	76.5	69.1	6.1	100.0
2012-13	114.2	127.5	98.7	0.0	123.2	70.2	66.4	6.1	100.0
2013-14	117.3	121.2	102.0	0.0	122.3	69.7	64.1	6.0	100.0
2014-15	118.0	123.6	101.9	0.0	113.1	67.4	57.9	8.4	100.0
Casino									
2011-12	89.9	143.6	78.6	88.1	57.7	24.2	22.3	497.1	100.0
2012-13	94.4	141.0	71.9	99.9	52.3	22.9	21.1	471.2	100.0
2013-14	100.6	138.9	68.1	96.2	45.0	29.0	20.0	478.2	100.0
2014-15	112.5	121.2	68.0	106.6	37.7	25.5	17.6	491.5	100.0
Racing and sports betting									
2011-12	127.7	136.7	55.8	89.7	26.8	0.0	17.0	189.7	100.0
2012-13	137.9	107.6	62.7	109.7	25.2	0.0	37.2	207.8	100.0
2013-14	140.5	104.6	62.3	108.9	25.6	0.0	37.9	211.7	100.0
2014-15	154.5	113.7	24.0	110.0	28.2	0.0	41.7	266.0	100.0
Total									
2011-12	104.8	130.0	92.6	37.7	104.6	77.0	59.9	95.5	100.0
2012-13	106.5	128.5	93.9	36.8	102.2	75.9	59.8	96.2	100.0
2013-14	109.7	123.9	95.5	36.0	99.2	78.4	58.1	105.9	100.0
2014-15	112.1	124.2	93.0	36.8	92.9	75.6	55.1	114.7	100.0

Source: ABS GFS data.

Figure 2 Per capita actual and assessed gambling taxation, 2014-15



Source: ABS GFS data.

The GST distribution in the 2016 Update

18 An EPC assessment means gambling taxation does not affect States' GST distributions.

WHAT STATES DO

What revenues do States raise?

19 States raise gambling taxation from a mix of licence fees, mandatory contributions and direct taxes on lotteries, gaming machines, casinos, and racing and sports betting. In relation to gaming machines, clubs in New South Wales can reduce their gaming tax by contributing up to 1.85% of gaming revenue in excess of $1 million to eligible community projects (under the ClubGRANTS scheme), Tasmania has a 4% community support levy and the ACT has a 0.6% for its Problem Gamblers Assistance Fund.

20 Table 4 shows the revenue States raised from gambling in 2014-15, separated into:

- lotteries
- gaming machines
- casinos

- racing and sports betting.

21 Gaming machines are the biggest source of tax revenue ($3.5 billion) followed by lotteries ($1.3 billion) and casinos ($0.7 billion).

Table 4 Gambling taxation by forms of gambling, 2014-15

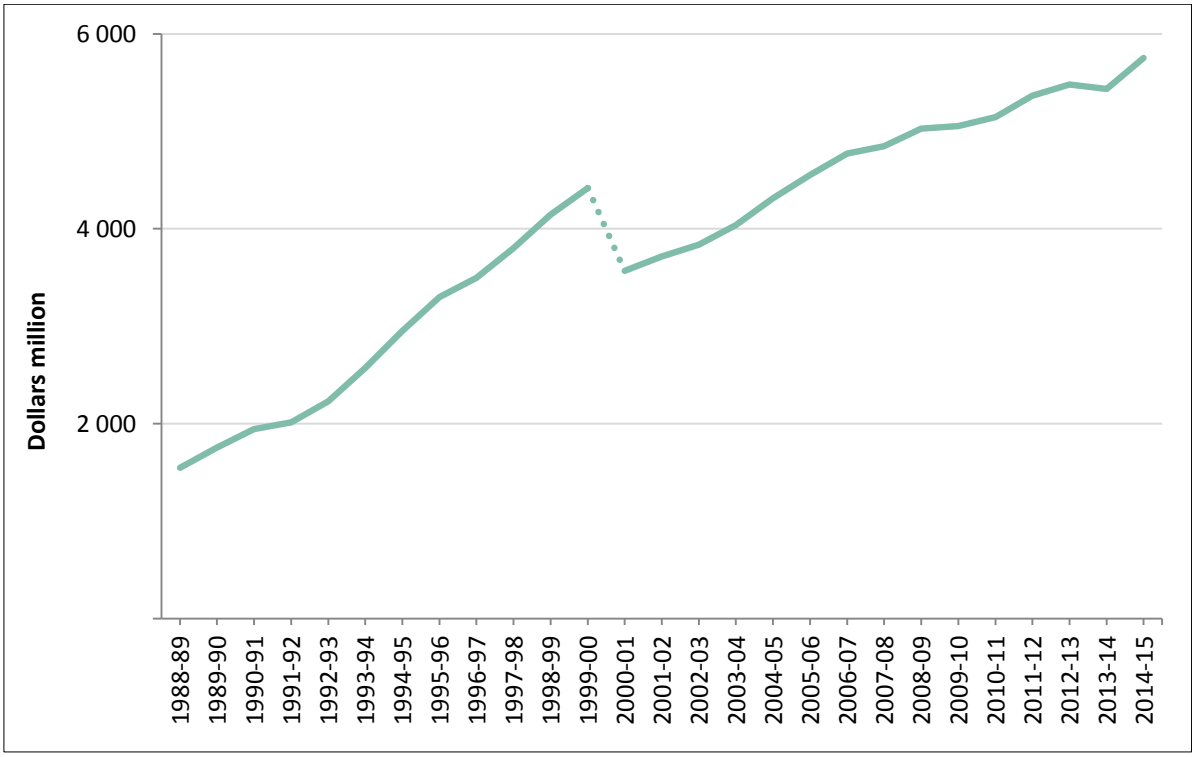
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Lotteries	357	433	262	119	71	38	14	23	1 317
Gaming machines	1 316	1 059	707	0	286	53	33	3	3 457
Casinos	250	207	94	78	19	4	2	35	689
Racing and sports betting	145	82	14	34	6	0	2	8	291
Gambling taxation	2 067	1 781	1 077	231	383	95	52	68	5 754

Source: ABS GFS data.

22 Figure 3 shows gambling taxation has grown almost fourfold since 1988-89. The fall in 2000-01 was caused by the introduction of the GST. As part of the intergovernmental agreement, States agreed to adjust their gambling arrangements to 'make room' for the GST. The mechanisms they used to achieve this varied, but generally involved:

- reducing gambling tax rates
- allowing a credit against gambling taxes payable or
- providing a reimbursement to gambling operators for their GST liability.

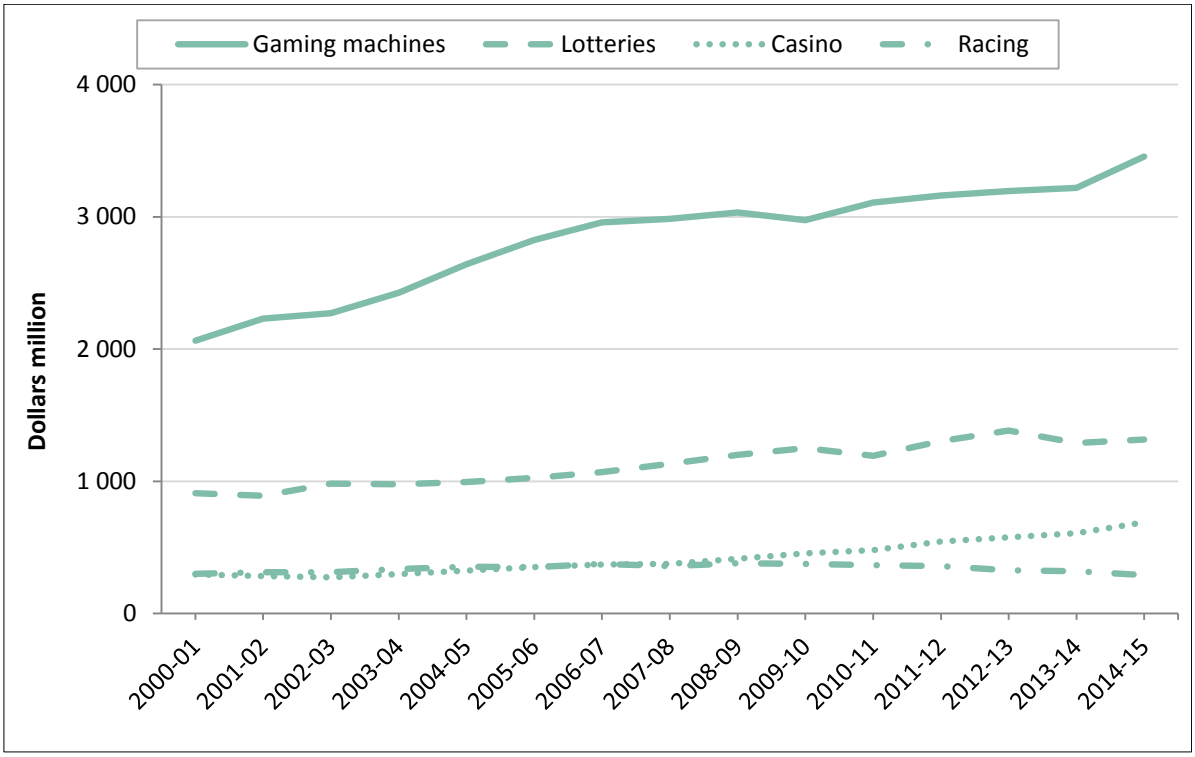
Figure 3 Gambling taxation, 1988-89 to 2014-15



Source: ABS GFS data.

23 Since the introduction of the GST, Figure 4 shows Casino taxes have grown fastest (133.6%), followed by taxes on gaming machines (67.6%) and lotteries (44.9%). Racing and sports betting taxes have declined 3% over the same period.

Figure 4 Gambling taxation by forms of gambling, 2000-01 to 2014-15

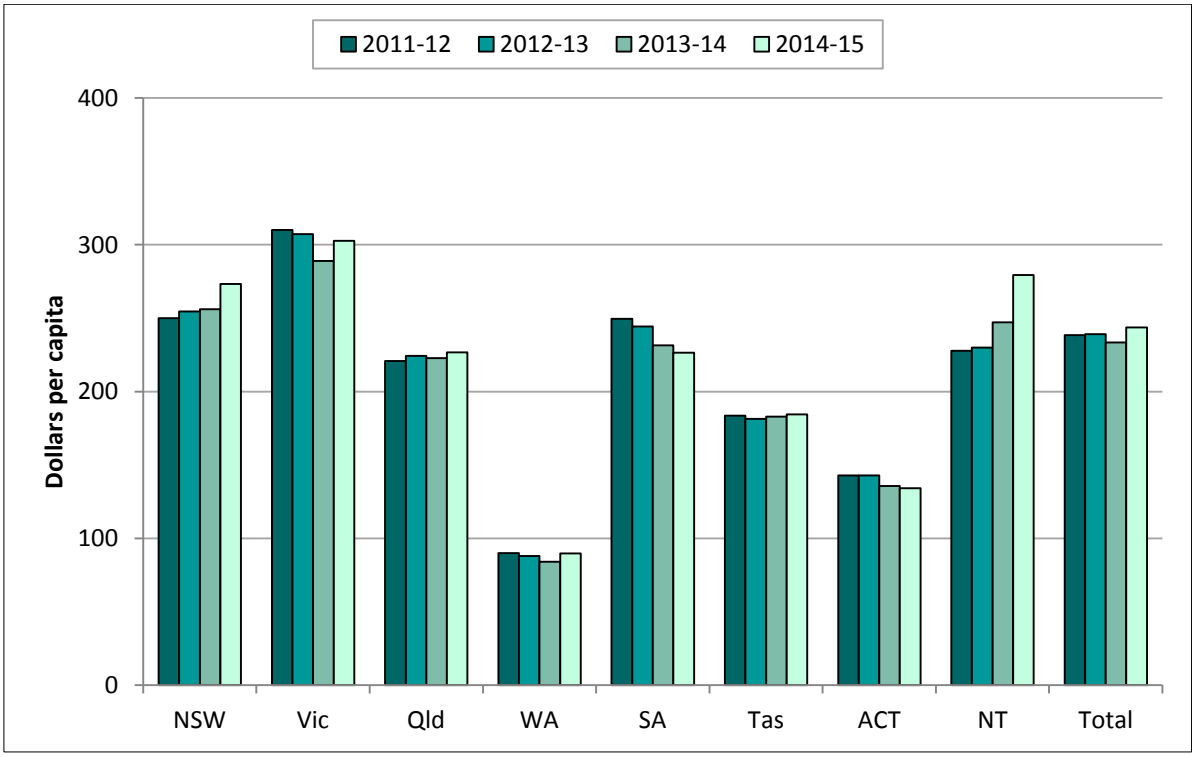


Source: ABS GFS data.

24 Figure 5 shows per capita gambling taxation has been stable over the last four years.

- The growth in gambling taxation in New South Wales was driven by increased revenue from gaming machines and casinos.
- Victoria changed its gaming machine tax rates in 2013-14. It reduced its wagering tax rates in 2012-13, which reduced its racing taxes by a third over this period.
- Queensland reduced its waging tax rates in 2014-15, which reduced its racing taxes by two thirds. This was offset by strong growth in gaming machine taxes.
- Western Australian and Tasmanian gambling taxes have been stable.
- Lottery taxes in South Australia were boosted in 2012-13 when it appointed a new master agent to operate its lotteries, but this was offset by declining gaming machine taxes.
- The ACT's declining gambling taxes have been driven by declining gaming machine taxes.
- The growth in revenue in the Northern Territory may be due to its greater reliance on fees, which is supported by a scheme that maintains the real value of fees and charges.

Figure 5 Per capita gambling taxation, 2011-12 to 2014-15

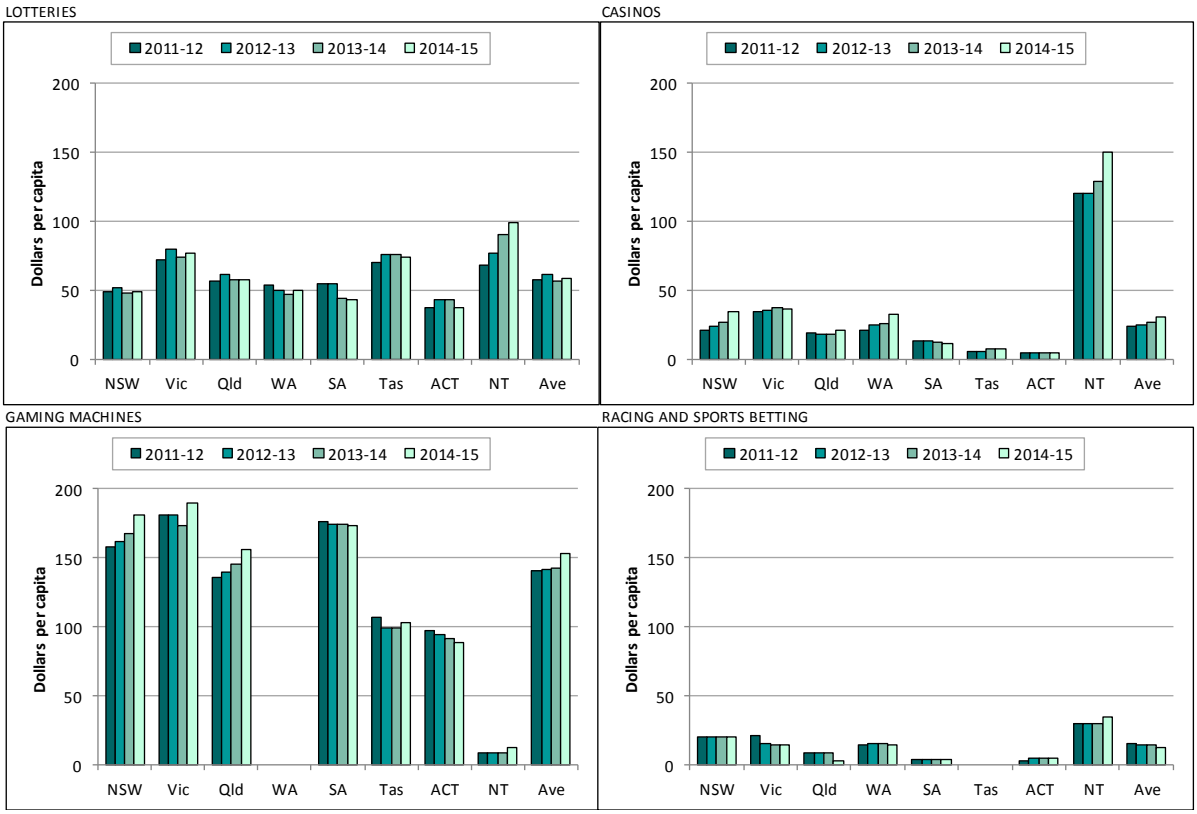


Source: ABS GFS data.

25 Figure 6 shows States per capita revenue for the forms of gambling. It shows the reduction tax revenue from race betting in Victoria in 2012-13 and in Queensland in 2014-15. The Northern Territory's high casino taxes and low gaming machine taxes reflect its decision to locate almost half of the State's gaming machines in its casinos.

26 While States raise revenue from gambling activity, Figure 6 shows the choices they make can affect the level of gambling activity in the State. In past reviews, the Commission assessed gambling capacity using a measure of gambling activity (turnover) for each form of gambling. As the influence of State policy choices became more pervasive, and its ability to remove those influences became more problematic, the Commission changed its approach to assessing aggregate gambling capacity. It looked for differences in State circumstances that might explain their different levels of aggregate gambling activity. It initially settled on household disposable income and then discounted household disposable income by 50%. Eventually it ceased this assessment because it was no longer material.

Figure 6 Per capita actual tax revenue by gambling product, 2014-15



Source: ABS GFS data.

Are there differences between States in the revenue they raise?

27 Revenue from gambling encompasses a mix of licence fees, mandatory contributions and direct taxes. A State's ability to raise gambling taxation is influenced by a combination of factors including:

- the number and location of gambling outlets. These include casinos, hotels, clubs and lottery agents
- the propensity of their population to gamble
- States' legislated rates. States also have a range of licence fees that apply to venues and/or employees. They are in addition to their direct taxes on gambling products.

28 Table 5 shows QGSO gambling tax revenue by form of gambling. It differs from that shown in Table 4. We are using a different source of data because we intend to calculate effective rates of tax by dividing tax revenue by gambling expenditure data. We would prefer to do so using data from one source (QGSO) to prevent differences in revenue between data series from affecting the estimated effective rates.

29 Across all States, gaming machines are the biggest source of tax revenue (60%), followed by lotteries (24%) and casinos (12%). However, individual States have a different reliance on the various forms of gambling.

- New South Wales (67%), Queensland (68%), South Australia (75%) and the ACT (67%) have a greater reliance on gaming machines
- Western Australia (25%), Tasmania (25%) and the Northern Territory (16%) have a greater reliance on casinos
- Western Australia (65%), Tasmania (34%), the ACT (30%) and the Northern Territory (35%) have a greater reliance on lotteries.
- Western Australia (10%) and the Northern Territory (15%) have a greater reliance on racing and sports betting.

Table 5 Gambling taxation, by gambling product, 2014-15

Product	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Gaming									
Casino gaming	221	205	98	110	19	21	2	11	688
Gaming machines	1 365	966	732	0	287	31	33	24	3 437
Lotteries and pools	327	391	241	283	74	28	15	24	1 383
Minor gaming	-	-	-	1	-	-	-	-	1
Total	1 913	1 562	1 071	394	380	80	50	58	5 508
Racing									
Bookmakers	-	-	-		-	2	-	5	7
On-course bookmaker	-	4	-		-	-	-	1	5
TAB	116	37	12	34	-	-	-	4	204
Total	116	41	12	34	0	2	0	10	216
Sports betting									
Bookmaker and other fixed odds	-	-	-	-	-	1	0	-	1
Bookmaker and other pool betting	-	-	-	-	-	-	-	-	-
TAB fixed odds	15	11	0	8	1	-	-	-	35
TAB TOTE odds	1	0	0	0	0	-	-	-	1
Total	16	11	0	8	1	1	0	0	36
All gambling	2 045	1 614	1 083	436	381	83	50	68	5 760

Source: Australian Gambling Statistics, 32nd edition, State Tables, Tables 12, 26 and 42.

30 Part of these differences are due to Western Australia's prohibition on gaming machines in clubs and hotels, the absence of gaming machines in the ACT's casino,[4]

[4] The ACT Government has agreed that its casino can have 200 gaming machines, but it will have to purchase them from clubs under the existing cap. The government has a trading scheme, under which one in four machines are forfeited when they are sold. So, the casino will need to purchase 267 machines to be able to operate 200.

the Northern Territory's high proportion of gaming machines in its casinos and its cap on the annual tax paid by sports betting operators.

31 Table 6 suggests States impose the highest effective rates of tax on lotteries and high effective rates of tax on gaming machines. The effective rates on other gambling products are considerably lower.

Table 6 Effective rate of tax, by gambling product, 2014-15

Product	Tax revenue	Gambling expenditure	Effective rate of tax
	$m	$m	%
Gaming			
Casino gaming	688	5 169	13.3
Gaming machines (including Keno)	3 437	11 919	28.8
Lotteries and pools	1 383	1 993	69.4
Minor gaming	1	23	4.3
All gaming	5 508	19 104	28.8
Racing	216	2 815	7.7
Sports betting	36	815	4.4
All gambling	5 706	22 734	25.1

Source: Australian Gambling Statistics, 32nd edition, State Tables, Tables 12, 26 and 42.

Lotteries

32 Table 7 shows the per capita tax revenue States report raising from lotteries.

- Victoria, Tasmania and the Northern Territory raised more than the average.
- Queensland raised the average.
- The remaining States raised less than the average.

Table 7 Per capita tax revenue, lotteries

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc
2011-12	49.4	72.0	56.7	53.9	55.3	70.3	37.7	68.8	57.9
2012-13	51.8	80.1	61.5	49.8	55.3	76.2	43.1	77.4	61.5
2013-14	48.3	74.2	58.0	47.7	44.3	76.2	43.1	90.2	57.3
2014-15	49.2	77.6	58.0	49.8	43.1	74.2	37.7	98.8	58.5

Source: ABS GFS data.

33 Tasmania and the ACT do not host State lotteries. They have arrangements with other State governments, whereby interstate operators manage the lotteries and Tasmania

and the ACT receive a share of the duty that the operator would have paid to those State governments.

34 Drivers of lottery taxes include:

- the variety of products
- the size of the prize pools
- States' legislated rates of tax.

35 Tattersalls has expanded to manage lotteries in all States. The only remaining State owned and operated lottery is Lotterywest in Western Australia. Tattersalls and the Lotterywest operate as a bloc to jointly conduct national games, pooling entries and winnings. This has allowed them to create bigger prize pools.

36 Table 8 show States' legislated rates of tax.

Table 8 Legislated rates of tax, lotteries

	Rates of tax
New South Wales	76.918% of player loss *less* GST payable *less* sales commissions. The minimum return to player is 60%.
Victoria	79.4% (where GST is payable) or 90% (where GST is not payable) of player loss. The minimum return to player is 60%.
Queensland	73.48% of player loss for lotteries, 55% for instant scratch-its, 45% for Golden Casket lotteries, 67.6% for pools. A GST credit is provided. Fees are set by way of agreement between lottery licence holders and Queensland. Agreements are commercial-in-confidence.
Western Australia	40% of player loss *less* sales commissions. A GST reimbursement is made to the Lotteries Commission.
South Australia	41% of player loss.
Tasmania	Tasmania does not host any State lotteries. It receives 100% of the duty paid that would have been paid to the Victoria and Queensland governments for Tasmania subscriptions to Tattersalls lotteries, Soccer Pools and Golden Casket Lotter products.
ACT	Lotteries in the ACT are provided in cooperation with New South Wales and Victoria. The ACT receives 76.918% of player loss *less* GST for lotteries from New South Wales. The ACT receives 79.4% of player loss for lotteries from Victoria and 57.52% on Soccer Pools.
Northern Territory	Fees and taxes are set by way of agreement under the Gaming Control Act between a lottery licence holder and the Northern Territory. Agreements are commercial-in-confidence.

Note: Player loss is player subscriptions *less* prize liability. Player loss is called gross revenue in Queensland and net gambling revenue in South Australia. Player loss *less* sales commissions is called net subscriptions in Western Australia.

Source: NSW Treasury, *Interstate Comparison of Taxes*, 2015-16.

Gaming machines

37 Table 9 shows the per capita tax revenue States report raising from gaming machines.

- New South Wales, Victoria and South Australia raised more than the average.
- Queensland raised the average.
- The remaining States raised less than the average, with the Northern Territory raising very little revenue and Western Australia none.

Table 9 Per capita tax revenue, gaming machines

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc
2011-12	158.4	181.5	136.1	0.0	176.1	107.4	97.0	8.6	140.4
2012-13	162.1	180.9	140.1	0.0	174.9	99.6	94.3	8.6	141.9
2013-14	167.7	173.2	145.8	0.0	174.9	99.6	91.6	8.6	143.0
2014-15	181.2	189.7	156.5	0.0	173.7	103.5	88.9	12.9	153.5

Source: ABS GFS data.

38 Drivers of gaming machine tax revenue include:

- the number of machines
- the location of machines
- States' legislated rates of tax.

The number of machines

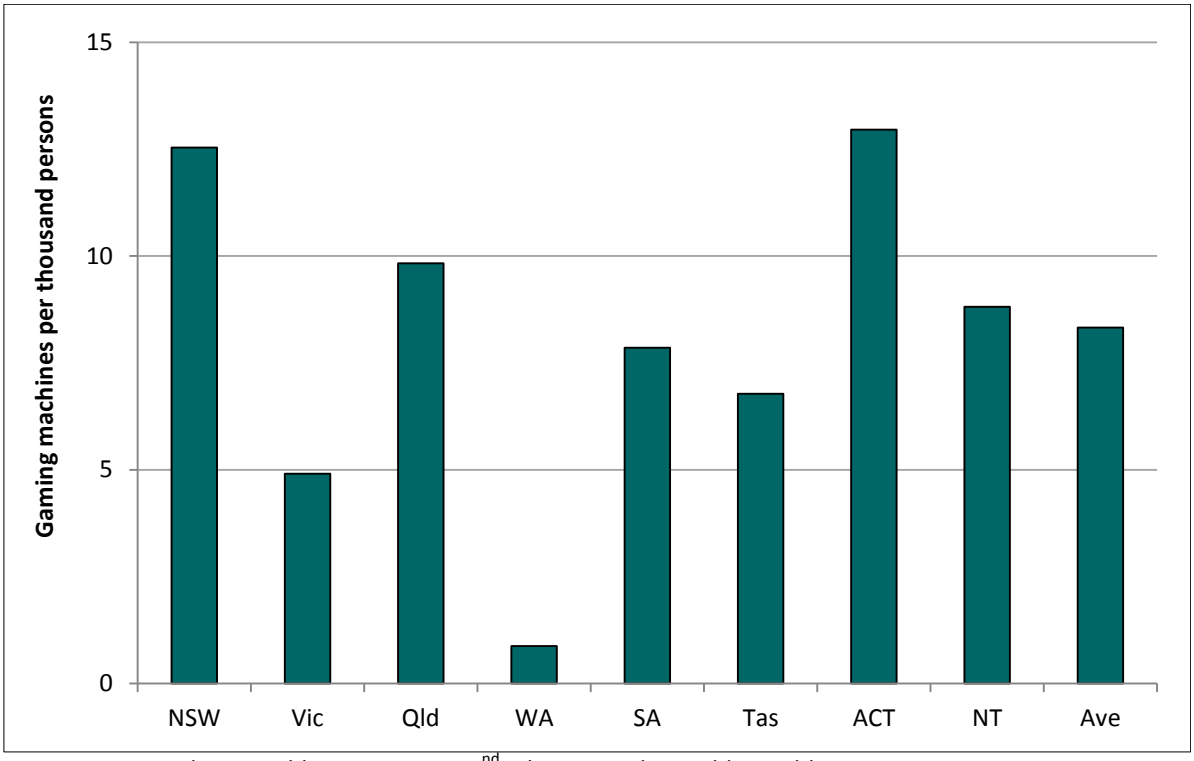
39 Table 10 shows the number of gaming machines in operation in each State. Victoria, with less than a third of the number of machines as New South Wales, raises more tax revenue than New South Wales.

Table 10 Number of gaming machines operating as of 30 June

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	No.	No.	No.	No.	No.	No.	No.	No.	No.
2011-12	95 610	28 376	46 152	2 000	13 658	3 690	4 986	2 222	196 694
2012-13	95 559	28 568	46 657	2 100	13 587	3 526	4 974	2 228	197 199
2013-14	95 012	28 860	46 663	2 192	13 410	3 546	4 974	2 243	196 900
2014-15	94 864	28 892	46 697	2 252	13 294	3 495	5 022	2 145	196 661

Source: *Australian Gambling Statistics*, 32nd edition, Product Tables, Table 31.

Figure 7 Number of gaming machines per thousand persons, 2014-15



Source: *Australian Gambling Statistics*, 32nd edition, Product Tables, Table 31.

40 Figure 7 shows:

- New South Wales and the ACT have in excess of, and Queensland slightly less than, 10 gaming machines per thousand persons
- South Australia and the Northern Territory have about the average of 8.3 gaming machines per thousand persons
- Tasmania has less than seven gaming machines per thousand persons, Victoria less than five and Western Australia less than one.

41 Comparing the number of gaming machines to the tax revenue raised (Table 9) suggests Victoria and South Australia raise more than the average tax revenue per machine, while New South Wales and the ACT raise less than the average tax revenue per machine.

The location of machines

42 Table 11 shows the location of States' gaming machines. Western Australia and the ACT are the two extremes. Western Australia has no gaming machines located outside its casino, the ACT currently has none in its casino. The importance of the location of the gaming machines can be gauged from Table 12, which shows the average tax revenue per machine is much higher for those located in casinos. A University of Adelaide report (the casino report) concluded contributing factors for this difference were:

… the ability to play machines in an unrestricted mode, the extended hours of opening by casinos relative to competitors, although the principal factor is the sheer number of visitations and accommodation stays at casinos. The casinos 6.6 per cent of all machines account for 13.3 per cent of the total revenue from all machines in all jurisdictions combined.[5]

Table 11 Number of gaming machines operating as of 30 June 2014-15

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total/Ave
	No	No	No	No	No	No	No	No	No
Casinos	1 500	2 628	3 829	2 252	917	1 185	0	964	13 275
Clubs	70 086	12 738	23 578	0	1 813	127	4 956	753	114 051
Hotels	23 278	13 526	19 290	0	10 564	2 183	66	428	69 335
Total	94 864	28 892	46 697	2 252	13 294	3 495	5 022	2 145	196 661
	%	%	%	%	%	%	%	%	%
Casinos	1.6	9.1	8.2	100.0	6.9	33.9	0.0	44.9	6.8
Clubs	73.9	44.1	50.5	0.0	13.6	3.6	98.7	35.1	58.0
Hotels	24.5	46.8	41.3	0.0	79.5	62.5	1.3	20.0	35.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: *Australian Gambling Statistics*, 32nd edition, Product Tables, Table 31.

Table 12 Tax revenue per gaming machine, 2011-12

	Tax revenue	Number of machines	Tax revenue per machine
	$m	No.	$
Casinos	1 673	13 275	126 045
Hotels and clubs	10 911	183 386	59 498
Total	12 584	196 661	63 990

Source: University of Adelaide, *Responsible gambling and casinos*, Final Report, December 2015, Table 2.11, page 23.

43 The casino report said:

> The New South Wales distribution reflects the historical legacy of an early introduction of the mechanical 'one arm bandits' into New South Wales clubs and relatively recent decision to allow the machines into hotels. We are advised that the Victorian distribution reflects equal treatment of clubs and hotels when allocating machines so that collectively they hold 27,372 machines with 2,628 allocated to the Crown Casino. Queensland is similar to Victoria, South Australia has heavily favoured machine allocation to hotels more strongly than any other jurisdiction; the Northern Territory and Tasmania have the greatest share allocated to the two casinos in each jurisdiction; the ACT prohibits

[5] University of Adelaide, *Responsible gambling and Casinos, Final Report*, December 2015, page 24.

machines in the single casino site whereas Western Australia has 100 per cent allocated to the single casino site. The EGM distribution reported … is the result of a number of historical decisions, changes in policy and lobbying. States/Territories have changing objectives and preferences including a desire to treat clubs and hotels equally, to primarily support clubs through revenue from machines, to increase or reduce accessibility and the introduction of state-wide and regional caps amongst other possible considerations.[6]

Legislated rates of tax

44 Table 13 and Table 14 show States' legislated rates for clubs and hotels. While they impose the taxes progressively, they have varying methods of assessing the tax, thresholds and rates of tax. When different rates are applied in clubs and hotels, those applied in hotels tend to be higher (Queensland is the exception).

Table 13 Legislated rates of tax, gaming machines in clubs

NSW		Vic		Qld		WA
Gross revenue		Monthly ave revenue per machine		Monthly metered win		
	%		%		%	
$0.0m	0.00	$0	0.00	$0	0.00	
$0.2m	10.00	$2 666	46.70	$9 501	17.91	Not
$1.0m	19.90	$12 500	54.20	$75 001	20.91	applicable
$5.0m	24.40			$150 001	23.91	
$10.0m	26.00			$300 001	25.91	
$20.0	28.40			$850 001	30.91	
				$1 400 000	35.00	

SA			Tas	ACT		NT	
Net gambling revenue				Gross monthly machine revenue		Monthly gross profit	
	$	%			%		%
$0	0	0.00	Flat rate of	$0	0.00	$0	12.91
$75 001	0	21.00	25.88% of gross	$25 000	17.00	$10 001	22.91
$399 001	68 040	28.50	profit plus 4%	$50 000	21.00	$100 001	32.91
$945 001	223 650	30.91	Community Support	$625 000	23.00	$200 001	42.91
$1.5m	395 201	37.50	Levy	Unlawful	100.00		
$2.5m	770 201	47.00					
$3.5m	1 240 201	55.00					

Note: Clubs with less than $1 million gross revenue pay no gaming machine tax in New South Wales.
Note: Queensland tax rates are post-GST. Hotels are also required to contribute to Health Services Fund.
Source: NSW Treasury, *Interstate Comparison of Taxes*, 2015-16.

[6] Ibid, page 23.

Table 14 Legislated rates of tax, gaming machines in hotels

NSW		Vic		Qld		WA
Gross revenue		Monthly ave revenue per machine		Monthly metered win		
	%		%		%	
$0.0m	0.00	$0	8.33	$0	0.00	
$0.2m	33.00	$2 666	55.03	$100 001	3.50	Not
$1.0m	36.00	$12 500	62.53	$140 001	5.50	applicable
$5.0m	50.00			$180 001	7.50	
				$220 001	13.50	
				$260 000	20.00	

SA			Tas	ACT	NT	
Net gambling revenue					Monthly gross profit	
	$	%				%
$0	0	0.00	Flat rate of	25.90% of gross	$0	12.91
$75 001	0	27.50	25.88% of gross	monthly gaming	$10 001	22.91
$399 001	89 100	37.00	profit plus 4%	machine revenue plus	$100 001	32.91
$945 001	291 120	40.91	Community Support	0.6% Problem Gambling	$200 001	42.91
$1.5m	518 171	47.50	Levy	Assistance Fund Levy		
$2.5m	993 171	57.00			Plus 10% Community	
$3.5m	1 563 171	65.00			Benefit Levy	

Note: Queensland tax rates are post-GST. Hotels are also required to contribute to Health Services Fund.
Note: South Australia abolished its gaming machine surcharge on 18 June 2015.
Source: NSW Treasury, *Interstate Comparison of Taxes*, 2015-16.

Casinos

45 Table 15 shows the per capita tax revenue States reported raising from casinos.

- Victoria and the Northern Territory raised more than the average.
- New South Wales and Western Australia raised the average.
- The remaining States raised less than the average, with Tasmania and the ACT raising very little revenue.

Table 15 Per capita tax revenue, casinos

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc
2011-12	21.8	34.8	19.0	21.3	14.0	5.9	5.4	120.3	24.2
2012-13	24.1	36.0	18.4	25.5	13.4	5.9	5.4	120.3	25.5
2013-14	27.1	37.4	18.4	25.9	12.1	7.8	5.4	128.9	27.0
2014-15	34.4	37.1	20.8	32.6	11.5	7.8	5.4	150.4	30.6

Source: ABS GFS data.

46 Drivers of casino tax revenue include:

- the number and size of casinos
- the additional services provided
- States' legislated rates of tax.

47 The casino report said there was a dramatic decline in casino tax revenue from gaming machines following their introduction into clubs and hotels and that there was strong competition between these two sectors for the domestic gambling dollar.

48 The casino report found three quarters (78%) of casino income derived from gaming activities. However, casinos differed in the extent to which they provided accommodation, entertainment and other non-gaming experiences. Table 16 shows that while gaming made the largest contribution to casino revenue over the decade to 2009-10, the biggest growth was in entertainment and accommodation. The casino report said:

> casino complexes are increasingly larger and offer a more comprehensive 'total entertainment experience' than has been the case previously to attract greater numbers of domestic and international visitations.[7]

Table 16 Australian casino income by source

	1999-00	2009-10	Growth
	$m	$m	%
Gaming	2 397	3 419	42.6
Food and beverage	368	569	54.6
Accommodation	119	240	101.7
Rent and leasing	33	39	18.2
Entertainment	15	45	200.0
Other (including parking and retail)	106	91	-14.2
Total	3 038	4 403	44.9

Source: University of Adelaide, *Responsible gambling and casinos*, Final Report, December 2015, Table 2.6, page 17.

49 In terms of gaming, Table 17 shows Crown Melbourne is the biggest casino. The Northern Territory has an above average number of gaming machines and gaming tables in its casinos. Aside from Western Australia, which has a prohibition of gaming machines outside its casino, the Territory has the highest proportion of gaming machines in casinos.

50 Casino Canberra is the smallest casino. Its revenue peaked in 1994-95 and has been in decline since. The weak performance of Casino Canberra can be explained by the ban on gaming machines, the small size of the casino, the absence of accommodation and the low rate of per capita spending at the casino ($64 per capita compared to the national average of $262).

[7] Ibid, page 16.

Table 17 Size of casino operations, 2011-12

Casino	Gambling expenditure	Tax revenue	Gaming machines	Gaming tables	Gaming machines per table game	Percentage of EGMs in casinos in the State
	$m	$m	No.	No.	No.	%
Star Sydney	954	133	1 500	314	4.8	1.6
Crown Melbourne	1 528	195	2 628	500	5.0	8.7
Jupiters Gold Coast	588 (a)	85 (a)	1 486	91	16.3	7.9
Jupiters Townsville	.. (a)	.. (a)	352	26	13.5	7.9
Treasury Casino	..	..	1 385	95	14.6	7.9
Reef Casino	..	..	499	38	13.1	7.9
Crown Perth	634	106	2 000	220	9.1	100.0
Adelaide Casino	147	23	995	90	10.5	7.2
Country Club Casino	106 (b)	24 (b)	523	18	29.1	32.8
Wrest Point Casino	.. (b)	.. (b)	650	27	24.1	32.8
Casino Canberra	18	2	0	39	0.0	0.0
Lasseters Hotel Casino	105 (c)	11 (c)	300	17	17.6	48.0
SkyCity Darwin	.. (c)	.. (c)	788	36	21.9	48.0
Total	4 081	580	13 106	1 511	8.7	6.7

(a) Jupiters Gold Coast and Jupiters Townsville combined.
(b) Country Club Casino and Wrest Point Casino combined.
(c) Lasseters Hotel Casino and SkyCity Darwin combined.
Source: University of Adelaide, *Responsible gambling and casinos*, Final Report, December 2015, Attachment A. *Australian Gambling Statistics*, 32nd edition.

Racing and sports betting

51 Table 18 shows the per capita tax revenue States report raising from racing and sports betting.

- New South Wales and the Northern Territory raised more than the average.
- Victoria and Western Australia raised the average.
- The remaining States raised less than the average, with Queensland and Tasmania raising very little revenue.

52 Racing and sports betting tax revenue is declining. While the sports betting part is increasing, the racing part is in decline. Tax revenue from race betting has declined in eight of the last ten years, in part because some States have reduced their direct taxes and in some cases replaced them with annual licence fees. Tax revenue from sports betting has increased in all but one of those years.

Table 18 Per capita revenue, racing and sports betting

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc
2011-12	20.2	21.7	8.9	14.2	4.3	0.0	2.7	30.1	15.9
2012-13	20.0	15.6	9.1	15.9	3.6	0.0	5.4	30.1	14.5
2013-14	20.0	14.9	8.9	15.5	3.6	0.0	5.4	30.1	14.2
2014-15	20.0	14.7	3.1	14.2	3.6	0.0	5.4	34.4	12.9

Source: ABS GFS data.

53 Betting taxes comprise taxes on fixed odds betting, totalisators, bookmakers and race betting. Table 19 shows the legislated rates for the first three and Table 20 shows the legislated rates for race betting.

Table 19 Legislated rates of tax, race betting

	NSW	Vic	Qld (a)	WA	SA	Tas	ACT	NT (e)
Fixed Odds:								
Racing, TAB	10.91% of player loss	4.38% of player loss	10% of commission	2% of turnover	(b)	(c)	Nil	Dependent on event
Sports, TAB	10.91% of player loss	4.38% of player loss	10% of commission	0.5% of turnover	6% of player loss	(c)	Dependent on event	Dependent on event
Totalisator:								
Sports	19.11% of player loss	7.6% of player loss	14% of commission	5% of turnover	6% of player loss	(c)	Nil	Dependent on event
Off Course	19.11% of player loss	7.6% of player loss	14% of commission	11.91% of turnover	Nil	(c)	(d)	Dependent on event
On Course	19.11% of player loss	7.6% of player loss	14% of commission	Nil	Nil	(c)	(d)	Dependent on event
Bookmakers Betting Levy:								
Race courses	Nil	Nil	Nil	0.5% of turnover	0.25% of turnover (f)	Nil	Nil	10% of gross profit (f)
Sporting events	Nil	Nil	Nil	1.5% of turnover	0.25% of turnover (f)	Nil	Nil	10% of gross profit (f)

(a) Queensland's Totalisator also pays quarterly wagering licence fee of $215 800.
(b) South Australia's TAB pays a flat fee of $252 500 per month until 30 June 2016, when current agreement expires.
(c) A fixed annual Totalisator Wagering Levy is paid by the licence holder ($7.097 million in 2015-16).
(d) An annual Totalisator Licence Fee is paid by the licence holder ($1.015 million in 2015-16).
(e) The Northern Territory charges 40% of the licensee's commission on thoroughbred, harness and greyhound races, 20% of licensee's commission on other races, events, sports and activities held in Australia, and 10% of licensee's commission on international races and sporting events.
(f) Applies to internationally sourced bets only. A maximum levy of $575 000 per annum applies in the Northern Territory.
Source: Department of Treasury Western Australia, Overview of State Taxes and Royalties, 2015-16.

Table 20 Legislated rates of tax, race betting

	NSW (a)	Vic (b)	Qld (c)	WA	SA	Tas	ACT	NT
Thoroughbred:								
	Up to 4% of turnover plus GST	11.51% of gross revenue	1.5% of turnover	1% (if turnover <= $3m) or 1.5% (if turnover > $3m)	Contribut'n to the racing industry (e)	1.5% of turnover (plus GST) (f)(g)	1.5% of turnover	Nil
Harness:								
	Up to 4% of turnover plus GST	11.51% of gross revenue	1.5% of turnover	1% (if turnover <= $3m) or 1.5% (if turnover > $3m)	The greater of 0.5% of turnover or 13% of gross proceeds(d)	1.5% of turnover (plus GST) (g)	1.5% of turnover	Nil
Greyhound:								
	Up to 4% of turnover plus GST	11.51% of gross revenue	1.5% of turnover	1% (if turnover <= $3m) or 1.5% (if turnover > $3m)	The greater of 0.5% of turnover or 13% of gross proceeds(d)	1.5% of turnover (plus GST) (g)	1.5% of turnover	Nil

(a) Totalisator derived odds are any odds derived from/contingent on totalisator odds but does not include totalisator odds themselves. A rate of 2.5% applies to other odds.

(b) Revenues are collected/paid direct to the racing industry.

(c) For totalisator wagering models where cumulative wagering turnover is $5m or more, 1.5% if turnover is $5m or less, 2% during May and June. Different rates apply for non-totalisator products.

(d) A 2.5% rate applied to premium race meetings with over $3m in turnover. Fixed odds bets placed at non-betting exchanges with over $3m in turnover are 2% for standard race meetings and 3% for premium race meetings. A 2% rate applies for monthly turnover above $3m between November and January (inclusive) for thoroughbred racing.

(e) Varying amounts, based on the time of year and the wagering operator's revenues, are paid to Thoroughtbred Racing SA. The wagering operator can elect either a turnover or gross profit system.

(f) This rate increases to 2% each February and then reverts to 1.5% from March.

(g) Fixed odds bets are taxed at the greater of 20% of revenue or 1% of turnover (plis GST). Bets placed at betting exchanges are levied at 1% of net customer winnings (plus GST).

(h) Revenues are collected direct by the racing industry. 2% of turnover for fixed odds bets, 2.5% for non-totalisator bets, 1% for bets placed at betting exchanges, and an additional 1% applies for the Black Opal States Day.

Source: Department of Treasury Western Australia, Overview of State Taxes and Royalties, 2015-16.

54 The Northern Territory has a relatively big share of the sports betting market because it caps the annual tax paid by online bookmakers. The introduction of the cap has kept other States from attracting the industry. Each bookmaker pays 10% of betting profits until they reach the cap. The cap is $0.55 million per bookmaker per year. It was $0.25 million prior to 2014-15. While the operations of the bookmaker can be Australia wide, the server taking bets needs to be located in the Territory. 13 bookmakers are currently licensed in the Territory, including Tabcorp, Tatts Group, Crownbet, Sportsbet and Lottoland. Norfolk Island has a lower cap ($0.3 million per operator), although it has only one licenced operator (Citicorp).

55 From 1 July 2017, South Australia will introduce a ‘place of consumption’ tax of 15% on the net wagering revenue of betting companies offering services in South

Australia. A tax free threshold of $0.15 million is proposed for all betting companies. South Australia anticipates the tax will raise $9.2 million.

Are there elasticity effects?

56 Economic theory suggests that, if States' actual tax rates differ from the average, those differences can affect the level of activity, such that States imposing above average tax rates would shrink their tax bases. If those differences become material, the Commission's capacity measure (to the extent it is based on the gambling expenditure) could become policy contaminated.

57 The Commission aims to measure the level of State activity at average rates of tax. Thus, an adjustment may be required if elasticity effects are material. The size of the adjustment depends on the responsiveness of tax revenue to tax rate changes.

58 There is some evidence of elasticity effects in this category. The work by KPMG for the Henry Tax Review suggested the elasticity effects for gambling were very high.[8] The Commission has not previously assessed elasticity adjustments for gambling, but it has assessed them in relation to taxes on minerals, petroleum and tobacco. The Commission ceased assessing elasticity adjustments in the 2004 Review over concerns about its ability to reliably measure those effects. In the 2015 Review, it decided not to reintroduce them because the effects were either immaterial or reliable data were not available to support an assessment.

What type of assessment data would the Commission require to measure capacity in the next review?

A disaggregated gambling assessment

59 States tax gambling activities. The more activity in a State, the more tax is raised at average rates.

60 A disaggregated approach focuses on developing an assessment for each form of gambling. To implement this, the Commission would require reliable data on the level of gambling activity by product in each State.

61 There are two measures of gambling activity.

- Gambling expenditure. These data relate to the net amount lost by people who gamble. It is equal to the amount wagered less the amount won. By definition, it is the gross profit of the operator of the relevant form of gambling.

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[8] KPMG Econtech, *CGE Analysis of the Current Australian Tax System* (research paper for the Australia's Future Tax System review), March 2010.

- Gambling turnover. These data are the amount wagered. The data do not include any additional charges that may be paid at the point of purchase (such as selling agents' commission in the case of lottery sales).

62 However, we know these measures are not comparable. QGSO provides gambling data on tax revenue raised, gambling turnover and gambling expenditure. Its data shows there are differences between a gambling turnover and a gambling expenditure measure.

63 There are differences between GFS and QGSO tax revenue data. We do not yet understand why the two series differ. There are also differences between QGSO's gambling expenditure and gambling turnover series. The differences are material. There are also gaps, with States unable to provide disaggregated expenditure and turnover data for all forms of gambling for all years. These gaps and differences may indicate the data are not yet sufficiently robust to be used as a capacity measure.

64 Once we have chosen a capacity measure, we have to address the influence of State policy differences, the biggest of which is Western Australia's gaming machine restrictions. If we are to implement a disaggregated approach, we will need to find a way of ameliorating or removing their effect on the chosen measure.

65 If those policy issues can be resolved, we will need to work with States to address the data issues and to improve the comparability of QGSO data. We intend to discuss these issues with Sates as part of the data working party process.

An aggregated gambling assessment

66 There are two reasons why an aggregated gambling assessment might be appropriate. If the degree of substitutability between different forms of gambling is deemed to be high, then assessing all gambling together may be more appropriate than a disaggregated assessment. Second, if the influence of State policy choices are too pervasive, a policy neutral assessment of each form of gambling may not be possible.

67 There is no clear evidence of what the drivers of an aggregated gambling assessment might be. Different studies suggest different drivers (for example, income and socio-economic status). We will investigate the differences in State circumstances that might explain the different levels of gambling activity in each State. This will involve investigating aggregated activity measures (such as gambling expenditure and turnover) as well as broad revenue indicators (such as, income, socio-economic status and people of certain ages). We will not be in a position to determine the data the Commission might need until we have completed these investigations.

68 Once we have a preferred capacity measure, we will address the issue of the influence of State policy differences. As with the disaggregated approach, we will need to find a way of ameliorating or removing their effect on the chosen measure.

69 We intend to discuss these issues with States as part of the data working party process.

CONCLUSIONS

70 Generally, States tax the same range of gambling products, but there are some differences. The main reasons States raise different levels of tax revenue is the number and location of gambling outlets, the propensity of their population to gamble and States' legislated rates. State policy choices on the number and location of gambling outlets have a material effect on the revenue they raise from gambling products.

71 Evidence on the drivers of gambling activity have been difficult to identify. If the Commission is to assess gambling revenue other than EPC, it will need to explore:

- policy neutral assessments for the different forms of gambling adjusted for the influence of State policy choices
- a policy neutral broad indicator assessment for total gambling adjusted for differences in State circumstances.

CURRENT ASSESSMENT ISSUES

72 Staff propose two streams of work based around:

- a disaggregated gambling assessment approach, based on gambling activity
- an aggregated gambling assessment approach, based on State circumstances.

73 If the degree of substitutability between the different forms of gambling is deemed to be low, then a disaggregated assessment could be developed. If the degree of substitutability is deemed to be high, an aggregated assessment would be more appropriate.

74 The disaggregated approach will focus on assessments for each form of gambling. We will investigate whether direct measures of gambling activity are suitable capacity measures. Untangling State policy differences will be a major aspect of this work. This approach could require reliable data on the level of gambling activity by product. The existing source of data is QGSO. There are a number of data gaps and differences in classifications between States and across years. We do not know whether they are so big as to make the data unfit for our purpose.

75 The aggregated approach will focus on differences in State circumstances. We will investigate whether aggregate measures of activity or broad capacity measures are suitable. We will test the strength of the relationship between the various variables (turnover, gambling expenditure, household income). Past regressions found the

relationship between household income and gambling expenditure had weakened over time. The last time the Commission made a differential gambling assessment it used a broad capacity measure (household disposable income). South Australia and the ACT disagreed with the use of this measure, arguing it overstated their population's propensity to gamble. The ACT said its population was more educated and less likely to gamble, South Australia said its population had innate cultural differences that meant they were less likely to gamble.

76 The Commission assessed elasticity adjustments in other categories in the late 1990s. It ceased making them in the 2004 Review. The intention is to investigate whether elasticity effects can be measured for gambling taxation and, if so, whether they are material and, if so, whether a reliable assessment method can be developed for them.

RECOMMENDATION

Staff recommend that the Commission:

- upload the factual parts of the 'What States Do' paper on the CGC cloud
- note the different ways States collect gambling taxation
- approve a program of future research that would examine:
  - the conceptual case for a gambling assessment
  - the reliability of data on the level of gambling activity
  - the degree of substitutability between the different forms of gambling
  - whether it is possible to derive policy neutral capacity measures for each form of gambling
  - whether it is possible to derive a policy neutral broad capacity measure for total gambling that is also material
  - whether there are reasons to make adjustments to chosen capacity measure and what those adjustments would be
  - whether any elasticity effects are material and, if they are, whether (possibly with the aid of a consultant) it is possible to quantify them reliably.