Australian Government

Commonwealth Grants Commission

2020 REVIEW

GAMBLING TAXES

STAFF DRAFT ASSESSMENT PAPER
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CONTENTS

GAMBLING TAXES

1   This paper provides the Commission staff proposals for the assessment of revenue from gambling taxes for the 2020 Review.

2015 REVIEW APPROACH

2   Gambling taxes comprise revenue from a mix of direct taxes on the main forms of gambling, licence fees and other levies and contributions. The main forms of gambling taxes are:

- racing taxes — the net proceeds from all taxes or commissions on bookmakers and totalisators

- lottery taxes — the net proceeds from State lotteries, taxes on lottery subscriptions (including soccer pools, Keno and minor lotteries) and shares of profits of private operators

- gaming machine taxes — the net proceeds from taxes and licences associated with poker machines in clubs, pubs and hotels and taxes on Club Keno games operated in clubs, pubs and hotels

- casino taxes — the taxes and levies on the holders of casino licences, including one-off premiums/licence fees. It also includes net proceeds of taxes on gaming machines in casinos

- sports betting taxes — the taxes and levies on approved types of local, national or international sporting activities (other than the established forms of horse and greyhound racing), whether on or off course, in person, by telephone or via the internet.

3   Data on the revenue States raise from gambling taxes can be obtained from the ABS' Taxation revenue publication (see source to Table 1). These data are from the same source as the ABS GFS data. The latest available data are for 2015-16. Table 1 shows revenue from gambling taxes totalled almost $6.1 billion in that year.

Table 1   **Gambling taxation, 2015-16**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Gambling taxation	2 250	1 834	1 136	226	384	97	51	73	6 051

Source: ABS, Taxation revenue, Australia, 2015-16, Cat. No. 5506.0.

4   If separately assessed, gambling taxes would be the second smallest revenue category.[1] Table 2 shows revenue from gambling taxes comprised 4.7% of States' own source revenues in 2015-16. However, the proportion varies significantly by State. Western Australia's low revenue from poker machines and the ACT's lower revenue from all forms of gambling is evident from Table 3.

Table 2   Gambling taxation as a percentage of total State own source revenue, 2015-16

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	%	%	%	%	%	%	%	%	%
Total	5.4	6.3	4.3	1.2	5.3	5.4	1.8	6.4	4.7

Source: ABS, Taxation revenue, Australia, 2015-16, Cat No 5506.0.

5   There are significant differences between States in their approach to raising revenue from gambling activity. State policies vary in relation to:

- The gambling activities allowed and the extent to which they are allowed. For example, Western Australia does not allow electronic gaming machines outside of its single casino, while the ACT has only recently allowed electronic gaming machines (with restrictions) in its casino.

- The tax regimes applied to the different forms of gambling. For example, tax rates on lotteries range from 40% to over 70% in different States. South Australia has recently introduced a point-of-consumption tax on the net wagering revenue of betting companies offering services to South Australia (mostly online betting companies based in the Northern Territory, which has a low tax rate for online betting revenue).

- Licence fees applied to gambling venues. For example, casinos in all States except the Northern Territory pay a licence fee in addition to the relevant taxes. These licence fees vary widely between States.

- Levies and other contributions applied to gambling operators. For example, New South Wales clubs can reduce the tax payable on gaming machine revenue by contributing up to 1.85% of gaming revenue in excess of $1 million to eligible community projects.

6   The significance of State policy differences is evident in Table 3. It shows States' per capita tax revenue from the different forms of gambling in 2015-16.

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[1]   It would exceed only Insurance tax, which had revenue of $5.3 billion in 2015-16.

Table 3   Per capita gambling taxes by form of gambling, 2015-16

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc	$pc
Gaming machines	190	180	155	0	167	101	84	144	154
Lotteries	49	71	58	49	44	79	38	107	57
Casinos	37	36	21	25	11	8	5	21	29
Racing	16	13	2	13	4	0	3	29	11
Other	2	6	0	0	0	0	0	0	2
Total	293	306	236	87	226	187	130	299	253

Source: ABS, Taxation revenue, Australia, 2015-16, Cat No 5506.0.

7   In the 2015 Review, gambling taxes were gathered together and assessed equal per capita (EPC) in the Other revenue category. An EPC approach means States are assessed to have the same capacity to raise gambling revenue (per capita).

8   The Commission adopted this approach because the effect of State policies meant it was unable to develop a policy neutral:

- capacity measure for each form of gambling
- broad assessment of all gambling that was material.

9   In response to concerns about data reliability, policy neutrality and the degree of substitutability between different forms of gambling, the Commission has, over time, moved away from turnover measures to a broad assessment of gambling taxes and then to a discounted broad assessment. The introduction of materiality thresholds in the 2010 Review meant that the discounted broad assessment became immaterial. As a result, the Commission assessed gambling revenue EPC in both the 2010 and 2015 Reviews.

10   The Commission last made a differential assessment of gambling taxes in the 2009 Update using methods developed in the 2004 Review. That assessment was based on a broad measure of capacity — gross household disposable income (GHDI). It chose this measure because there was evidence to support a relationship between income and gambling expenditure. As influences other than income also affected gambling activity, the Commission discounted the assessment by 50%.

ISSUES AND ANALYSIS

11   The assessment guidelines applying for the 2020 Review were set out in a Commission position paper.[2] An assessment will only be made when:

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2   Commonwealth Grants Commission, *CGC 2017-21, The principle of HFE and its implementation*, September 2017.

- a case for the assessment has been established

- a reliable method has been devised

- data are available that are fit for purpose and of suitable quality

- the assessment is material.

12   If the Commission is unable to develop a gambling assessment that satisfies these four guidelines, then gambling taxes may be assessed EPC in the 2020 Review.

13   It might be expected that States have the capacity to raise different amounts of revenue from gambling taxes, in part, because of the effect of differences in the propensity of their residents to engage in gambling. However, since the 2004 Review the Commission has been unable to establish the conceptual case for a differential assessment of gambling revenue, because it has been unable to identify the underlying factors that drive gambling expenditure. The advent of online gambling, where taxation in one State might relate to the activities of residents from another State, or from overseas, has added further complication.

14   So, the case for an assessment rests on whether:

- underlying factors driving gambling expenditure can be identified

- a reliable method of assessing the effect of these factors can be developed

- that assessment would be material.

15   The main issues in developing an assessment method have remained largely unchanged. They are:

- the degree of substitutability between the different forms of gambling

- the effect of State policies

- the effect of differences in the propensity to engage in gambling.

16   If the degree of substitutability is deemed to be low, it would be possible to develop assessments for each form of gambling. If the degree of substitutability is deemed to be high, assessing all gambling taxes together would be more appropriate. As early as its 1993 Review, the Commission found the degree of substitutability to be high.

17   If State policy differences are material, adjustments may be required to ameliorate or remove them from the chosen capacity measure. The data in Table 3 suggest the differences in State policies are likely to be material.

18   After considering these issues in its 2010 Review, the Commission concluded:

> We have decided to assess gambling revenue EPC because neither we nor the States were able to develop a reliable assessment. We consider differences in State policies on regulatory and related matters affect the interstate comparability of ABS estimates of gambling expenditure in each State and those effects cannot be reliably removed. Nor is it possible to construct policy neutral proxies by reference to the underlying factors that drive gambling expenditure. While the literature indicates personal

income is not a good guide to gambling expenditure, it provides limited guidance on which socio-economic and behavioural factors are relevant. In any case, growth in online gambling, which facilitates gambling by overseas or interstate residents, has been weakening the link between gambling expenditure by residents of a State and the revenue raised by that State.[3]

19   Developing an assessment method for the 2020 Review requires the resolution of these issues, in particular:

- the choice of an aggregated or disaggregated gambling assessment
- the identification of the drivers of gambling.

What are the drivers of gambling?

20   Gambling activity in Australia has been the subject of considerable research. However, there have been no Australian studies linking gambling expenditure to potential drivers of gambling activity that could be used by the Commission to construct a differential assessment of gambling revenue.

21   In the 2015 Review, the Commission explored a range of research and found that different studies suggested different drivers of overall gambling activity. The Commission also reviewed studies investigating the different forms of gambling. It found a lack of reliable and comparable data that would allow it to link gambling activity to drivers beyond a State's control.

22   Commission staff have reviewed recent literature on gambling research. There is a new study[4] that provides information on the characteristics of gamblers. The study makes use of data from the Household, Income and Labour Dynamics Survey (HILDA). The recent inclusion of questions on gambling activity means HILDA could be a source of data the Commission could use to develop a gambling assessment.

A capacity measure based on the socio-demographic characteristics of gamblers

23   HILDA is a nationally representative longitudinal panel study of Australian households that commenced in 2001. The survey collects data on a wide range of aspects of Australian life, including key socio-demographic characteristics of respondents. Questions about gambling activity and expenditure were included for the first time in wave 15 (conducted throughout 2015), and 15 245 individuals responded to the

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3   CGC, *Report on GST Revenue Sharing Relativities*, 2010 Review, Volume 2 — Assessments of State Fiscal Capacities, Chapter 9 Other revenue, page 142, paragraph 10.

4   Armstrong and Carroll, Australian Gambling Research Centre, *Gambling activity in Australia*, December 2017.

gambling module. These data allow an examination of the links between socio-demographic characteristics and gambling activity and expenditure.

24   The HILDA gambling module asks respondents about their participation in a series of gambling activities during a 'typical month', and roughly how much money they spent (on average) on a range of gambling activities.[5] The focus on specific types of gambling might mean the Commission could use a single source of data to link the socio-demographic characteristics of participants to different forms of gambling.

25   Armstrong and Carroll found that, compared to the general Australian adult population, regular gamblers were significantly ($p < 0.05$) more likely to:

- be male

- be 50 years and older

- have 10 years or less schooling, or to have a certificate/diploma as their highest level of education

- be retired

- live alone or with their partner and no others

- live outside a major city

- draw on welfare as their main source of income.

26   They found no significant association between equivalised disposable household income and gambling participation.

27   Armstrong and Carroll also provided a breakdown of socio-demographic characteristics of regular gamblers by type of gambling activity. They found different socio-demographic characteristics were related to different gambling activities. Their work might support a disaggregated gambling assessment.

28   While providing a promising potential source of information linking socio-demographic characteristics and gambling activity, HILDA data have some limitations. These are a possible lack of representativeness from non-response (though this is somewhat ameliorated by the inclusion of weights in the HILDA dataset) and potential problems with response bias and recall.

29   The HILDA survey questions ask about gambling activity and expenditure in a typical month, which excludes occasional or one-off participation in gambling. While this helps to create a socio-demographic profile of regular gamblers, it does not capture all gambling activity.[6]

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[5]   The gambling activities are a more detailed disaggregation of the main forms of gambling.
[6]   The focus on a typical month makes it difficult to make direct comparisons between HILDA and other studies of gambling prevalence. Two other national studies of Australian gambling activity (both conducted less recently than the 2015 HILDA wave) ask about participation in the past year, and result in prevalence rates higher than that seen in the HILDA data. This makes it difficult to verify the reliability of the HILDA data.

30   State policy differences could affect the socio-demographic characteristics identified as drivers of gambling activity. For example, HILDA participants in major cities were significantly less likely to have used electronic gaming machines, and those in inner regional areas were significantly more likely to have used them. This is unlikely to be the case in Western Australia, which has gaming machines only in its inner-city casino. Such State differences could impede the development of a policy neutral assessment based on the socio-demographic characteristics of gamblers.

31   Notwithstanding these possible limitations of the HILDA data, Commission staff propose to continue exploring the data, to investigate the links between socio-demographic characteristics and gambling activity.

32   In the past, Commission staff have investigated other population based measures, including household expenditure, numbers of people in population subgroups, and the proportion of people on high and low incomes. Past experience suggests that people based measures are unlikely to pass the Commission's disability materiality threshold of $35 per capita, so this avenue of research is less promising.

33   Table 4 shows the variation between States in the proportion of their populations falling within different demographic groups.

Table 4   State proportions of populations in different demographic groups, 2015-16

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Ave
Average household weekly expenditure on goods and services ($)[a]	1 525	1 430	1 359	1 429	1 192	1 141	1 670	1 700	1 431
Proportion of population aged 15 years and older (%)	81.5	81.8	80.6	80.7	82.5	82.3	81.3	78.4	81.3
Proportion of population with high personal income (%)[b]	3.9	3.3	2.9	4.7	2.1	1.7	5.0	4.4	3.5
Proportion of population with low personal income (%)[c]	49.3	50.3	49.4	46.5	53.0	55.1	35.6	40.5	47.4

(a)   Average household weekly expenditure on goods and services.
(b)   Personal income $3 000 or more per week.
(c)   Personal income less than $650 per week.
Source: Average household weekly expenditure was obtained from ABS Household Expenditure Survey 2015-16. Population data were obtained from ABS 2016 Census.

Potential broad capacity measures of gambling activity

34   The high degree of substitutability between different forms of gambling and the pervasiveness of State policies suggest a more promising area of work might be a broader measure applied to an aggregated assessment — as was done in the 2009 Update.

35   In the 2004 Review, the Commission undertook regression analyses of gambling expenditure and GHDI. Based on the strength of that relationship it chose GHDI as its broad measure, but it applied a 50% discount. It revisited its analysis in the 2010 Review and found the strength of the relationship had weakened, meaning an increase in the 50% discount was warranted. An increase in the discount would have rendered the assessment immaterial. Consequently, the Commission assessed gambling taxes EPC.

36   The main broad measures previously used by the Commission were:

- gambling expenditure, which is a measure of the gross profit of the gambling operator[7]
- gambling turnover[8]
- gross household disposable income
- population.

37   The Queensland Government Statistician's Office produces an annual set of gambling statistics. These publications provide data on gambling expenditure and gambling turnover. Work is needed to improve the quality and reliability of these data before they could be used in a gambling assessment. For example, gambling turnover had to be estimated for Tasmania and the estimate appears low compared to the other broader measures.

38   Table 5 shows these measures imply very different relative revenue capacities for States. Table 6 shows the corresponding revenue raising capacity ratios.[9] It illustrates how sensitive an assessment would be to the choice of broad measure.

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[7]   Gambling expenditure are data on the net amount lost by gamblers. It is the amount wagered less the amount won. By definition, it is the gross profit of the gambling operator.

[8]   Gambling turnover are data on the amount wagered. The data do not include any additional charges that may be paid at the point of purchase. For example, selling agents' commission in the case of lottery sales.

[9]   The revenue raising capacity ratios were obtained by dividing a State's share of the relevant capacity measure with its share of population.

Table 5   Shares of potential gambling capacity measures, 2015-16

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Actual revenue	37.2	30.3	18.8	3.7	6.3	1.6	0.8	1.2	100.0
Gambling expenditure	39.8	24.5	16.3	6.4	4.5	1.4	1.0	6.1	100.0
Gambling turnover[a]	42.3	23.9	17.2	3.6	4.2	0.3	1.2	7.3	100.0
Gross household disposable income	34.2	23.2	18.4	11.4	6.4	1.8	3.2	1.3	100.0
Population	32.0	25.1	20.1	10.9	7.1	2.2	1.6	1.0	100.0

(a)   Queensland Government Statistician's Office needed to estimate turnover figures for Tasmania.
Source: Actual revenue was sourced from ABS, *Taxation revenue, Australia, 2015-16, Cat No 5506.0.*
Gambling expenditure and gambling turnover were sourced from Queensland Government
Statistician's Office, *Australian Gambling Statistics, 33rd edition, State tables*. Gross household
disposable income was sourced from ABS, *Australian National Accounts - State Accounts, 2016-17*,
Table 12-19 Household Income Account and Per Capita, current price, Cat No 5220.0.

Table 6   Revenue raising capacity ratios, 2015-16

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
Actual revenue	1.160	1.210	0.935	0.343	0.892	0.742	0.513	1.184	1.000
Gambling expenditure	1.243	0.978	0.812	0.587	0.627	0.639	0.598	6.023	1.000
Gambling turnover[a]	1.320	0.955	0.857	0.334	0.588	0.123	0.705	7.188	1.000
GHDI	1.068	0.926	0.914	1.049	0.904	0.852	1.959	1.307	1.000
Population	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

(a)   Queensland Government Statistician's Office needed to estimate turnover figures for Tasmania.
Source: Table 5.

What an assessment might look like

39   A disaggregated gambling assessment could be based on:

- the socio-demographic characteristics of gamblers using HILDA data

- the number of people in particular age groups, such as the population aged 15 and over

- the number of people in particular income groups, such as the number of people with low income or the number of people with high income.

40   Each form of gambling would have its own component. The assessed revenue for each component would be summed to calculate category assessed revenue. Past experience suggests that people based measures are unlikely to pass the Commission's disability materiality threshold of $35 per capita.

41   Commission staff consider it will be difficult to develop a disaggregated gambling assessment for the 2020 Review. The high degree of substitutability between the

different forms of gambling and the pervasiveness of State policy influence suggest an aggregated assessment might be more promising. An aggregated gambling assessment could be based on one of the broader measures of revenue capacity the Commission has used in the past.

Proposed assessment structure

42 Staff propose to further investigate a disaggregated assessment (based on HILDA data) and an aggregated assessment (based on broad measures of gambling capacity) and to discuss the results of those investigations with States as part of an Officer Working Party process in mid-2018. Pending the outcomes of that further work, staff propose to recommend the Commission assess gambling taxes EPC.

Staff propose to recommend the Commission:
- continue to investigate a disaggregated gambling assessment based on HILDA data
- continue to investigate an aggregated assessment based on broad measures of gambling capacity
- pending the outcome of these investigations, assess gambling taxes EPC.