The Taxation of Betting in Ireland

Submission to the Tax Strategy Group on behalf of the Alliance for Racing and Breeding

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Summary

In its previous annual reports the Tax Strategy Group has noted that Ireland's betting tax, at 1% on the amount wagered, was low by international standards and did not cover certain forms of betting at all. Betting is a form of consumer spending and Value Added Tax is, in Ireland and in all EU countries, the principal method of taxation on consumer spending. There are tiered VAT rates in the different countries with zero or low rates for items deemed essentials. Items deemed luxuries or whose consumption is to be discouraged attract excise duties as well, and the overall tax rate, including both VAT and excise, is very substantial on the 'sinful' products. Expressed as a percentage of purchase price, total tax on tobacco is 80% in some countries and alcohol taxation as much as 50%. Coverage of the Irish betting tax has now been widened to cover remote and online betting but the Group has felt it best to defer consideration of raising the rate of tax until some experience was acquired with the broader tax base.

Betting tax revenue in Ireland has declined over the years as the rate of tax has been reduced. At one time it was 20% on turnover but has been reduced progressively to 10%, then 5%, then 2% and finally to the current 1% in 2006. Increased betting turnover and reduced evasion has not been sufficient to offset the revenue impact of these enormous reductions in the rate of tax. While the very high rates abandoned back in the 1980s and 1990s are quite likely uncollectable, it is now timely to consider whether the final reduction effected in 2006 might be reversed.

Betting Tax Rates in Ireland

Period	Rate of Tax
Until 1986	20%
Until 1999	10%
Until 2002	5%
Until 2006	2%
Current	1%

Gambling had been exempted from liability to VAT under the 1977 Sixth Directive and there have been amendments in recent years. Many EU countries at one time banned off-course bookmakers – they are still illegal in the USA – and operated tote or pari-mutuel betting pools, with substantial proceeds going to horse-racing, alongside monopoly state lotteries. Under pressure from the European Commission to open markets to competition and of customer access to tax-free online operators in offshore locations through the internet, most governments have chosen to open the market to betting companies. They have also broadened the tax base to cover all expenditure on betting and gambling in order to counter revenue loss through the offshore channel, basing liability to tax on domicile of the punter rather than of the betting company. There has however been no harmonisation of policy and there are very wide variations in the effective rates of tax.

EU VAT legislation in the form of Council Directive 2006/1122/EC which replaced the 1977 directive provides that betting, lotteries and other forms of gambling are exempt from VAT subject to conditions set down by the Member State. It is up to individual EU countries to determine what forms of gambling are VAT exempt. Invariably where betting duty is applied to gambling, VAT is not or to put it another way if a form of gambling is liable to VAT it will not be subject to betting duty. In Ireland, lotteries, on and off course betting, and since 2015, remote-on line gambling by persons in Ireland and gambling via betting exchanges are all exempt from VAT. Broadly speaking this means other forms of gambling, for example slot machines, are subject to VAT.

The textbook formula for tax revenue enhancement for a country in structural deficit is to broaden the tax base, to focus on consumption taxes which have limited impact on costs in the traded sector, and to avoid tax revenue leakage through neighbouring jurisdictions. The Irish betting tax base has now been broadened without evident collection problems but the rate of tax remains well below the charge in other European countries and an increase in the Irish rate is accordingly likely to enhance revenue. A doubling of the rate to 2% would still leave the rate in Ireland comfortably below the rates prevailing elsewhere and larger increases could be contemplated.

An earlier report on these issues prepared for the Alliance for Racing and Breeding in 2013 is attached as an appendix.

1. Betting Tax Rates in Europe

It has been the practice in Europe to treat betting as exempt from Value Added Tax and to rely instead on an excise basis for the taxation of this component of consumer spending. The same treatment is applied in other areas, including many financial services and aviation. There are essentially three options in defining the tax base. Let the amount wagered W be distributed as returns to bettors R and the gross margin M of the betting industry. Then

$$W = R + M$$

and tax can be levied on one (or more) of the components. A tax on M, the gross margin of the betting companies, is not quite the same as a Value Added Tax but approximates to it. All three possible bases are employed in European countries. If the pay-out ratio R/W is known or can be assumed, the effective tax rate in the different jurisdictions can be calculated.

Pay-out ratios differ substantially in the various betting and gaming markets. For long-odds betting such as lotteries, the pay-out is often as low as 50%, and these are usually protected state monopolies. In roulette and some other short-odds casino games the pay-out can be as high as 97% - for example in the European version of roulette the house 'edge' is just 2.7%. For the most popular forms of sports betting pay-out ratios in the 85% to 90% range appear to be the most common. Data from the UK's Gambling Commission show 2016 pay-out ratios of 87.5% on horse-racing, 82.8% on greyhounds and just 74.5% on football.

For any sports betting market the ex-post margin of the bookmaker can be computed by ascertaining the amount which would have to be wagered by a customer seeking to secure a return of €100 regardless of the result. The amount is invariably more than €100. On March 27th last at Plumpton the 4.00 race featured five runners, returned at odds of 2/1, 11/4, 100/30, 4/1 and 12/1. A bet of €20 on the 4/1 shot will return €100 (winnings of €80 and the stake). Adding the five required stakes for all five horses gives the 'over-round' percentage for the bookmaker, the reciprocal of which is the pay-out ratio. For this race the 'over-round' was 110.8, so the pay-out ratio was 90.25%. The pay-out ratio tends to be higher for races with smaller fields. Variations in margin across the various sports appear not to reflect inherent characteristics of the sports themselves but to a great degree the competitive and marketing strategies of the betting companies.

When the French football team played Spain on March 28th the odds were France 11/8, Spain 2/1 and 2/1 the draw. The pay-out ratio in this case works out at 91.9%. But betting on football can be very bad value too. When Ireland played Iceland the same evening the Racing Post carried an advertisement by one bookmaker offering odds on various score-lines, not including all the possibilities (for example high-scoring draws). The over-round for the odds quoted was 129% but with possibilities excluded which in aggregate would arise in about 15% of matches, based on historical scoring records. When these are allowed for the implied pay-out ratio on this book was bad value at only about 70%, not much better than is offered by lotteries.

The expansion of betting promotion and distribution through the internet and smartphone has seen a shift towards betting on football and other sports, with odds offered on unfamiliar propositions ('name the first scorer') and higher margins for bookmaking companies. Effective pay-out ratios are also less transparent with the advent of special offers, a free bet for a small wager if your horse is second, for example, and it appears that the pay-out on some of these new sports betting markets is not as high as with traditional horse-racing. The betting companies can also compress margins selectively for promotional and client-recruitment purposes. Accordingly the total amount wagered could prove more stable than the gross margin or winnings as a taxation base.

Some European countries have operated state gambling monopolies and there have been conflicts with the European Commission, anxious to promote competition and cross-border access to markets. In countries with state monopolies, for example in Scandinavia, the effective margin of the gambling operator can be opaque. Some countries devote the profits of (partial or total) state monopolies to dedicated causes, hypothecate the proceeds to sports especially horseracing, or take a portion in state revenue, sometimes all three. For a selection of countries with explicit taxation systems the current situation is as shown in the table. There have been numerous changes in recent years, particularly regarding the extension of coverage to online betting and the arrangements are evolving rapidly.

Table 1: Betting Tax Rates, Selected European Countries, 2016.

Country	*Wager Tax*	*Tax on Winnings*	*Gross Profits Tax*	*Implied Wager Tax at Pay-out of*	
				90%	85%
Germany	5	-	-	5	5
Ireland	1	-	-	1	1
UK	-	-	15 + 10**	2.5	3.75
Italy	-	-	20	2	3
France	7.5 + 8**	-	-	15.5	15.5
Spain	-	-	25	2.5	3.75
Portugal	12*	-	-	12*	12*
Belgium	-	-	32	3.2	4.8
Netherlands	-	-	29	2.9	4.35
Greece	-	30	-	27	25.5
Poland	10	10	-	19	18.5

*average

**additional levies on horse-race betting

Countries with state gambling monopolies are not included in the table – some of them appear to offer quite low pay-outs on non-lottery gambling as well as on lotteries. There is enormous variation in the rates of tax as well as in the tax base. In France there is a 7.5% tax on wagers plus an 8% levy devoted to the horse-racing industry. In the United Kingdom the tax is 15% on gross profits plus an 8% levy on horse-racing bets, also on gross profits, devoted to the racing industry. But the effective tax rate in the UK is much lower than in France since the tax base is the gross profit rather than the wager. When expressed as a tax on the wager the enormous variation in effective tax rates is clear, ranging from just 1% in Ireland to in excess of 20% in some countries. A recent report prepared by the Dutch consulting firm Ecorys[1] suggests that high levels of evasion are likely at these high rates, reminiscent of the situation in Ireland back in the 1980s, when the tax on wagers was 20%. Ecorys conclude that a lower rate of tax on gross profits, perhaps around 20%, is the maximum that would be consistent with an acceptable level of evasion, which they take to be about 20%. This would correspond to a tax on wagers in the 3% zone, depending on the pay-out ratio assumed. They write (the 'channelling' rate means the per cent of turnover that is tax compliant):

'In view of the main policy objectives and the findings of our analysis, we recommend to proceed with caution, particularly during the initial stage of the legalisation of remote gambling. Furthermore, we advise drafting the gambling legislation in such way that being active on the legal market for remote gambling is sufficiently attractive for both players and operators. As it follows from our analysis that at a tax rate above 20%, the channelling objective of 80% will most probably not be achievable, a maximum (initial) tax rate of 20% seems most effective. Once the legal (regulated) market proves to be sufficiently attractive, this may create some potential to increase the tax rate in the future. In that way, the likelihood of achieving the channelling objective of 80% in three years (and the underlying policy objectives) will increase.'

Recent changes in many European countries have entailed a move from a production tax basis (the jurisdiction where the betting company is located) to a consumption basis, where liability is based on the location of the customer. In addition the leakage of turnover has been addressed through requiring betting companies to acquire licenses to advertise and operate in domestic markets, regardless of location. Thus the taxation base has been broadened to include online betting and gambling and to cover all wagers, and not just traditional sports betting.

The tax rates in Table 1 can also be expressed in a common metric as taxes on gross profits, which can be interpreted as similar to a VAT-equivalent rate. Some countries, an example being Belgium, are already describing their gross profits tax in these terms. There has also been (less than universal) movement towards neutrality, with the same taxation rates applied to all forms of betting.

[1] http://www.gaminginholland.com/wp-content/uploads/2016/03/Final-Report-UK.pdf

Table 2: European Betting Tax Rates as VAT-Equivalent Gross Profits Taxes, 2016.

	Pay-out ratio of 90%	*Pay-out Ratio of 85%*
Germany	50	33.3
Ireland	10	6.7
United Kingdom	25	16.7
Italy	20	13.3
France	155	103.3
Spain	25	16.7
Portugal	120	80
Belgium	32	21.3
Netherlands	29	19.3
Greece	270	180
Poland	190	126.7

There is a group of countries including the UK, Italy, Belgium and the Netherlands which have settled on taxes which equate very approximately to the standard rate of VAT if there were roughly an 85% pay-out ratio. Several others have introduced taxes, in some cases recently, which are way above these levels and there may be collectability problems. The rate of tax in Ireland is again the lowest of the countries shown and is well below the standard VAT rate, currently 23%. In Greece the tax rate, viewed as a VAT rate, is well in excess of the rates on traditional 'sin' products such as tobacco and alcohol.

Finally the tax systems in the group of countries shown can be represented as if they were imposed on winnings, measured as simply the complement of the pay-out ratio, and these calculations, again for pay-out ratios of 90% and 85%, are shown in Table 3.

Table 3: European Betting Tax Rates as Equivalent Taxes on Winnings, 2016

	Pay-out Ratio of 90%	*Pay-out Ratio of 85%*
Germany	5.6	5.9
Ireland	1.1	1.2
United Kingdom	2.8	4.4
Italy	2.2	3.5
France	17.2	18.2
Spain	2.8	4.4
Portugal	13.3	14.1
Belgium	3.6	5.6
Netherlands	3.2	5.1
Greece	30.0	30.0
Poland	21.1	21.8

When converted to an equivalent tax on winnings, the current Irish tax rate remains the lowest of the countries shown, and would still be in the lowest group along with Belgium, Italy, the Netherlands and the UK if doubled or even trebled.

2. Betting Tax Rates, Revenue and Experience in 2015 and 2016

Until 1986 betting duty, collected as tax ‘paid-on’ (added up-front to the cost of the bet) with bookmakers, was levied at 20%. There was acknowledged to be widespread evasion (the 20% rate was described as ‘irresponsible’ in the fourth report of the Commission on Taxation) and the rate was reduced in that year to 10%. There was an initial drop in revenue but it was quickly reversed. There followed reductions to 5% in 1999, to 2% in 2002 and finally to the current 1% in 2006 and no longer ‘paid-on’. The Irish 1% tax on wagers is now collected from betting companies, recovered in their gross margin, and there is no longer a tax ‘paid-on’. It had previously been collected overtly from the customer, so a €10 bet cost €10.20 in the betting shop. The tax has been extended to online and remote betting since 2015.

The Betting (Amendment) Act was enacted on 15th March 2015 and provides for a regulatory system for remote bookmakers and betting intermediaries, otherwise known as betting exchanges, offering betting services in Ireland from any location. This was also designed to extend betting duty to remote operators, widening the tax base and protecting the Exchequer from revenue leakage. Prior to this change the 1% rate of excise duty was payable only on bets entered into with traditional off-course bookmakers. As well as extending the base these measures included various anti-evasion provisions designed to improve collectability. As in other European jurisdictions, betting companies had located subsidiaries in havens where domestic turnover could be re-routed easily over the internet to avoid tax and there had in any event been spectacular growth in new betting and gambling formats, including poker and casino games, facilitated by internet and smartphone technology.

The betting duty at 1% for remote operators came into effect on 1st August 2015 and licenced remote betting intermediaries (exchanges) became liable for duty at 15% on the commission charged to customers in Ireland.

Table 4: Receipts from Betting Duty in Ireland since 2001

Year	Rate %	Yield €m
2001	5	68.1
2002	5 to May, then 2	47.9
2003	2	38.4
2004	2	45.6
2005	2	45.8
2006	2 to end June, then 1	54.3
2007	1	36.4
2008	1	36.7
2009	1	31.0
2010	1	30.9
2011	1	27.0
2012	1	27.0
2013	1	25.4
2014	1	26.2
2015*	1	31.0
2016**	1	50.7

*The tax was extended to remote operators from August, with collection lag (October) for betting exchanges.

**Extended tax base for the full year.

Revenue improved during the early part of the noughties in line with consumer spending and the expansion in bookmaker marketing activity, notably in 2006 despite the fall in duty rate during that year. But the recession from 2007 onwards saw pronounced revenue weakness, possibly reflecting also a diversion of turnover to remote and online betting channels. There was a recovery after the base extension in 2015 and 2016, the first full year of the broader base saw a substantial rise, close to the €25 million increase predicted by the Tax Strategy Group in its 2015 report.

Peak receipts (€68 million) from betting duty occurred in 2001 when the rate was 5%, even though betting turnover was very substantially below current levels. Revenue returns show that receipts rose from €1.3 billion in 2001 to almost €5 billion in 2016. The subsequent reductions to 2% and then to 1% were accompanied by sharp revenue reductions, finally reversed in 2016 through the base extension to remote and online wagers. The 2016 level of betting tax receipts was first achieved as far back as 1996.

3. The Disposition of Betting Tax Proceeds

Betting tax proceeds are credited to the Horse and Greyhound Fund, established under legislation in 2001, and distributed as to 80% for the thoroughbred industry through HRI (Horseracing Ireland) and 20% for greyhound racing through Bord na gCon. The betting tax in Ireland is not strictly speaking a hypothecated tax, in that the disbursements from the Fund are voted annually by the Oireachtas and there is an Exchequer contribution equal to the shortfall arising between the voted amount and the proceeds of the betting duty. The amounts disbursed to the two statutory bodies contracted in the years following the financial crash and subsequent public finance crisis and have only recently been restored to pre-recession levels.

The Horse & Greyhound Fund allocations reached €74m in 2016 with duty receipts of €50.7 million topped up with €23.3m from the Exchequer. The 80/20 allocation formula saw €59.2m go to horses and €14.8m to the dogs. About €10 million of the allocation to horseracing was absorbed in so-called integrity costs (anti race-fixing measures) and there would have been cost under this heading for Bord na gCon also.

Table 5: The Horse and Greyhound Fund, € million

Year	Allocated to HRI and Bord na gCon	from Betting Duty	from Exchequer
2012	56.3	27.0	29.3
2013	55.0	25.4	29.6
2014	54.2	26.2	28.0
2015	68.0	31.0	37.0
2016	74.0	50.7	23.3

Until recently the two sources of Fund receipts, duty proceeds and Exchequer subvention, were about equal. The Exchequer contribution to the Fund fell sharply in 2016 despite the increased allocations as the extension of the duty base came to be reflected fully in duty receipts. For 2017 the allocation to the horse and greyhound bodies is budgeted at €80 million and the Exchequer contribution, even if betting duty revenue improves again, will likely be about €25 million. The new duty arrangements thus mean that the balance of funding is now about 2:1 duty versus Exchequer, as against roughly equal contributions in the post-recession years. Thus the Exchequer burden has been reduced significantly by the base extension and would be reduced further, or eliminated altogether, with an increase in the rate of duty.

4. Options to Raise Revenue – The Rate of Tax

The rate of tax, at 1% of the amount wagered, is low by the standard either of other taxes on consumption in Ireland or in comparison to betting taxes elsewhere.

The standard rate of Value Added Tax is 23%, with lower rates on 'necessities' and some favoured services at 13.5% and 9%. Even if gambling were treated as a routine 23% item, absent any additional discouragement through the tax system as is applied for example to drink and tobacco, the duty rate would need to be higher in order to equate to the standard VAT imposition. If the pay-out ratio is in the range 85% to 90%, the duty corresponding to a 23% VAT rate would be between 2.3% and 3.45%.

In comparison with other European jurisdictions we have seen in Tables 1, 2 and 3 that the current Irish betting tax is the lowest on offer and by some margin. However the rates of tax in neighbouring jurisdictions are a consideration in deciding what can be imposed in Ireland, as is the case with all indirect taxes in an open economy.

Calculations are shown below for the possible revenue yield if the rate were to be increased to 2% or 3%, using the same definition of the taxation base (as extended in 2015 – there is as yet no tax on remote gaming in Ireland - remote gaming is not subject to betting duty, but gaming that takes place over the internet is subject to VAT at 23%). In these calculations it is assumed that there is a contraction in betting volume when the 'price' goes up. The price is taken to be the net return to the punter, that is, winnings net of tax however levied. Thus at present, when there is a 90% pay-out, the punter faces a 'price' of 11. With duty at 2%, the punter faces a price of 12. This is the approach followed in the study for HM Revenue and Customs by Frontier Economics released in 2014[2]. They concluded that the own-price elasticity of demand in the terrestrial betting markets was about -1, lower for remote betting, higher for remote gaming. If price rises from 11 to 12, a price elasticity of -1 implies a market contraction of about 9.1%. If the pay-out ratio is 85%, the 'price' moves from 16 to 17 and the market contraction would be 6.3%. The table below assumes that revenue in 2017 would be €55 million with no policy change.

Table 6: Revenue Impacts in 2017 of Hypothetical Betting Duty Rate Increases

	Revenue with Pay-Out Ratio at	
	85%	90%
No Change – 1%	€55m	€55m
Increase to 2%	€103m	€100m
Increase to 3%	€147m	€140m

[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/322845/report313.pdf

The price elasticity estimates in the Frontier report are based on a literature review which included as many studies as were available, none of which related to Ireland. There must accordingly be some uncertainty about the applicability of the -1 own-price elasticity used. However a number of factors point in the direction of confidence that a higher rate of duty would enhance revenue. The first is the practical experience in Ireland with rate reductions, where the negative impact of the more recent cuts is clear. One of the potential sources of revenue attenuation is the availability of neighbouring jurisdictions with materially lower legal tax rates, and this would not be a factor in the Irish case with a 2% or even a 3% imposition. Finally leakage into evasion through offshore haven jurisdictions is certainly more likely at higher duty rates but there are ongoing and concerted attempts at European level to close off these avenues. The major betting companies which dominate the market are in any event reputable and tax-compliant.

No allowance has been made in Table 6 for the tax on betting exchanges, currently 15% on commission. This could be increased too, perhaps to the standard VAT rate. The revenue from tax on betting exchanges in 2016 came to just under 4% of the total.

It is important to recall that expenditure on betting is an allocation of consumer discretionary income and it needs to be borne in mind that spending withdrawn from this activity will not necessarily be saved, thus avoiding other taxes on expenditure. If devoted instead to other taxed items, specifically products attracting higher effective indirect tax rates of which there are many, the revenue loss will be compensated, quite possibly over-compensated, under other tax headings. Thus if people discouraged by a 2% betting duty decided to cut their betting outlay and bought alcohol instead, overall government tax revenue would rise substantially rather than fall, since the overall tax rate on alcohol (VAT and excise) is higher.

5. The Base for the Betting Tax

The Irish betting tax base has always been the amount wagered. Punters may nowadays be unaware of the tax since it is absorbed in the bookies margin calculation and ostensibly paid by the betting company, a policy which might be worthy of review if there is to be a rate increase. In other European countries the tax is levied on turnover in some cases, on winnings and on the gross profit in others. Two of the three possible bases are taxed in Poland (turnover and winning) but all other countries shown in Table 1 have chosen just one of the three bases with the Irish choice the most popular.

The Tax Strategy Group reported in its 2015 consideration of the matter that the betting firms had expressed reservations about a deduction from winnings on the grounds of a greater risk of evasion. With either winnings or gross profits as a tax base there is also the question of volatility. Both gross margin and winnings will be affected by the pay-out ratio which can fluctuate – profitability is not likely to be as stable as turnover. It is also the case that the pay-out ratio will be affected by shifts in the composition of turnover, even if turnover is stable. For example market share can migrate between more and less competitive markets, and bookmakers can adopt selective loss-leader strategies designed to recruit customers. This appears to be a factor behind periodic declines in the margin in UK horse-race betting.

These considerations argue against the practice in some countries of charging differential rates of tax on the different forms of sports betting. In Ireland as in many other countries the betting companies have been active in promoting alternatives, notably football but also a wide range of other sports as well as political contests. However in Ireland horse-racing remains the apparent preference of most people. Asked in an Ipsos-MRBI poll in September 2016 'What sports have you placed a bet on in the past twelve months?', of the 25% of the public who had done so, the responses were

Table 7: Distribution of Bets Placed last Twelve Months, Ireland, September 2016, %.

Horse-Racing	Soccer	GAA	Golf	Rugby	Dog-Racing
75	31	23	15	14	7

Source: Ipsos-MRBI for the Alliance for Racing and Breeding

While horse-racing remains the most popular betting vehicle, it is clear that many punters bet on more than one sporting activity and there is widespread activity also on non-sports events and patronage for online poker and casino games. If any sport or market were to attract a special high rate of tax it is open to the betting companies and the punters to steer turnover towards the less heavily taxed alternatives. To the extent that the tax is seen as a general consumption tax it should perhaps apply equally to whatever wagers the public choose to place and this notion of neutrality between different forms (and subjects) of betting and wagering has recommended itself to most European tax jurisdictions.

6. Conclusions and Recommendations

- The extension of the betting tax base has resulted in a substantial addition to revenue in 2016, the first full year of operation, even though the rate of tax was left unchanged at 1% of the amount wagered.

- The Irish 1% rate, reduced from 2% in 2006, appears to be the lowest applied anywhere in Europe when these are converted to a comparable basis.

- Revenue at the 1% rate will likely remain below the cost of disbursements to the horse and greyhound industries, necessitating an Exchequer subvention, which was not the intention in 2001 when the current funding mechanism was established.

- Thus the Exchequer top-up to the Fund could remain around €25 million per annum, even with the enhanced revenue accruing to the Fund from the extended taxation base, for many years to come.

- It is now timely to consider whether the rate of tax can safely be increased. If it is judged that the new arrangements are working adequately a rate increase even to 2% would leave the effective rate of betting tax in Ireland at the bottom end in Europe.

- An increase even to 2% would eliminate any need for Exchequer subvention to the Horse and Greyhound Fund.

- A rate increase on the established (turnover) base would moreover be a low-risk strategy from a collectability standpoint.