

# **STUDY OF GAMBLING DUTIES**

## **A Report for the National Audit Office**

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Professor David Paton  
Professor of Industrial Economics  
Nottingham University Business School  
Wollaton Road  
Nottingham NG8 1BB  
Tel: (0115) 846 6601  
Fax: (0115) 846 6667  
Email: David.Paton@Nottingham.ac.uk

Professor Leighton Vaughan Williams  
Professor of Economics and Finance  
Nottingham Trent University  
Burton Street  
Nottingham NG1 4BU  
Tel: (0115) 848 5516  
Fax: (0115) 848 6829  
Email: Leighton.Vaughan-Williams@ntu.ac.uk

# LIST OF CONTENTS

EXECUTIVE SUMMARY .....	3
1. Introduction.....	7
2. Country Comparisons .....	10
2.1 France.....	10
2.2 Italy .....	11
2.3 Germany.....	12
2.4 Australia.....	13
2.4.1 <i>Betting</i> .....	13
2.4.2 <i>Casinos</i> .....	14
2.4.3 <i>Machines</i> .....	16
2.5 USA.....	17
2.5.1 <i>Betting</i> .....	19
2.5.2 <i>Casinos</i> .....	26
2.6 Canada.....	31
2.6.1 <i>Betting</i> .....	31
2.6.2 <i>Casinos</i> .....	32
2.6.3 <i>Lotteries</i> .....	33
3. Remote Gaming .....	35
3.1 Introduction.....	35
3.2 Country-Specific Issues .....	41
3.2.1 <i>Alderney</i> .....	41
3.2.2 <i>France</i> .....	41
3.2.3 <i>Germany</i> .....	42
3.2.4 <i>Gibraltar</i> .....	42
3.2.5 <i>Isle of Man</i> .....	43
3.2.6 <i>Malta</i> .....	43
3.2.7 <i>Kalmykia, Russia</i> .....	43
3.2.8 <i>Antigua and Barbuda</i> .....	44
3.2.9 <i>Australia</i> .....	44
3.3 Evidence of displacement .....	45
3.4 Summary .....	47
References.....	54

## **EXECUTIVE SUMMARY**

1. In France, French parimutuel betting is taxed at 13.83% of turnover.
2. Casinos in France are taxed both at national and local level in what has become quite a complex system of separate taxes, based on both Gross Gaming Yield (GGY) and turnover, as well as flat-rate table and entrance fees.
3. Lottery payments to the French Government for 2002 were 26.8% of its turnover. This percentage is not fixed but has been between 26.4% and 28.9% since 1998.
4. The Italian system of betting tax applies to both parimutuel and fixed odds betting. It has two components, the first based on the stake of each bet, and the second based on the number of selections. Typically the average tax is around 15% of the turnover.
5. Italy's casinos are taxed by the local governments.
6. All German off-course betting, horseracing and sports, is taxed at 16.67% of turnover, the highest rate in Europe.
7. Casino taxation is generally the same for both tables and machines in Germany and as with other sections of its gambling industry it is fairly high, i.e. starting at 50% and rising to 85% of Gross Gaming Yield in the East, and starting at 65% and rising to 92% of Gross gaming Yield in the West.
8. Across Germany the rates for state-controlled casinos are generally in the region of 5% to 10% lower than those in private hands.
9. In Australia the tax on bookmakers is usually levied on turnover and gross profits, and varies by region, a typical rate being the Australian Capital Territory's 14.25% of gross profits and 1.25% of turnover.

10. Australian casinos paid a total of 20% of GGY in gambling taxes during 2001/02. In addition the industry contributed both mandatory and voluntary funding to various community benefit funds.
11. Australian gaming machine tax rates vary regionally, based usually on GGY.
12. In the US, betting taxation varies radically not only from State to State but often within each State.
13. Nevada continues to dominate the US' betting and gaming GGY, accounting for 14.1% of the total during 2002, followed by California and New Jersey.
14. By 2002 the total GGY generated by the US commercial casino industry was US\$26.0bn at an average of just under US\$2.4bn per state.
15. As with betting taxation, US casino taxation varies radically from State to State, but is generally based on Gross Gaming Yield.
16. Large-scale Indian casino gambling has been legal in the US for just over a decade. Under the Indian Gaming Regulatory Act 1988, federally recognised tribes are able to offer gaming on their land, over which States have no jurisdiction.
17. At present thirty-nine US States and the District of Columbia currently have a State lottery, a number which is slowly growing.
18. In Canada, the horserace-betting sector is the only betting and gaming activity that continues to be regulated and taxed at both the federal and provincial level. However, the Canadian federal betting tax is low at 0.8% of handle.
19. Betting tax and levy rates vary from region to region, a typical figure being Alberta's 22.58% tax on takeout, 5% provincial tax, 0.38% provincial levy, and 0.8% federal levy. Most regions, however, do not impose the provincial levy.

20. Canadian casinos are generally taxed on Gross Gaming Yield, although the rates vary significantly between regions.

21. Telephone and Internet betting are the two main sectors of the remote betting market, accounting for the great majority of turnover between them.

22. The remote betting sector has been revolutionised by the advent of a number of companies, such as Betfair (the dominant betting exchange), Blue Square (the dominant Internet fixed-odds bookmaker) and Sporting Index (the dominant spread bookmaker), who historically exist purely as a remote betting force.

23. A number of different factors influence consumers' propensity to bet and, more specifically, to do so using remote channels. These are economic factors, notably disposable income, demographic factors, notably the age structure of the population, access to technology such as mobile telephone applications, digital TV and Internet access, and legislative changes. Each of these, with the possible exception of demographic factors, seem to be working generally in favour of the expansion of remote betting in absolute terms and probably as a share of all betting.

24. The legal position at present with respect to remote gaming is that casino, bingo and machine gaming can be conducted only on licensed and registered premises and, in particular, the persons taking part must be on the premises at the time when the gaming takes place. The draft gambling bill would change this requirement, allowing remote gaming businesses to obtain operating licenses to provide remote products from within the UK.

25. In terms of remote gaming yield, the Gross Gaming Yield (stakes less prizes) of remote interactive gaming globally has been estimated (by GBGC) at \$1.17 bn. in 1999, projected to rise to in excess of \$9 bn. by 2010.

26. There is extensive scholarly evidence from the U.S. and U.K. supporting the existence of strong substitutability among gaming choices. Much of this analysis has focused on substitution involving lotteries and casino gambling, although there is also some evidence on

pari-mutuel (horse race) betting. The growth in remote gambling opportunities is likely to increase the degree of substitution.

## 1. Introduction

In this report, we describe in outline the gambling duty regimes of other countries. The countries on which we focus are France, Italy, Germany, Australia, the USA and Canada. Our description includes a broad outline of the types of gambling duty/tax, applicable rates and where available levying methods for each duty type. Available information on national characteristics and trends, such as overall expenditure on gambling, main types of gambling and gaming activity and how it has changed in recent years and propensity to gamble remotely is also included. Summary tables of duty rates for betting and casinos and machines (AMLD) are presented in Table 1.1 and 1.2. Details for each country are provided in section 2 of the report.

In section 3, we report on the development of remote gambling. We include a description of: methods of remote gambling and how they work, and expenditure trends in recent years. Where available, we report on the tax position and legal status of remote gambling in different countries.

We consider also the current tax position and legal status of remote gambling in the UK, as well as recent proposed changes.

Finally, we examine evidence of displacement among gambling choices, with specific reference to remote gambling.

Our work draws on existing published material and the sources are fully referenced.

### **BOX 1: TURNOVER**

Gambling turnover (known in the US as 'gambling revenue') is the total amount of money staked. From the inception of betting tax in the UK in 1966 until October 6, 2001, betting was taxed as a proportion of turnover, i.e. the amount staked. When this system was abolished, the turnover tax stood at 6.75%. It was replaced by a tax on 'Gross Profits', i.e. the net losses of bettors, of 15%. Casino taxation is usually based on 'Gross Profits' (also known as 'Gross Gaming Yield').

### **BOX 2: PARIMUTUEL BETTING**

Parimutuel betting is a form of betting offered at certain kinds of sporting events in which participants finish in a ranked order, notably horse racing and greyhound racing. It is conventionally state-regulated, and offered in many places where gambling is otherwise illegal. Parimutuel betting is often also offered at 'off-track' facilities, where players may bet on the events without actually being present to observe them in person.

Under parimutuel betting, all bets of a particular type are placed together in a pool; taxes and a house 'take' are deducted, and payoff odds are calculated by sharing the pool among all placed bets, and rounding down to a denomination interval. The fewer correctly placed bets there are in relation to the entire pool, the greater the payoff to a winning bet. There may be several different types of bets, in which case each type of bet has its own pool. In the UK the parimutuel is termed the 'Tote' ('Totalisator'). The simplest bet is a bet on a horse or dog to win, which usually elicits the lowest deduction, but there are a range of other bets, such as a bet on a horse to be placed (usually to finish in the first three). In the US, the standard bets are: Win - A first place finisher wins the bet. Place - Either a first or a second placed finisher wins the bet. Show – Either a first, second, or third place finisher wins the bet.

Depending on the operator's rules, which might vary from event to event, other more complex bets may also be offered. These are called exotics, and generally have higher payoffs. However, the deduction from the pool is usually higher for these bets as well.

Examples are the:

Exacta - Select the first and second place finisher, in the correct order.

Quinella - Select the first and second place finisher, in any order.

Trifecta - Select the first, second, and third place finisher, in the correct order.

An important perspective on parimutuel betting is that unlike many forms of betting or gaming, the gambler bets against other gamblers, not the house, bookmaker or market-maker.

**Table 1.1: Summary of International comparison of betting duty rates**

<b>COUNTRY</b>	<b>BETTING DUTY RATES</b>
<b>France</b>	13.83 percent of turnover on the French parimutuel (the equivalent of the on course TOTE in France) with 7.46 returned to racing
<b>Italy</b>	Typically around 15 percent of turnover (comprised of two separate taxes one of which is currently 5 percent and the Italian Government are considering lowering to 3 percent)
<b>Germany</b>	All off-course betting is charged at 16.67 per cent of turnover (the parimutuel tax is currently 28 percent with 17.83 percent returned to racing)
<b>Australia</b>	Tax on bookmakers is levied on turnover and gross profits and varies from region to region but a typical rate is the Australian Capital Territory's 14.25 percent of gross profits and 1.25 percent of turnover.
<b>Canada</b>	The Horserace-betting sector is taxed at both federal and provincial level. The Canadian federal betting tax is low at 0.8 percent and the provincial tax ranges from 4 percent to over 11 percent.
<b>USA</b>	Varies from state to state but typically the state takes a percentage of win bets and takes a higher percentage for multiple bets for example the takeout rate in New Hampshire for both horse and dog race betting is 19 percent on win-place-show bets and 26 percent for multiple bets



**Table 1.2 Summary of International Comparison of Casino and AMLD taxation**

COUNTRY	CASINO/AMLD TAX RATES
<b>Canada</b>	Canadian casino tax rates vary between regions, but are generally levied as a proportion of Gross gaming Yield, varying between 15% (Alberta) and 100% (Manitoba), where the casinos are operated by the Lottery Commission. Typical rates elsewhere vary between 30% and 40%.
<b>France</b>	Casinos in France are taxed both at national and local level. At the national level casinos are subject to five types of taxes:  A flat-rate direct gaming tax; a progressive banded gaming tax; a CRDS (Contribution to the Repayment of Social Debt); a GSG (General Social Contribution); a tax stamp on entrance fees. In addition a tax to the licence the municipality in which a casino is based. Overall the combined national and municipal gaming taxes may not exceed 80% of a casino's GGY, with the national government the first to reduce its tax levy if necessary. Casinos must also pay a table tax and a negotiable charge aimed at supporting artistic, cultural and sporting events within a municipality.
<b>Italy</b>	Italy's casinos are taxed by the local governments, based on Gross Gaming Yield. These taxes vary, but, for example, the Saint Vincent municipality collects 72% of GGY from French games and 64% from American games and gaming machines.
<b>Germany</b>	Casino taxation is generally the same for both tables and machines in Germany and varies significantly between the East and West of Germany. Typically, a new property opened in the East of Germany to be taxed at 50% of GGY for the first five years of operation before the rate is gradually increased to about 85% as revenue increases and the initial development costs are met. In the West it is usual for new properties to be taxed at around 65% of GGY for the first two years after they open before they are transferred to a higher rate of gaming tax, which is typically up to 92% of GGY.
<b>Australia</b>	<p data-bbox="272 1473 368 1507"><b>Casino</b></p> <p data-bbox="252 1626 368 1693"><b>Gaming Machine</b></p> <p data-bbox="395 1440 1326 1585">Between them Australia's casinos paid a total of A\$500.8m, 20% of GGY, in gambling taxes during 2001/02. In addition the industry contributed A\$39m in both mandatory and voluntary funding to various community benefit funds.</p> <p data-bbox="395 1626 1326 1765">Gaming machine taxes are levied as a proportion of gross gaming yield, and vary regionally, although the tax rate on clubs ranges typically between 20% and 30% of GGY, and typically at a slightly higher rate on hotels. The tax is not applicable in Western Australia.</p>
<b>US</b>	Commercial Casino Tax varies radically between States, but is generally applied as a proportion of Gross Gaming Yield, typically at about 8% but varying between a low of 6.25% (Nevada) up to 21.5% (Louisiana) and 36% (Michigan).

## 2. Country Comparisons

### 2.1 France

French parimutuel betting is taxed at 13.83% of turnover with 7.46% being returned to racing.<sup>1</sup>

Casinos in France are taxed both at national and local level in what has become quite a complex system. At the national level casinos are subject to five types of taxes:

1. A direct gaming tax of 0.5% of traditional table games GGY and 2.0% of gaming machine GGY;
2. A progressive gaming tax based on the following bands:

**Table 2.1: Gaming tax rates**

Rate	Lower Threshold	Upper Threshold
10%	0€	58,000€
15%	58,001€	114,000€
25%	114,001€	338,000€
35%	338,001€	629,000€
45%	629,001€	1,048,000€
55%	1,048,001€	3,144,000€
60%	3,144,001€	5,240,000€
65%	5,240,001€	7,337,000€
70%	7,337,001€	9,443,000€
80%	9,443,000€	n/a

3. A 3% CRDS (Contribution to the Repayment of Social Debt) tax based on GGY
4. A 3.4% CSG (General Social Contribution) of slot machines gross gaming income. In January 1998, the CSG was increased to 7.5% and is now calculated on a reduced basis of 68% of slot machines GGY;
5. A tax stamp on entrance fees for table games of €10 is paid to the national government.

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<sup>1</sup> See Boxes 1 and 2 for descriptions of betting turnover and parimutuel betting respectively.

In addition the municipality in which a casino is based levies an additional tax based on the terms of the licence that they have negotiated with the casino. This tax is variable but may not exceed 15% of GGY. Also the national government reallocates up to 10% of the gaming tax that it receives back to the Municipalities, however, this is subject to a ceiling of 5% of the latter's gaming tax revenues. Overall the combined national and municipal gaming taxes may not exceed 80% of a casino's GGY, with the national government the first to reduce its tax levy if necessary.

In addition to taxes French casinos must pay a daily Frais de Controle that amounts to €14.15 for the opening of the first roulette table, €5.10 for each subsequent roulette game and €7.00 for each blackjack table. Properties must also pay a negotiable Cahier des Charges, which is aimed at supporting artistic, cultural and sporting events within a municipality. There is a fixed levy of 0.5% on the very first Euro generated on table games and of 2% on slot machine income.

The basis of the levies on the slot machines is modified as from the 1 May 2002, following the decree published in the French Gazette on the 16th April 2002 relating to the amendment of the casinos' gaming regulations.

Slot machines have a statutory theoretical payout rate of at least 85%. In fact the real generated return is lower than the theoretical amount. The difference between the theoretical and real amounts is called 'slide'. The later was not previously subject to the levy. The tax reform led to a ceiling of on the slide introduced at 15% of the GGY.

Lottery payments to the French Government for 2002 were 26.8% of its turnover, or €1.99bn. This percentage is not fixed but has been between 26.4% and 28.9% since 1998.

## **2.2 Italy**

Italian system of betting tax applies to both parimutuel and fixed odds betting. It has two components:

- 1) There is a real tax on the stake of each bet that is paid to finance ministry. This tax varies for each bet depending on the number of selections: the average is around 5%;

- 2) There is a second tax on the stake called 'withdrawal' ('prelievo'). This is paid to CONI (Comitato Olimpico Nazionale). CONI is the body that manages all sports activity. The 'prelievo' changes for each bet depending on the number of selections: the average is around 10%;

Typically therefore the average tax is around 15% of the turnover, with some operators paying up to 16%. This system of taxation is forcing a considerable number of betting agents out of business. Following lobbying from the agents the Italian government is currently considering lowering the average tax from 5% to 3% and abolish the payment to CONI.

Italy's casinos are taxed by the local governments. The lucrative nature of the Italian casinos industry due to the limited supply of properties means that those municipalities that have a casino can raise high taxes.

The Saint Vincent municipality collects 72% of GGY from French games and 64% from American games and gaming machines. The Casino Municipale di Campione pays 30.5% of all GGY to the regional government and a further 38% to the municipale council and, in addition, pays an annual licence fee of €472.8k. The San Remo property pays 10% to the regional government and the same annual licence fee as the Campione property to the municipale council. Finally, the Venetian property pays 50% of GGY to the municipale council; this includes provision for a licence fee.

### **2.3 Germany**

All German off-course betting, horseracing and sports, is taxed at 16.67% of turnover, the highest rate in Europe. The tax is known as the Rennwettsteuer and is part of the lottery tax. However, almost all bookmakers operate as agents and have an international bookmaker company as betting partner due to the high rate of tax. The tax has to be paid by the real layer so if the agent uses a company's server which is located abroad to place bets on behalf of the customer they are only liable to pay tax in the jurisdiction where the international bookmaker is based.

The national government is considering changing the law to close this loophole with legislation requiring the tax to be paid in the jurisdiction where the bet has been accepted.

However, the move has been postponed a number of times already. Bookmakers have been avoiding paying tax for about four years now.

In the case of parimutuel betting during 2002 the government received 0.67% of stakes with 17.83% being returned to racing. These payments were made out of a total deduction of 28%. These rates are not totally static. During 2001 the deduction was 25% with tax being 1% and racing receiving 16%.

Casino taxation is generally the same for both tables and machines in Germany and as with other sections of its gambling industry it is fairly high. It would be usual for a new property opened in the East of Germany to be taxed at 50% of GGY for the first five years of operation before the rate is gradually increased to about 85% as revenue increases and the initial development costs are met.

In the West it is usual for new properties to be taxed at around 65% of GGY for the first two years after they open before they are transferred to a higher rate of gaming tax, which is typically up to 92% of GGY. However, a handful of exceptionally profitable properties are liable to pay a rate in excess of this level.

Across Germany the rates for state- controlled casinos are generally in the region of 5% to 10% lower than those in private hands.

## 2.4 Australia

### 2.4.1 Betting

Prior to the reduction of the Tote's take in the UK following the introduction of the GPT, the average return to the TAB at approximately 16% across Australia was the lowest of any parimutuel betting system in the world. Table 2.2 shows Australian betting tax rates.

**Table 2.2:** Australian Betting Tax

Tax	Victoria	New South Wales	Queens-land	South Australia	Western Australia	Tasmania	Australian Capital Territory	Northern Territory
Bookmaker (Turnover)	2% metro 1.5 % other	0.5% less than 4 outcomes  1% more than four outcomes	0.33%	1.57%	0%	0.15%	1.25%	0.33%

On Course (Gross Profits)	28.2% of player loss	28.2% of player loss	15%	14.25%	14.25%	15% (over all pools)	14.25%	14.25%
Sports Betting	Totalisator sports betting: max deduction 20%, tax 28.2% of deduction Fixed odds sports betting: 20% of player loss	0.5% less than 4 outcomes 1% more than four outcomes for off course bookmaker 6% footyTAB Fixed odds sports betting: 20% of player loss	0.33%	1.75%	0.5% at racecourse 2% at sporting venue	Aus & NZ: 0.3% Other: 1.15%	0.25% on designated international sports. 0.5% on head to head bets. 1% on other fixed odds. 6.75% index betting	Aus & NZ: 0.33% Other: 0.25%

Source: New South Wales Treasury

### 2.4.2 Casinos

The Australian casino industry celebrated its 30<sup>th</sup> anniversary in 2003. The nation's 13 properties generated 38.5 million visits during 2001/02 and employed just under 20,000 people. The former stabilised to some extent being only 200,000 less than the previous year after steadily falling from a peak of 44.5 million during 1997/98. Table 2.3 shows Australian casino tax rates. Table 2.4 shows Australian casino visits and Gross Gaming Yields from 1992 to 2002.

Table 2.3: Australian Casino Tax

Tax	Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	Australian Capital Territory	Northern Territory
Tax Rate GGY	22.25% regular players (including CBL) 10% premium players (inc CBL)	20% to 45% 10% or AUS\$6m pa on high rollers, whichever is higher	10% to 20% specific to casino	10% for table games, 43.5% for EGMs	15%	Tables 0.88% Gaming Machines 20.88% to 25.88%	20%	4% tables, 20% for EGMs
Other State Charges	1% of state revenue for Community Benefit Levy (CBL)	2% of gross gaming revenue (CBL)	1% of gross revenue (CBL)		1% of gross revenue for upkeep of Burswood Island	4% Community Support Levy on Gaming Machines		

Source: New South Wales Treasury

Table 2.4: Australian Casino Visits and GGY 1993 to 2002

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Casino Visitors (millions)									
Local Residents	13.8	20.4	25.1	27.1	36.3	33.0	33.6	31.9	31.3
Other Australian Residents	2.8	4.0	4.8	4.4	6.2	5.9	4.6	4.3	4.9
Commission players	0.1	0.2	0.3	0.1	0.2	0.1	0.1	0.3	0.3
International rated players	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.4	0.4
Other international players	0.5	1.1	1.7	0.9	1.8	2.1	1.6	1.9	1.7
<b>Total</b>	<b>17.2</b>	<b>25.7</b>	<b>31.9</b>	<b>32.5</b>	<b>44.5</b>	<b>41.2</b>	<b>40.0</b>	<b>38.8</b>	<b>38.5</b>
% change	n/a	49.2%	84.9%	2.5%	36.4%	26.4%	-2.9%	-3.3%	-0.5%
Number of Properties	9.0	9.3	10.5	11.2	12.7	13.0	13.0	13.0	13.0
Average No. of Visitors per Property (millions)	1.9	2.8	3.0	2.9	3.5	3.2	3.1	3.0	3.0
Revenues (A\$millions)									
Gaming GGY	\$944.3	\$1,462.2	\$1,881.2	\$1,951.4	\$2,522.8	\$2,217.8	\$2,397.4	\$2,517.4	\$2,525.6
Food & beverage	\$141.1	\$1,881.2	\$230.9	\$241.8	\$2,217.8	\$342.1	\$367.5	\$343.4	\$337.2
Accommodation	\$42.5	\$51.6	\$48.2	\$47.5	\$88.7	\$102.0	\$118.9	\$135.4	\$121.4
Other revenue	\$20.7	\$43.4	\$70.4	\$67.4	\$111.4	\$119.3	\$154.1	\$141.9	\$150.1
<b>Total Casino Revenue</b>	<b>\$1,148.6</b>	<b>\$3438.4</b>	<b>\$2,230.7</b>	<b>\$2,308.1</b>	<b>\$4940.7</b>	<b>\$2,781.2</b>	<b>\$3,037.9</b>	<b>\$3,138.1</b>	<b>\$3,134.3</b>
Average Gaming GGY per Property (A\$millions)	\$104.9	\$158.1	\$179.2	\$174.8	\$199.2	\$170.6	\$184.4	\$193.6	\$194.3
Average Gaming GGY Per Visit (A\$)	\$54.90	\$56.89	\$59.16	\$59.86	\$56.69	\$53.83	\$59.94	\$65.05	\$65.60
Individual com revenue	\$57.0	\$109.4	\$140.7	\$210.0	\$121.8	\$107.1	\$191.2	\$244.3	\$255.3
Group com revenue	\$280.5	\$302.5	\$389.2	\$328.2	\$240.2	\$211.2	\$272.2	\$205.1	\$184.8
Rated player revenue	n/a	n/a	n/a	n/a	n/a	\$47.0	\$75.1	\$68.6	\$106.0
<b>Total International Gaming</b>	<b>\$337.5</b>	<b>\$411.9</b>	<b>\$529.9</b>	<b>\$538.2</b>	<b>\$362.0</b>	<b>\$365.3</b>	<b>\$538.5</b>	<b>\$518.0</b>	<b>\$546.1</b>

Revenue									
Int. Gaming Revenue as a % of all Gaming Revenue	35.7%	28.2%	28.2%	27.6%	14.4%	16.5%	22.5%	20.6%	21.6%
Individual com taxes	\$9.6	\$19.8	\$27.2	\$40.3	\$20.5	\$15.5	\$22.4	\$27.2	\$28.7
Group com taxes	\$35.5	\$45.6	\$68.2	\$57.9	\$37.5	\$28.6	\$32.7	\$26.5	\$23.3
Rated player taxes	n/a	n/a	n/a	n/a	n/a	\$6.3	\$8.2	\$12.0	\$18.8
Other player taxes	\$116.8	\$209.7	\$279.4	\$273.5	\$418.2	\$400.6	\$415.3	\$430.8	\$430.1
<b>Total Gaming Taxes</b>	<b>\$161.9</b>	<b>\$275.1</b>	<b>\$374.8</b>	<b>\$371.7</b>	<b>\$476.2</b>	<b>\$451.0</b>	<b>\$478.6</b>	<b>\$496.5</b>	<b>\$500.9</b>
Gaming Taxes as a % of Gaming GGY	17.1%	18.8%	19.9%	19.1%	18.9%	20.3%	20.0%	19.7%	19.8%

Source: Australian Casino Association Annual Industry Surveys/Australian Gambling Statistics/Global Betting and Gaming Consultants Analysis

Between them Australia's casinos paid a total of A\$500.8m, 20% of GGY, in gambling taxes during 2001/02. In addition the industry contributed A\$39m in both mandatory and voluntary funding to various community benefit funds. Total industry revenue was just fractionally short of the 2000/01 record at A\$3.1bn. The major source of income was gaming which accounted for nearly 81% of the total. The next major contributor was food and beverage, accounting for just under 11% of the total.

### **2.4.3 Machines**

Australia is now second only to the US in terms of the number of gaming machines it has operating. The Productivity Commission's Report in 1999 started a widespread concern that the nation's gaming machine market was growing far too fast with the result of making Australia the problem gambling capital of the world. At the time the report concluded that, excluding lotteries, approximately 30% of Australian adults gambled regularly and that 2.1% had a problem, but that this minority contributed as much as a third of total gambling revenues. Table 2.5 shows Australian gaming machine tax rates sub-divided regionally.



Table 2.5: Australian Gaming Machine Tax

Tax	Victoria	New South Wales	Queensland	South Australia	Western Australia	Tasmania	Australian Capital Territory	Northern Territory
Tax Rate Clubs	24.24% of GGY)	New Rates Ranges from 0% to 40% GGY See Table Below + 1.5% of GGY over \$1m to the Community Development and Support Exchequer Fund	Less than A\$9.5k 0% To A\$75k 17.91% To A\$150k 20.91% To A\$300k 23.91% To A\$1.4m 25.91% Over A\$1.4m 35.91% Of the Tax collected 8.5% goes to the Community Investment Fund	to A4399k 20.91% to A\$945k 25.91% (+A\$83K) over A\$945k 30.91% (+ A\$225k) GGY + a 0.5% applies	Not Applicable	To A\$35m 20.88% Over A\$35m 25.88% GGY + Community Support Levy of 4%	To A\$8k 0%  Where GGY over A\$8k 1% To A\$8k 23.5% To A\$50k 24.5% Over A\$25k 25% GGY	47% of GGY  + a 3% Community Benefit Levy on Draw Card Machine Turnover
Tax Rate Hotels	32.57% of GGY  8.33% is allocated to Community Support Fund	To A\$25k 5.91% To A\$400k 15.91% (+A\$1.5k) To A\$1m 25.91% (+ A\$62k) Over A\$1m 30.91% (+A\$220k) GGY	35.91% of GGY  Of which 8.5% goes to the Community Investment Fund	To A\$399k 25.91% To A\$ 945k 34.41% (+A\$104k) Over A\$945k 40.91% (+A\$291k) GGY + a 0.5% applies	Not Applicable	To A\$30m 15.88% To A\$35m 20.88% Over A35m 25.88% GGY + Community Support Levy of 4%,	25.9% GGY	42.95% GGY  + Community Benefit Levy at 10% GGY

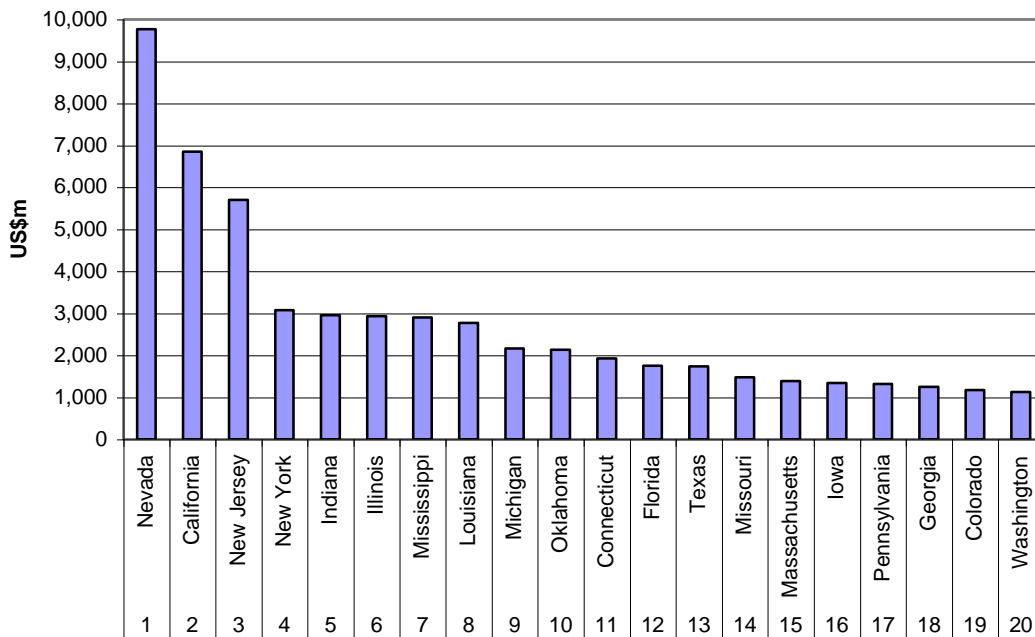
Source: New South Wales Treasury

## 2.5 USA

The popularity of gambling continues to grow in the US with 82% of adults responding to a Research Institute on Addictions at the State University of New York at Buffalo that they had gambled at some time during 2002. As would be expected state lotteries continue to be the most widely participated form of gambling at 66%, but despite only 27% of adults reporting that they had utilised casinos, commercial and Indian, during the year they accounted for most money lost with a combined GGY of over US\$40bn. The survey also found that people

with more money tend to gamble more often than poor people, but relatively they risk less of their disposable income. Punters who bet on horses and dogs have the highest average spend per head at about US\$2k per annum. Figure 2.1 shows the 20 top US states as defined by Gross Gaming Yield in 2002.

**Figure 2.1: Top 20 US Gambling States by GGY 2002**

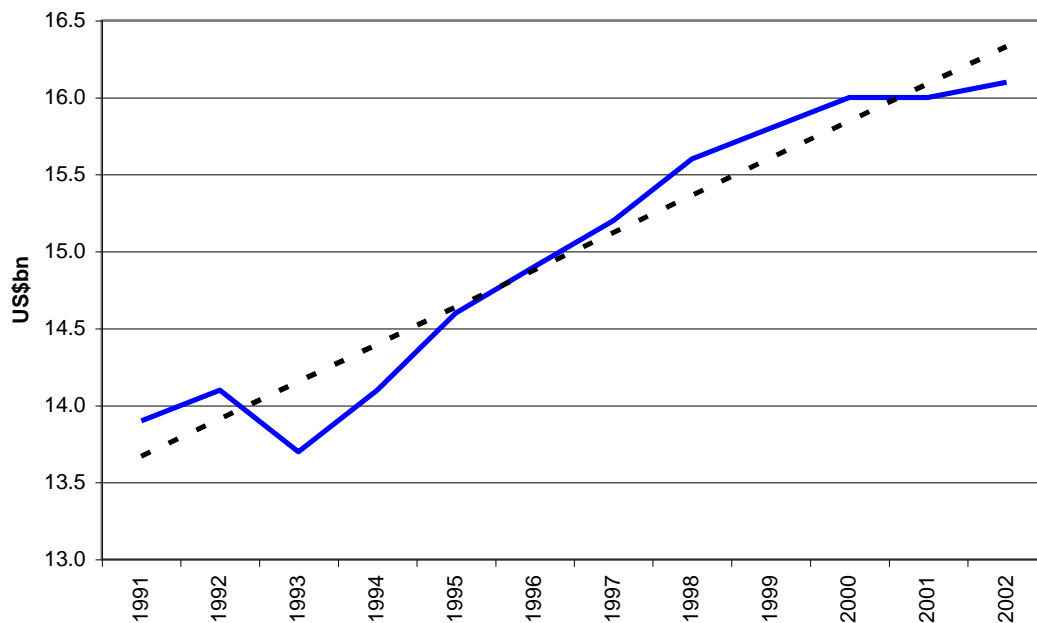


Source: GBGC Analysis

Nevada continues to dominate the US' betting and gaming GGY accounting for 14.1% during 2002 as it generated US\$9.8bn. The rest of the top ten all saw GGY that surpassed US\$2bn for the first time in 2002 with 23 of the 48 states that offered some form of gambling exceeding the US\$1bn revenue mark. The states where commercial casinos are legalised continue to dominate the rankings with just three of the top ten, California, New York and Oklahoma (all of which now have Indian gaming and strong horserace industries), not having them. In fact all of the states with commercial casinos made the top 20 with the exception of South Dakota where the GGY of US\$849m ranked the state 26<sup>th</sup>. Figure 2.2 shows US pari-mutuel horserace betting turnover between 1991 and 2002.

### 2.5.1 Betting

**Figure 2.2: US Parimutuel Horserace Betting 1991- 2002**



1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
\$13.9bn	\$14.1bn	\$13.7bn	\$14.1bn	\$14.6bn	\$14.9bn	\$15.2bn	\$15.6bn	\$15.8bn	\$16.0bn	\$16.0bn	\$16.1bn

Source: US Jockey Club

#### *Alabama*

In Birmingham horseracing is subject to a takeout of 18% on win, place and show bets, 22% on doubles and 24% on triples or more.

In Greene County the takeout rate is 19% on all bets involving less than three dogs with it being 21% in the case of all others.

In Macon County there is a flat takeout rate of 25% for all bets.

#### *Arizona*

In Arizona horseracing betting is subject to a takeout of up to 25% on win, place and show bets, up to 30% on doubles and up to 35% where bets are placed on more than two horses. The state receives 2% of the first US\$1m in daily live racing handle and 5% of anything exceeding this amount. Simulcast betting is exempt from state taxation

In the case of dog racing Alabama's takeout rate is up to 25% on win, place and show bets, up to 30% on pools involving two dogs and up to 35% on pools involving three or more dogs.

### ***Arkansas***

Arkansas' live horserace racing is subject to a takeout of 17% on single bets and 21% on multiples. In the case of simulcast betting the takeout varies.

In the case of dog racing Arkansas has a flat takeout rate of 19% on all bets

### ***California***

In the case of thoroughbred horseracing meetings the takeout on win, place and show bets is 15.63% and 20.38% in the case of exotics.

In the case of quarterhouse meetings the takeout on win, place and show bets is 15.43% and 20.18% in the case of exotics.

As far as harness meetings are concerned the takeout on win, place and show bets is 16.43% and 24.18% in the case of exotics.

### ***Colorado***

In Colorado the horserace betting takeout rate is fixed at 18.5% on straight bets and 25% on exotics.

Colorado's dog racing takeout rate is 19.5% on all bets except at those that take place in Commerce City where the rate is 20.5%.

### ***Connecticut***

In Connecticut the level of takeout applicable for horserace betting varies according to the host track.

Connecticut's takeout rate for dog racing is 18% for win, place or show bets and ranges from 20% to 23% for all other bets at the discretion of the licensee.

### ***Delaware***

In the case of thoroughbred horseracing Delaware has a takeout of 17% on all single bets. Daily doubles and exactas are subject to a 19% takeout with the rate being set at 25% for exotics.

Harness racing is subject to a takeout of 18% on straight bets, 20% on multiples on an 8-horse field and 25% on multiple bets on a 9-horse field.

### ***Florida***

In Florida thoroughbred horserace betting permit holders are entitled to determine the level of takeout.

Greyhound takeout rates are also both determined at the discretion of the permit holders in Florida.

### ***Idaho***

The takeout rate for horseracing in Idaho is 23% on straight bets and 23.75% on exotics.

In the case of greyhound racing the takeout rate is 20.5%.

### ***Illinois***

In Illinois the takeout on single horserace bets is 17% of the handle, this rises to 20.5% for doubles and 25% for all bets involving three horses or more.

### ***Indiana***

In Indiana the takeout on horseracing is 18% for straight bets and 21.5% on exotics.

### ***Iowa***

The takeout on Iowa's horse and dog racing is up to 18% on win, place and show bets, up to 24% on bets involving two horses and up to 25% on those involving three or more. In the case of live horseracing the state receives 5% of the handle with counties allocated 0.5% and the city receives 0.5%.

The tax rate for live dog racing is 6% if the total handle for the season is in excess of US\$55m. If handle is over US\$30m but less than US\$80m the tax rate is 5% and it is 4% if the handle is less than US\$30m.

### ***Kansas***

The horse and dog racing takeout rate in Kansas is 18% on win, place and show bets and up to 22% on multiples.

Kansas' greyhound tracks are taxed at a rate of 3/18 of the total takeout during the first four years of their operation.

### ***Kentucky***

The live takeout at thoroughbred tracks with a daily average handle of over US\$1.2m is 16% on straight bets and 19% on exotics. At tracks with an average daily handle of less than US\$1.2m the take-out is 17.5% on straight bets and 19% on exotics.

In the case of live harness and quarterhouse racing the takeout is 18% on straight bets and 25% on exotics.

### ***Louisiana***

The horserace betting win, show and place takeout in Louisiana is 17%, with this rising to 20.5% for two horse bets and 25% for those involving three or more horses.

### ***Maryland***

The takeout at Maryland's mile thoroughbred tracks is 18% on straight bets, 21% on two-horse multiples and 25.75% on three-horse multiples

### ***Massachusetts***

In Massachusetts there is a 19% takeout on all win, place and show horserace bets. Exotics are subject to a 26% takeout, though this is reduced to 24% at fairs

In Massachusetts greyhound racing is subject to the same level of takeout as horseracing, i.e. 19% on all win, place and show horserace bets and 26% on exotics

### ***Michigan***

In Michigan the take out rate is 17% on single bets and up to 35% on multiples. There is no tax on live betting.

### ***Minnesota***

In Minnesota the takeout is not to exceed 17% on win-place-show bets and 23% on exotics.

### ***Missouri***

In Missouri the takeout is 18% on single bets, 20% on doubles and 25% on all others.

### ***Montana***

The takeout rate in Montana is 20% for single bets and 25% for multiples.

### ***Nebraska***

The takeout rate in Nebraska must be between 15% and 18% for single bets and may be up to 24% on multiple bets.

### ***Nevada***

The takeout rate for on track betting must not exceed 20% of the handle.

### ***New Hampshire***

The takeout rate in New Hampshire for both horse and dog race betting is 19% on win-place-show bets and 26% in the case of multiples.

### ***New Jersey***

The takeout rate in New Jersey is set at 17% for straight bets, 19% for doubles and 25% for trebles, etc.

### ***New Mexico***

At Class A race tracks the takeout is 19% on win-place-show bets of which 18.75% is retained by the licensee and 0.25% goes to the state. In the case of exotics the takeout rate is 21% to 25%. In the case of Class B racetracks the takeout for win-place-show bets can range between 18.75% to 25% and between 21% to 30% for exotics.

### ***New York***

In the case of thoroughbred races that take place at the New York Racing Association's tracks, Aqueduct, Belmont and Saratoga, the takeout on straight bets is 15%, on multiples it is 20% and on exotics and super exotics it is 25%.

The takeout rate for harness racing is 18% for singles, 20% for multiples, 25% for exotics and 34% for super exotics.

The take out at New York's off track betting is set at the same rate as on track; however, there is an additional surcharge applied on winning tickets. On regular bets the surcharge is 5% of winnings, with multiples and exotics being subject to 6%, 1% of which is allocated to the capital acquisition fund.

### ***North Dakota***

The takeout rate in North Dakota is 20% on win-place-show bets and 25% on exotics.

### ***Ohio***

In the case of all betting in Ohio the takeout rate is 18% on straight win-place-show bets and 22.5% on all others.

### ***Oklahoma***

Oklahoma's horserace betting takeout rate is 18% for win, place and show bets, 20% in the case of multiple horse bets up three race bets and 25% on multiple race bets involving more than three races.

### ***Oregon***

At commercial horserace meetings Oregon's takeout rate is 19% on single bets and 22% on multiples.

### ***Pennsylvania***

In Pennsylvania there is a 17% takeout on regular betting pools, though this rises to 19% if the average daily handle at a track is less than US\$300k. In the case of exactas, daily doubles and quinellas the rate is 20% and the takeout rate for trifectas ranges between 26% and 35%.



### ***Rhode Island***

The takeout on horserace betting at Rhode Island's simulcasting facilities varies according to the rate applicable at the respective host tracks. In the case of greyhound racing Rhode Island's takeout rate is set at 18% for win, place and show bets and 20% on exotics.

### ***South Dakota***

The horse race takeout rate is 19.5% in the case of win, show and place bets and 22.5% on exotics.

In the case of greyhound betting the takeout rate is 18.25% for straight bets and 22% for exotics.

### ***Tennessee***

Tennessee's horserace betting takeout rate is 17.5% for win, place and show bets, 21% on multiples involving two horses and 25.5% in the case of bets that involve three horses or more.

### ***Texas***

The betting takeout rate in Texas is the same for both horses and dogs. The regular rate is 18%, rising to 21% for two animal bets and up to 25% for all bets involving three or more animals.

### ***Vermont***

Vermont's horserace betting takeout rate is 18% on flat racing Mondays to Saturdays and 19% on Sundays. In the case of harness racing it is 19% Monday through Saturdays and 20% on Sundays. All exotics are subject to a takeout rate of 25%.

In the case of greyhound betting the takeout rate is 20% for win, place and show bets and 25% for all others.

### **Virginia**

The horserace betting takeout rate in Virginia is set at 18% for straight bets and 22% for all others.

### **Washington**

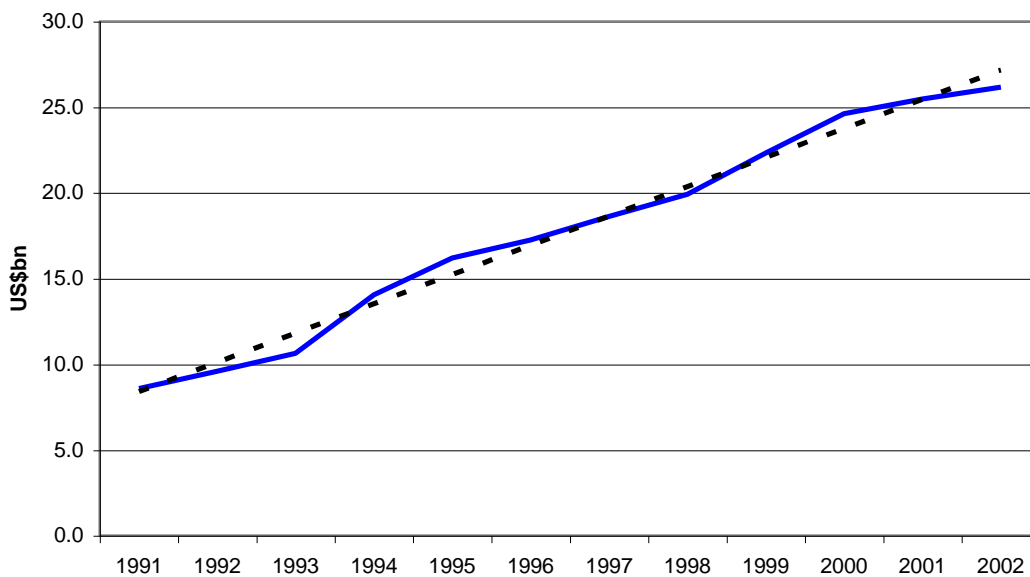
The takeout rate on horserace betting in Washington is 16.1% on win, place and show bets and 22.1% on all others, except in the case of meetings of less than ten days in duration that are organised by non-profit making organisations in which case the respective rate is reduced by 1%.

### **West Virginia**

The West Virginian horserace betting takeout rate is 17.25% for win, show and place bets, 19% for doubles and 25% on all bets involving three or more horses.

## **2.5.2 Casinos**

**Figure 2.3: US Commercial Casino GGY 1991 to 2002**



Source: American Gaming Association

By 2002 the total GGY generated by the US commercial casino industry was US\$26.0bn at an average of just under US\$2.4bn per state. According to the American Gaming Association a total of 51 million US citizens visited the 590 properties making the average GGY per

property US\$44.0m. By far the highest level of GGY per property was achieved in Michigan where the state's three commercial casinos averaged US\$375.0m during 2002. New Jersey was the only other US commercial casino state to generate an average GGY per property of over US\$300m. Two states, Indiana and Iowa, who both saw double digit GGY rises during 2002, had average GGY per property of just over US\$200m. Two further states had an average GGY per property of over US\$100m, but almost half the commercial states had averages of less than this level.

More recently Las Vegas and Atlantic City continue to rally and in the majority of the mid-west local markets have seen strong increases. Consequently it is anticipated that the value of the US casino market will continue to grow for some years yet, though this could be diluted by the growing popularity and expansion of racing markets and the continued growth of Indian gambling as gambling continues to become more socially acceptable in these markets, many of whom have a tradition of gambling that dates back only a decade. Table 2.7 shows the Gross Gaming Yields of commercial casinos by State between 2001 and 2002. Table 2.8 shows Illinois riverboat casinos tax between 1997 and 2003. Table 2.9 shows Indiana's casino tax structure.

**Table 2.7: Commercial Casino GGY by State 2001 to 2002**

State	2002 GGY (US\$m)	2001 GGY (US\$m)	% Change 2001 to 2002	2000 GGY (US\$m)	% Change 2000 to 2001
Colorado	707.8	650.5	8.81%	616.6	5.50%
Illinois	1,831.6	1,784.0	2.67%	1,617.8	10.27%
Indiana	2,061.6	1,841.8	11.93%	1,646.9	11.83%
Iowa	666.2	615.8	8.18%	583.3	5.57%
Louisiana	1,897.7	1,802.3	5.29%	1,655.4	8.87%
Michigan (Detroit)	1,125.1	1,007.0	11.73%	725.6	38.78%
Mississippi	2,717.5	2,700.8	0.62%	2,585.1	4.48%
Missouri	1,212.1	1,049.0	15.55%	973.4	7.77%
Nevada	9,300.3	9,665.1	-3.77%	9,208.2	4.96%
New Jersey	4,381.4	4,303.1	1.82%	4,196.1	2.55%
South Dakota	64.1	53.4	20.04%	51.6	3.49%
<b>Total</b>	<b>25,965.4</b>	<b>25,472.8</b>	<b>1.93%</b>	<b>23,860.0</b>	<b>6.76%</b>

Source: Various State Gaming Boards/Commissions

## US Commercial Casino Tax by State

### Colorado

Since July 1999 Colorado's casino tax has been as follows:

0.25%	US\$0 - US\$2m;
2.00%	US\$2m - US\$4m;
4.00%	US\$4m - US\$5m;
11.00%	US\$5m - US\$10m;
16.00%	US\$10m - US\$15m;
20.00%	Over US\$15m.

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**Table 2.8: Illinois' Riverboat Casinos Gaming Tax**

GGY Thresholds per Licence	31 December 1997	1 July 2002	1 July 2003
<US\$25.0m	15.0%	15.0%	15.0%
US\$25.0m<=US\$37.5m	20.0%	22.5%	27.5%
US\$37.5m<=US\$50.0m	20.0%	22.5%	32.5%
US\$50.0m<=US\$75.0m	25.0%	27.5%	37.5%
US\$75.0m<=US\$100.0m	30.0%	32.5%	45.0%
US\$100.0m<=US\$150.0m	35.0%	37.5%	50.0%
US\$150.0m<=US\$200.0m	35.0%	45.0%	50.0%
US\$200.0m<=US\$250.0m	35.0%	50.0%	50.0%
>US\$250.0m	35.0%	50.0%	70.0%

Source: Illinois Gaming Board

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### Indiana

**Table 2.9: Indiana's Casino Tax**

GGY Band (US\$m)	Post 1 July 2002
<US\$25m	15%
US\$25m<=US\$50m	20%
US\$50m<=US\$75m	25%
US\$75m<=US\$150m	30%
>US\$150m	35%

Source: Indiana Gaming Commission

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## **Iowa**

Tax payable on all GGYs is 5% up to US\$1.0m, 3% for GGY over this level but less than or equal US\$3.0m and 10% for all GGY in excess of this. This tax is distributed 0.5% each to the city and county, 3% to problem gamblers' treatment and the remaining 96.0% to funds designated by the State.

## **Louisiana**

During 2002 tax on GGY increased from 18.5% to 21.5% following the introduction of dock side gambling. The exception was the Shreveport-Bossier City properties, which were already operating dock side facilities. The tax rates for the five boats in that area were increased from 20.5% to 21.5% during April 2003. Harrah's New Orleans (land based) Casino began paying a minimum state tax of US\$60m a year on 1 April 2002 whereas the casino had paid a US\$50m minimum during the previous year.

## **Michigan (Detroit)**

8.1% in the temporary casinos scheduled to increase to 18% of GGY once permanent casinos are open, but the latter increased to 36% by the State House May 2004.

## **Mississippi**

Mississippi's casinos pay an 8% state tax to the State's General Fund, with additional payments due to the Bond Shrinking Fund, the Highway Fund and to local county governments.

## **Missouri**

Missouri's gaming tax rates have not changed since the first licences were issued in May 1994. Missouri law imposes an 18% tax on riverboats' GGY. In addition, a local tax of 2% on GGY is collected by the state and distributed to each home dock city or county.

## **Nevada**

Nevada had the lowest gambling taxes in the US at 6.25% on all casinos with over US\$134k in monthly GGY, yet there is ongoing pressure within the legislature to increase them.

Nevada has not raised gambling taxes since 1987.

## New Jersey

The state's gaming tax is 8%.

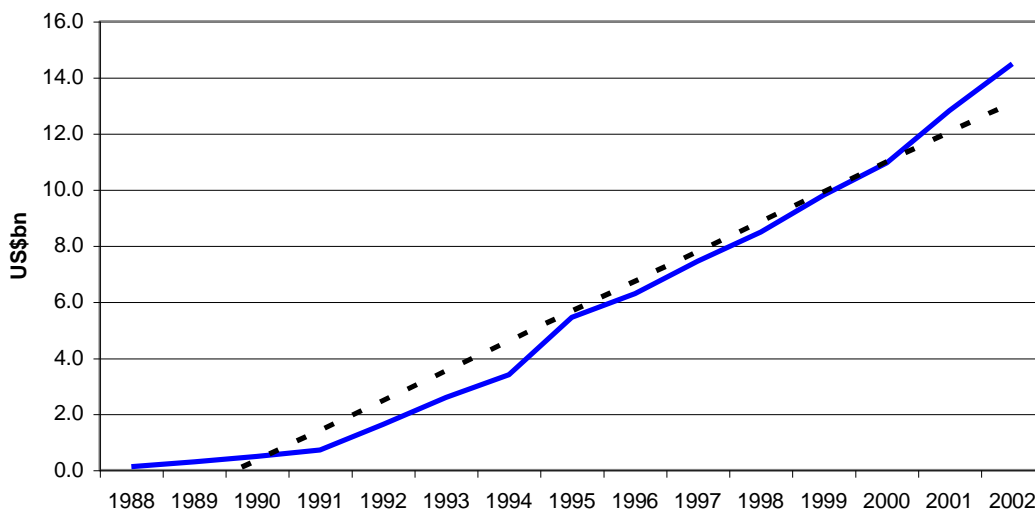
## South Dakota

The tax rate is 8% of GGY.

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Figure 2.4 shows the Gross Gaming Yields from Indian Gaming between 1988 and 2002.

**Figure 2.4: Indian Gaming GGY 1988 to 2002**



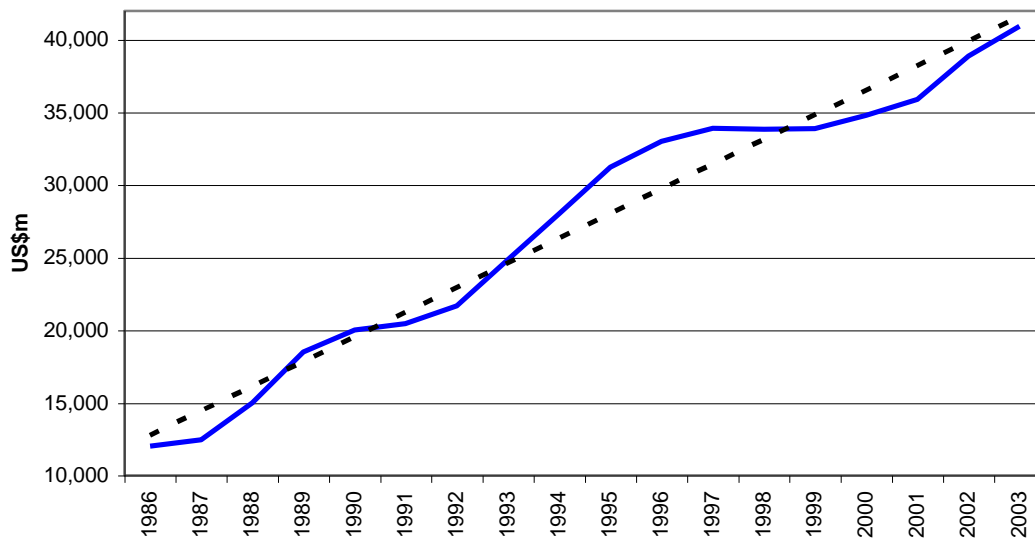
Source: National Indian Gaming Commission

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Large-scale Indian casino gambling has been legal in the US for just over a decade. The Indian Gaming Regulatory Act 1988 provides a statutory basis for the regulation of Indian gambling. Under the Act federally recognised tribes are able to offer gaming on their reservations as they are classified as federal trust land, over which States have no jurisdiction. Figure 2.5 shows US Lottery sales between 1986 and 2003.

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**Figure 2.5 US Lottery Sales 1986 to 2003**



Source: US State Lotteries

At present thirty-nine US States and the District of Columbia currently have a State lottery. The majority of these were introduced during a period between the mid-1980's and early 1990's. The last State lottery to be established was the Tennessee Lottery that was launched on 1 March 2004. A further two States, North Carolina and Oklahoma have considered the introduction of a State lottery during the past couple of years or so.

## **2.6 Canada**

### **2.6.1 Betting**

The horserace-betting sector has been under it is the only betting and gaming activity that continues to be regulated and taxed at both the federal and provincial level. However, the Canadian federal betting tax is relatively low and the sector has reacted well with the introduction of off track betting theatres and telephone account betting in some provinces. Although it is not illegal to race greyhounds in Canada parimutuel betting is not permitted on this activity.

Betting taxes in Canada are levied on the amount staked in the parimutuel pool (the 'turnover'). Betting tax rates vary from region to region, a typical figure being Alberta's 22.58% tax on takeout, 5% provincial tax, 0.38% provincial levy, and 0.8% federal levy,

adding up to a total of 28.76%. Most regions, however, do not impose a separate provincial levy. Table 2.10 itemizes the regional tax structures and rates,

**Table 2.10:** Canadian Horserace Payouts, Betting Tax and Levy Rates

Handle Unless Stated	Takeout (2003)	Provincial Tax	Provincial Levy	Federal Levy
Alberta	22.58%	5.00%	0.38%	0.80%
British Columbia	22.92%	4.00% (was 7.0% prior to 2003)	n/a	
Manitoba	23.37%	9.76%	1% to Commission with remainder shared between the track & racing	
New Brunswick	25.50%	11.00%	n/a	
Newfoundland	22.82%	10.00%	n/a	
Nova Scotia	25.22%	11.00%	n/a	
Ontario	22.78%	0.50%	2.66%	
Prince Edward Island	25.01%	11.54%	n/a	
Quebec	26.10%	7.85%	n/a	
Saskatchewan	27.27%	9.14%	n/a	
Average	23.15%	2.39%	1.80%	

Source: Canadian Parimutuel Agency

### 2.6.2 Casinos

The Canadian casino industry has grown strongly since the first permanent commercial casino, the Crystal opened in 1989 in an old railway hotel in downtown Winnipeg. By 31 March 2003 there were approximately 60 casinos in operation across Canada's seven largest provinces in terms of population. During the financial year ending 2002 the total GGY for the land based industry was CAN\$4.008bn or an average of CAN\$69.1m per property<sup>2</sup>. The Canadian casino industry is still relatively new with new properties continuing to be developed and expansions taking place at some existing ones. Table 2.11 shows Canadian casino tax rates, sub-divided regionally.

<sup>2</sup> Based on 58 properties operating at this time



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**Table 2.11: Canadian Casino Tax**

Province	Property Numbers	Tax (GGY unless stated)
Alberta	16 Charity Casinos	15%
British Columbia	15 Community Casinos 4 Destination Casinos	6.1% to host Local Government 37% to Provincial Government as Surplus from Lottery Commission
Manitoba	4 Casinos	Operated by Lottery Commission All Surpluses to the Provincial Government
Nova Scotia	2 Casinos	Not Known
Ontario	3 Commercial 5 Charity / Aboriginal	20% Commercial + a further 23.6% as Surplus from the Lottery Commission 36.1% Charity / Aboriginal as Surplus from the Lottery Commission
Quebec	3 Casinos	Lotto Quebec's dividends to the Ministry of Finance totalled 35.4% of revenues (Lottery Sales – Casino GGY etc during 2002/03)
Saskatchewan	6 Permanent Casinos (2 Operated by the Gaming Corp and 4 by First Nations) 2 Exhibition Casinos	Surplus (36.2% of GGY during 2002/03) of the 2 Gaming Corp properties 50% to General Fund / 25% to the First Nations and 25% to the Community Initiatives Fund
Total	60 Casinos	N/A

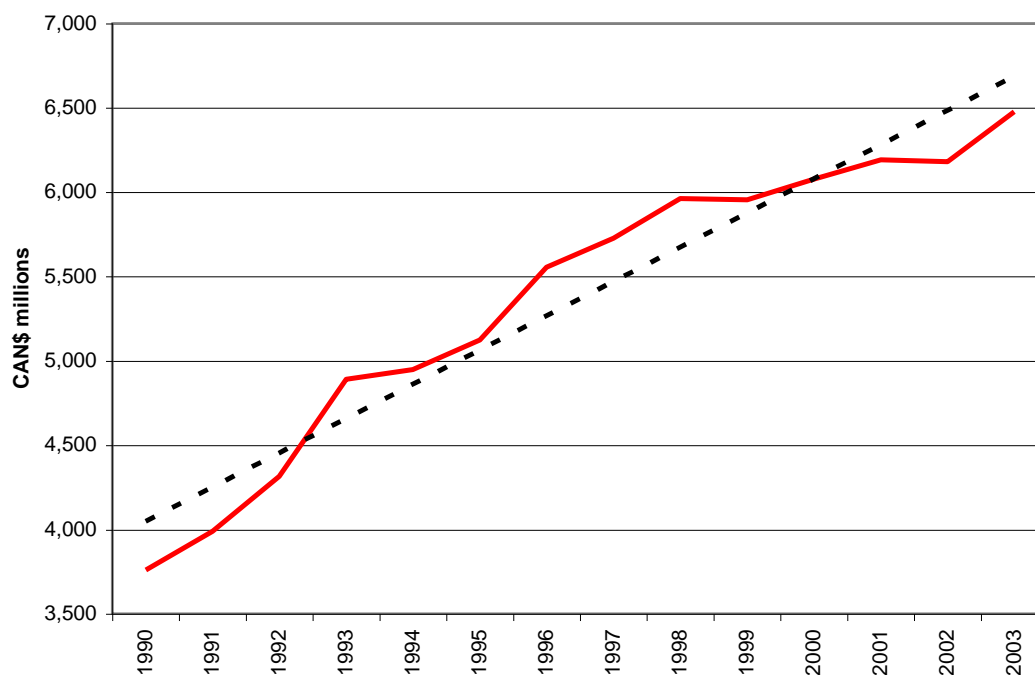
Source: Various Canadian Lottery Commissions and Gaming Boards

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### **2.6.3 Lotteries**

Lottery games started in Canada with the illegal sale of Lucky 7 jar tickets from the 1950's until 1970, when the sale of lottery tickets was legalised. Tables 2.12 and 2.13 show Canadian Lottery sales between 1990 and 2003.

**Figure 2.12: Canadian Lottery Sales 1990 to 2003**



**Table 2.13:**

Can\$m	1990	1991	1992	1993	1994	1995	1996
Atlantic	216.7	260.6	339.8	530.9	341.2	409.4	436.8
British Columbia	543.9	599.1	672.2	738.5	769.1	780.8	797.0
Ontario	1,162.2	1,227.9	1,316.0	1,327.8	1,309.4	1,378.7	1,584.8
Lotto Quebec	1,319.6	1,350.8	1,406.3	1,665.3	1,886.1	1,941.8	2,118.4
Western	516.6	552.3	580.5	628.7	641.9	612.1	616.3
<b>Total</b>	<b>3,759.0</b>	<b>3,990.7</b>	<b>4,314.8</b>	<b>4,891.2</b>	<b>4,947.7</b>	<b>5,122.8</b>	<b>5,553.3</b>

Can\$m	1997	1998	1999	2000	2001	2002	2003
Atlantic	454.4	485.3	490.5	525.3	550.0	563.0	604.4
British Columbia	867.5	883.4	910.6	907.2	937.0	962.7	1,062.5
Ontario	1,736.3	1,825.5	1,712.7	1,768.2	1,825.5	1,793.3	1,834.4
Lotto Quebec	2,066.7	2,177.2	2,194.4	2,201.4	2,157.2	2,111.7	2,208.8
Western	602.0	590.2	644.9	673.4	722.9	749.8	767.5
<b>Total</b>	<b>5,726.9</b>	<b>5,961.6</b>	<b>5,953.1</b>	<b>6,075.5</b>	<b>6,192.6</b>	<b>6,180.5</b>	<b>6,477.6</b>

Source: Various Canadian Lotteries

### **3. Remote Gaming**

#### **3.1 Introduction**

According to Mintel (2003), telephone and Internet betting are the two main sectors of the remote betting market, accounting for the great majority of turnover between them. Other remote channels such as interactive TV and WAP are in comparison still of relatively minor significance.

However, the market has been revolutionised by the advent of a number of companies, such as Betfair, Blue Square and Sporting Index, who historically do not have any shops but who exist purely as a remote betting force.

The main barriers to growth, argue Mintel, seem to be a lack of awareness on the part of the general public that it is possible to remote bet, along with a general level of mistrust of Internet transactions.

A number of different factors influence consumers' propensity to bet and, more specifically, to do so using remote channels. These are:

##### *Economic factors*

Since betting is viewed by consumers as very much discretionary expenditure, the level of personal disposable income (PDI) consumers have available is a significant influence on their propensity to bet, regardless of the channel they use.

##### *Demographic factors*

While the youngest 18-24-year-old group is set to grow, according to Mintel, by six per cent, and numbers of 35-44-year-olds by 2%, the 25-34-year-old category is forecast to contract by 6%. This has mixed implications for remote betting as people who bet via the Internet tend to be younger, the 20-34 age band, while telephone betters tend to be slightly older, predominantly in the 25-44 age bracket and therefore more similar to the traditional bettor.

##### *Consumer usage of remote betting media*

The most significant influence on the propensity of consumers to use remote betting channels as opposed to more traditional premises-based channels such as licensed betting offices is

whether or not they have access to the technology required to access them.

#### *Internet access*

According to Mintel (2003), the biggest single influence on propensity to have access to the Internet is income, with the highest levels of penetration being found among those from the AB and C1 socio-economic groups. In terms of age, there are peaks in penetration among consumers aged 18-24 and 35-44.

#### *Digital TV*

The advent of digital TV has opened up a new channel for remote betting.

#### *Mobile phones*

Developments in mobile phone technology have produced a product that can be used to access the Internet.

#### *Legislative factors*

The most significant legislative change in the betting market has been the switch in October 2001 from a 6.75% tax on turnover to a tax of 15% on gross profits. This has served to increase turnover sharply, although margins have fallen. A significant number of bettors who had migrated to offshore telephone betting operations (which were able to offer tax-free stakes) have been attracted back to betting shops by the more favourable taxation regime and the substantial growth in demand for telephone betting has to this extent slowed.

### **Market Background**

The remote betting market is part of the much wider betting market. Figure 3.1 tabulates estimates of net expenditure in the UK gambling market between 1998 and 2003.

**Figure 3.1: The UK gambling market, 1998-2003**

	<b>Stakes</b>		<b>Prizes</b>		<b>Net expenditure</b>	
	<b>£m</b>	<b>Index</b>	<b>£m</b>	<b>Index</b>	<b>£m</b>	<b>Index</b>
1998	24,779	100	17,820	100	6,960	100

1999	25,236	102	18,247	102	6,989	100
2000	25,292	102	18,396	103	6,896	99
2001	27,714	112	20,696	116	7,017	101
2002	35,907	145	28,527	160	7,379	106
2003 (est)	43,163	174	35,684	200	7,478	107

Source: HM Customs & Excise/Gaming Board for Great Britain/Mintel

### Market Size and Trends

Quantifying the size of the remote betting market is made especially difficult by the lack of published data on the subject, the fragmentation of the market and the small numbers of consumers currently active in using this form of gambling.

Mintel's consumer research shows that 1.6% of adults aged 18+ had placed a bet over the Internet in the previous 12 months, which they estimate equates to 735,000 people. Mintel calculate that this implies a total net expenditure on Internet betting in 2002 of around £84 million.

Employing a figure of 2% for the proportion of digital TV subscribers who had placed an online bet as a basis for calculations, and given that 8.4 million households had digital TV at the end of 2002, Mintel suggest that around 168,000 households have placed a bet using interactive TV.

Spending on betting via WAP phones is estimated by Mintel to be smaller still, due to the low penetration and usage of these products at present. Although the base of customers is very small (Mintel's own research suggests in the low thousands), users of WAP betting services tend to spend above-average amounts. Mintel estimates the market for WAP betting to be worth in the region of £3 million for 2002.

Figure 3.2 shows Mintel's estimate of expenditure by main remote betting channels.

**Figure 3.2: Net consumer expenditure on remote betting, by channel, 2002**

	<b>£m</b>	<b>%</b>
Telephone betting	120	57
Internet betting	84	39
Interactive TV betting	6	3
WAP phone betting	3	1
<b>Total</b>	<b>212</b>	<b>100</b>

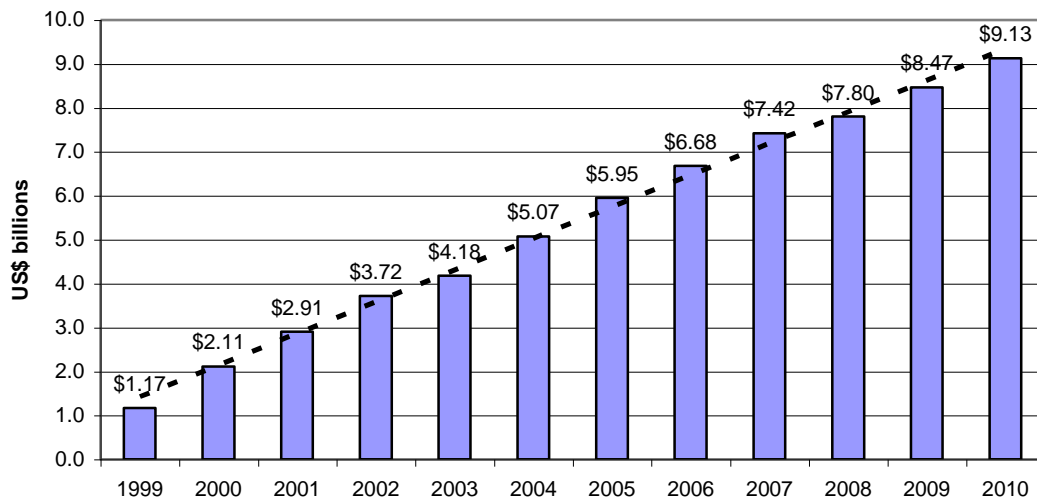
Note: Totals may not equal due to rounding

*Source: Mintel*

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Mintel's figures refer to remote betting, which it is legal for onshore operators to provide. In contrast, the legal position at present with respect to gaming is that casino, bingo and machine gaming can be conducted only on licensed and registered premises and, in particular, the persons taking part must be on the premises at the time when the gaming takes place. In consequence online gaming cannot be licensed and is therefore currently illegal in the UK. This has meant that all the major gambling operators, who have online gaming sites, have had to set them up offshore. However, the banking transaction to top up an online gaming account can take place onshore. The draft bill would change the requirement for players to be present in person when the gaming takes place, allowing remote gaming businesses to obtain operating licenses to provide remote products from within the UK. Table 3.1 shows the Gross Gaming Yield of Interactive Gaming globally, estimated and actual, between 1999 and 2010 (projected).

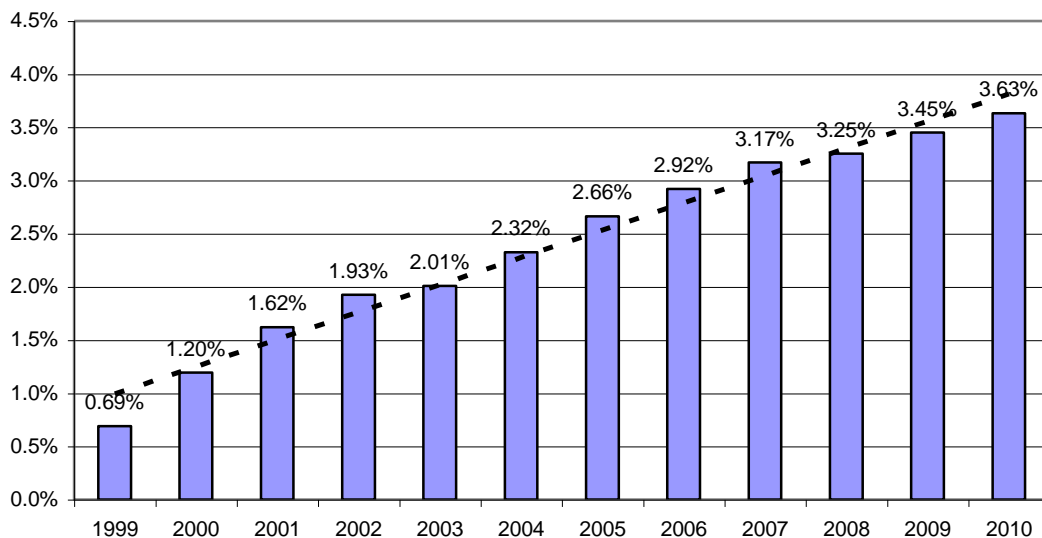
**Table 3.1:** Global Interactive Gambling GGY 1999 to 2010



Source: GBGC Analysis/Projections

It should be noted that both Interactive charts are based on current likely legislation – these could be dramatically different if for instance the US legalised Internet gambling. All figures refer to GGY i.e. stakes less prizes. Obviously the potential would be significantly greater if interactive gambling was permitted in every jurisdiction where land-based gambling is permitted. Figure 2.5 shows the Gross Gaming Yields of global interactive gambling a proportion of total gambling Gross Gaming Yields from 1999 projected to 2010.

**Figure 3.3:** Global Interactive Gambling GGY as a proportion of Total Gambling GGY 1999 to 2010



Source: GBGC Analysis/Projections

A separate evaluation by the Henley Centre predicts that net revenues for the UK from remote gambling sources would rise to £613 m. by 2010 with the changes proposed in the draft Gambling Bill.



## **3.2 Country-Specific Issues**

### **3.2.1 Alderney**

In 1997 Alderney led the interactive gambling field with the implementation of legislation to permit electronic betting, using the Internet, e-mail, telephone and fax.

In July 2001 legislation fixed the maximum number of licences at six, each licence holder being entitled to employ a maximum of ten staff on the island. Betting licences are issued for a three year period and are subject to an annual fee of £50k, £5k of which is payable as an initial deposit following an application for a licence. Subsequently Alderney also commenced issuing gaming licences on similar lines except that the licence and renewal fee is £75k, £10k of which is payable as an initial deposit following an application for a licence.

During February 2004 Paddy Power, the Irish bookmaker quoted on the London Stock Exchange, launch Alderney's sixth interactive gaming site. Paddy Power joins Betatthecasino, Games Extra, Hardrock, Rank, Casino, Ritz Club London and Skybet who all operate their Internet casinos from the island. Later that month WagerWorks (Alderney) IV Ltd was issued the island's tenth Internet gaming licence.

### **3.2.2 France**

La Francaise de Jeux launched their corporate website in March 1998, since then the site has grown and today attracts an average of 230,000 connections per month. The lottery's first launched games on the Internet during June 2001.

France has the most advanced iTV gambling opportunities available outside the UK.

PMU started to accept bets on its Internet site for French residents during July 2001. It is aiming at having an Internet customer base of 50,000 accounts by the end of 2004 generating an additional €43m in revenue.

At present approximately 200,000 of PMU's 6.5 million customers place bets either over the 'phone, by the interactive 'phone service, Minitel, or via Equida, the interactive television channel.

### **3.2.3 Germany**

In line with existing gaming laws no federal legislation has yet been established in respect of interactive gambling, although the issue has been considered before the Courts.

The relatively high taxation on gambling revenues meant that it was difficult for German gambling operators to secure a high share of their domestic Internet business let alone establishing Internet gaming sites that are internationally competitive. There has been a call from operators for a nationwide reduction in the level of taxation on the gambling industry so it is equipped to take full advantage of the global potential of the Internet as a betting and gaming medium.

During December 2003 Ladbrokes informed customers that the German language section of its site was to be withdrawn and that no bets would be accepted from Germany either over the Internet or by telephone until the Dutch De Lotto case was resolved. The withdrawal was the result of the Westdeutsche Lotterie filing a complaint, similar to that of DeLotto's, with the German courts to prevent the accepting of bets from German residents.

### **3.2.4 Gibraltar**

Internet gambling licences on Gibraltar are not easy to come by. Only applications from experienced operators, properly licensed in a reputable jurisdiction with an impeccable track record and good financial resources are considered. As from 1 April 2001 gaming tax has been levied at 1% of gross turnover for bookmakers with the tax capped at £265.6k per annum. The minimum gaming tax payable during the first year of a licence is £26.56k and in the second year and thereafter it increases to £53k. With regard to Internet casinos the gaming tax is calculated at 1% of the GGY rather than the handle and capped at the same amount as for bookmakers. All licences are renewable annually on the payment of a fee of £2k, subject to the satisfactory completion of the terms and conditions of the licence.

In July 2002 it was announced that there would be a new corporate taxation policy setting a zero rate of corporation tax for all companies, but there would be new taxes on company personnel and property occupation capped at 15% of profits. Gibraltar's hand has been forced by the EU's State Aid rules and its commitment to transparency under the OECD's harmful tax initiative. The new taxes came into force on 1 January 2003 and include a

company payroll tax, a new Business Property Occupation Tax and an annual company registration fee of £300.

### ***3.2.5 Isle of Man***

Internet casino licences are not as yet available in the UK because there is no legal framework for them. However, the Isle of Man, as a self-governing Crown dependency, is not part of the UK and is therefore able to offer casino Internet licences off shore.

GGY is also taxed at a rate of 2.5% although, as on the UK mainland, all gaming revenues are considered to be outside the scope of VAT.

By 2006, there will be absolutely no corporate tax on businesses on the Isle.

Bookmakers are subject to a the 15% gross profits tax on bets all bets taken from the UK due to an agreement with UK Customs effective since 1 September 2003. Since this time bookmakers based on the Isle of Man have been permitted to advertise on the UK mainland. In the case of all other bets the Isle of Man's betting tax of 1.5% of GGY applies.

### ***3.2.6 Malta***

During the autumn of 2000 the Maltese Government passed legislation enabling online betting centres

Internet betting operators are subject to a 0.5% tax on handle, with betting exchanges paying 0.5% on the sum of all net winnings calculated per player per betting market. On pool betting the online tax rate is equivalent to 0.5% on the aggregate of stakes paid. There is a ceiling on tax payable per annum by one licensee in respect of any one licence MTL 200k.

### ***3.2.7 Kalmykia, Russia***

Kalmykia's Internet gambling legislation was passed on 9 March 1999 making it the first of the Russian republics to formally recognise Internet casinos. The Kalmykian law, which is regulated by the Ministry of Investment Policy, provides guaranteed low tax rates, of as little as 3.33% of GGY, for Internet gambling businesses

### ***3.2.8 Antigua and Barbuda***

Before the US ban on Internet gambling, the islands hosted 119 gambling operators and employed 5,000 people. Since the industry's peak these numbers have dwindled to 30 companies and 1,000 jobs, with the country having lost in excess of US\$90m in income to date as a result of the restrictions.

During the past couple of years Antigua has lost its position as the leading off shore gambling location, as a result of the co-operation between the nation's banks and their US counterparts. Antigua had initially issued more than 100 licences for online gaming companies; however, these numbers are decreasing rapidly. At one time Antigua was home to four of the world's leading online sports books, WWTS (Worldwide Tele-Sports), CARIB (CaribSports), SOS (SportsOffshore), and WSEX (World Sports Exchange), but all of these organisations left the jurisdiction some time ago now.

### ***3.2.9 Australia***

Although historically the regulation of gambling in Australia has come under the jurisdictions of the nation's States and Territories the advent of the Internet as a market channel changed this as the Federal Government has the powers to pass laws in respect of online gaming under telecommunications legislation.

Current legislation makes it illegal for an overseas operator to provide bets on Australian races to Australian customers and prohibits the advertising of unauthorised betting services. It also makes it illegal for an Australian to use a credit card for Internet gaming.

During the earlier part of 2003 the Australian federal government announced that it was to undertake a review of its Internet gambling law. A background paper was issued in which the government called for submissions to examine ways of delivering a workable regulatory regime governing interactive gambling, including controls on financial transactions related to illegal services. However, since then the review has become delayed and at the time of writing the final report has still not been released.

### **3.3 Evidence of displacement**

There is extensive scholarly evidence from the U.S. and U.K. supporting the existence of strong substitutability among gaming choices. Much of this analysis has focused on substitution involving lotteries and casino gambling, although there is also some evidence on pari-mutuel (horse race) betting. Using data from the U.S. state of Arizona, Anders and Siegel (1998), Anders, Siegel and Yacoub (1998), Siegel and Anders (2001) found that an expansion in slot machines at Indian casinos was associated with a decline in lottery revenues. Siegel and Anders (2001) reported that a 10% increase in slot machines is associated with a (seasonally adjusted) 2.8% decline in lottery games. A disaggregated analysis across different types of lottery games revealed that substitution between lotteries and slot machines was even stronger for high-stakes Lotto games, which tend to be the most popular offerings. Donald Steinnes (1998) found similar results for the U.S. state of Minnesota.

These results are consistent with broad-based evidence from numerous U.S. states, reported by Donald Elliott and John Navin (2002). These authors analyzed the sequential adoption of riverboat gambling in various states and its ultimate impact on their lottery revenues. The authors found significant cannibalization of lottery revenues by both riverboat casinos and pari-mutuel betting. They found the strongest substitution effects for pari-mutuel betting. Stephen Fink and Jonathan Rork (2003) extended the framework of Siegel and Anders (2001) and Elliott and Navin (2002). They reported smaller, though still fairly large substitution effects, finding that an additional dollar of casino tax revenue is associated with a fifty six cent decline in lottery revenue.

Empirical results from the U.K. are consistent with the U.S. findings. In a series of studies, David Paton, Donald Siegel and Leighton Vaughan Williams (2002, 2003a, 2003b) generated several stylized facts that are relevant to the issue of substitution effects. First, they found that the rise of Internet gambling had significantly increased the price elasticity of demand of gambling, i.e. that U.K. consumers were more likely in recent years to switch from one form of gaming to another. The authors also report strong evidence of substitution between betting in street-corner betting establishments and the U.K. National Lottery, with cross price elasticity estimates (a measure of the sensitivity of demand for the lottery to changes in the price of betting) ranging from +0.48 to 0.61 (which are quite high). They also found that gaming machines and casino gambling are strong substitutes for the lottery.

On the basis of the evidence presented in these studies, there would appear to be substantial evidence to support the assertion that ‘land-based’ gambling and betting services compete and that consumers switch from one to the other.

Further evidence for the UK is provided by the experience of UK horserace betting turnover. This has suffered a significant decline in recent years following, and it might be supposed in part because of, the introduction of electronic betting/gaming machines, known as FOBTs (Fixed Odds Betting Terminals). Internet gaming sites in many respects mimic these machines in the service they offer.

One might reasonably conclude from all this evidence that the growth of Internet gambling opportunities would give rise to substitution effects with respect to traditional gambling activities.

Given the special nature of Internet gambling, notably ease of access, it is further reasonable to suppose that substitution effects between this sector of the gambling industry and other sectors will be even stronger. It is important to note that a critical aspect of the ‘price’ of gambling is travel cost, which is obviously lowest for Internet gambling. The growth in Internet gambling is likely, therefore, to increase the ease of substitution.

### **3.4 Summary**

In this report we have outlined the tax structure pertaining to betting and gaming in France, Italy, Germany, Australia, the USA and Canada. For Australia, the USA and Canada, we have broken down some of the figures by State or region.

In France, French parimutuel betting is taxed at 13.83% of turnover.

Casinos in France are taxed both at national and local level in what has become quite a complex system of separate taxes, based on both Gross Gaming Yield and turnover, as well as flat-rate table and entrance fees. In addition the municipality in which a casino is based levies an additional tax based on the terms of the licence that they have negotiated with the casino. Overall the combined national and municipal gaming taxes may not exceed 80% of a casino's GGY, with the national government the first to reduce its tax levy if necessary.

Lottery payments to the French Government for 2002 were 26.8% of its turnover. This percentage is not fixed but has been between 26.4% and 28.9% since 1998.

The Italian system of betting tax applies to both parimutuel and fixed odds betting. It has two components, the first based on the stake of each bet, and the second based on the number of selections. Typically the average tax is around 15% of the turnover.

Italy's casinos are taxed by the local governments.

All German off course betting, horseracing and sports, is taxed at 16.67% of turnover, the highest rate in Europe. The tax has to be paid by the real layer so if the agent uses a company's server which is located abroad to place bets on behalf of the customer they are only liable to pay tax in the jurisdiction where the international bookmaker is based.

In the case of parimutuel betting, during 2002 the government received 0.67% of stakes with 17.83% being returned to racing. These payments were made out of a total deduction of 28%. These rates are not totally static. During 2001 the deduction was 25% with tax being 1% and racing receiving 16%.

Casino taxation is generally the same for both tables and machines in Germany and as with other sections of its gambling industry it is fairly high, i.e. starting at 50% and rising to 85% of Gross Gaming Yield in the East, and starting at 65% and rising to 92% of Gross gaming Yield in the West.

Across Germany the rates for state-controlled casinos are generally in the region of 5% to 10% lower than those in private hands.

Australia had, until the UK Tote recently reduced its deductions, the lowest level of pari-mutuel deductions in the world. The tax on bookmakers is usually levied on turnover and gross profits (Western Australia with no turnover tax is the exception), and varies by region, a typical rate being the Australian Capital Territory's 14.25% of gross profits and 1.25% of turnover.

Australian casinos paid a total of 20% of GGY in gambling taxes during 2001/02. In addition the industry contributed both mandatory and voluntary funding to various community benefit funds.

Australia is now second only to the US in terms of the number of gaming machines it has operating. Australian gaming machine tax rates vary regionally, based usually on GGY.

In the US, betting taxation varies radically not only from State to State but often within each State. For example, in Birmingham, Alabama, horseracing is subject to a takeout of 18% on win, place and show bets, 22% on doubles and 24% on triples or more. In Greene County, by contrast, the takeout rate is 19% on all bets involving less than three dogs with it being 21% in the case of all others. In Macon County there is a flat takeout rate of 25% for all bets.

Nevada continues to dominate the US' betting and gaming GGY, accounting for 14.1% of the total during 2002, followed by California and New Jersey.

By 2002 the total GGY generated by the US commercial casino industry was US\$26.0bn at an average of just under US\$2.4bn per state. By far the highest level of GGY per property was achieved in Michigan where the state's three commercial casinos averaged US\$375.0m during 2002.



As with betting taxation, US casino taxation varies radically from State to State, but is generally based on Gross Gaming Yield.

Large-scale Indian casino gambling has been legal in the US for just over a decade. The Indian Gaming Regulatory Act 1988 provides a statutory basis for the regulation of Indian gambling. Under the Act federally recognised tribes are able to offer gaming on their reservations as they are classified as federal trust land, over which States have no jurisdiction.

At present thirty-nine US States and the District of Columbia currently have a State lottery. The majority of these were introduced during a period between the mid-1980's and early 1990's, but the number is growing slowly.

In Canada, the horserace-betting sector is the only betting and gaming activity that continues to be regulated and taxed at both the federal and provincial level. However, the Canadian federal betting tax is low at 0.8% of handle.

Betting tax and levy rates vary from region to region, a typical figure being Alberta's 22.58% tax on takeout, 5% provincial tax, 0.38% provincial levy, and 0.8% federal levy. Most regions, however, do not impose the provincial levy.

Canadian casinos are generally taxed on Gross Gaming Yield, although the rates vary significantly between regions.

Turning to the market for remote gambling, telephone and Internet betting are the two main sectors of the remote betting market, accounting for virtually all turnover between them. Other remote channels such as interactive TV and WAP are in comparison still of relatively minor significance.

However, the market has been revolutionised by the advent of a number of companies, such as Betfair (the dominant betting exchange), Blue Square (the dominant Internet fixed-odds bookmaker) and Sporting Index (the dominant spread bookmaker), who historically exist purely as a remote betting force.

A number of different factors influence consumers' propensity to bet and, more specifically, to do so using remote channels. These are economic factors, notably disposable income, demographic factors, notably the age structure of the population, access to technology such as mobile telephone applications, digital TV and Internet access, and legislative changes. Each of these, with the possible exception of demographic factors, seem to be working generally in favour of the expansion of remote betting in absolute terms and probably as a share of all betting.

The legal position at present with respect to remote gaming is that casino, bingo and machine gaming can be conducted only on licensed and registered premises and, in particular, the persons taking part must be on the premises at the time when the gaming takes place. The draft gambling bill would change this requirement, allowing remote gaming businesses to obtain operating licenses to provide remote products from within the UK.

In terms of remote gaming yield, the Gross Gaming Yield (stakes less prizes) of remote interactive gaming globally has been estimated (by GBGC) at \$1.17 bn. in 1999, projected to rise to in excess of \$9 bn. by 2010.

It should be noted that the projection is based on current likely legislation – these could be dramatically different if for instance the US legalised Internet gambling. Obviously the potential would be significantly greater still if interactive gambling was permitted in every jurisdiction where land-based gambling is permitted. The proportion of total gambling Gross Gaming Yields is estimated as 0.69% in 1999, rising to an estimated 3.63% in 2010.

The issue of remote gaming has particular country-specific implications. In 1997 Alderney led the interactive gambling field with the implementation of legislation to permit electronic betting, using the Internet, e-mail, telephone and fax.

France has the most advanced iTV gambling opportunities available outside the UK.

At present approximately 200,000 of PMU's 6.5 million customers place bets either over the 'phone, by the interactive 'phone service, MInitel, or via Equida, the interactive television channel.

In Gibraltar, gaming tax with respect to Internet casinos is calculated at 1% of the GGY rather than the handle and capped at the same amount as for bookmakers. All licences are renewable annually.

Internet casino licences are not as yet available in the UK because there is no legal framework for them. However, the Isle of Man, as a self-governing Crown dependency, is not part of the UK and is therefore able to offer casino Internet licences off shore.

GGY is also taxed at a rate of 2.5% although, as on the UK mainland, all gaming revenues are considered to be outside the scope of VAT.

During the autumn of 2000 the Maltese Government passed legislation enabling online betting centres

Internet betting operators are subject to a 0.5% tax on handle, with betting exchanges paying 0.5% on the sum of all net winnings calculated per player per betting market. On pool betting the online tax rate is equivalent to 0.5% on the aggregate of stakes paid. There is a ceiling on tax payable per annum by one licensee in respect of any one licence MTL 200k.

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Before the US ban on Internet gambling, the islands of Antigua and Barbada hosted 119 gambling operators and employed 5,000 people. Indeed, at one time Antigua was home to four of the world's leading online sports books, WWTS (Worldwide Tele-Sports), CARIB (CaribSports), SOS (SportsOffshore), and WSEX (World Sports Exchange), but all of these organisations left the jurisdiction some time ago.

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Current legislation makes it illegal for an overseas operator to provide bets on Australian races to Australian customers and prohibits the advertising of unauthorised betting services. It also makes it illegal for an Australian to use a credit card for Internet gaming.

During the earlier part of 2003 the Australian federal government announced that it was to undertake a review of its Internet gambling law. A background paper was issued in which the government called for submissions to examine ways of delivering a workable regulatory regime governing interactive gambling, including controls on financial transactions related to illegal services. However, since then the review has become delayed and at the time of writing the final report has still not been released.

In terms of displacement, there is extensive scholarly evidence from the U.S. and U.K. supporting the existence of strong substitutability among gaming choices. Much of this analysis has focused on substitution involving lotteries and casino gambling, although there is also some evidence on pari-mutuel (horse race) betting.

Empirical results from the U.K. are consistent with the U.S. findings. Moreover, there is evidence for the UK that the rise of Internet gambling has significantly increased the price elasticity of demand of gambling, i.e. that U.K. consumers were more likely in recent years to switch from one form of gaming to another. There is also strong evidence of substitution between betting in street-corner betting establishments and the U.K. National Lottery, and for the proposition that gaming machines and casino gambling are strong substitutes for the lottery.

On the basis of the evidence presented in these studies, there would appear to be substantial evidence to support the assertion that 'land-based' gambling and betting services compete and that consumers switch from one to the other. Given the nature of Internet gambling, notably ease of access, it is reasonable to suppose that substitution effects between this sector of the gambling industry and other sectors will be even stronger. It is important to note that a critical aspect of the 'price' of gambling is travel cost, which is obviously lowest for Internet gambling. The growth in remote gambling opportunities is likely, therefore, to increase the ease of substitution.



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