8 Gambling taxes

- The Territory imposes several kinds of gambling taxes, including lotteries, electronic gaming machine taxes, bookmaker tax and casino taxes.
- Community gaming machine taxes paid by clubs and hotels were recently increased in the 2017-18 Budget.
- Bookmaker taxes may shift to being based on the location of the person placing the bet, depending on the reforms interstate.
- Due to existing contractual agreements with operators, there is limited scope to reform other gambling taxes, such as casino taxes, in the near term.

8.1 Gambling tax overview

Gambling taxes are the fourth largest contributor to the Territory's own-source revenue. In 2017-18, gambling tax revenue is forecast to be $78 million, up from $72 million in 2016-17. This mainly comprises community gaming machine tax of $32 million, community benefit levy of $12 million, lottery tax of $23 million, bookmaker tax of $5 million and casino taxes of $4 million.

Generally, gambling activities are taxed at high rates. This is because gambling activities are often restricted by regulation, with fewer suppliers than in normal competitive markets. As a result, industry participants face restricted competition from which they can extract higher profits. These higher profits are also known as monopoly profits or economic rent.

Taxes on economic rent are generally regarded as being a very efficient form of taxation. However, determining an appropriate level of taxation is challenging due to the need to balance the revenue that can be raised from gambling taxes with the regulatory role government plays in limiting social harm from problem gambling.

Furthermore, given the social costs associated with gambling, there is a strong community expectation for governments to collect a reasonable share of profits, in the form of taxes, from gambling activities.

In terms of tax policy principles, gambling taxes are somewhat regressive. This is because low income earners tend to spend proportionately more of their income on gambling activities including lotteries and gaming machines.

Gambling taxes are reasonably straightforward to administer, with limited compliance costs for business after other regulatory compliance requirements are factored in. Despite this simplicity and the relative stability of gambling tax collection, there are tax-base risks in relation to bookmaker tax, which are detailed later in this chapter.

The Northern Territory 2015 Gambling Prevalence and Wellbeing Survey by the Northern Territory Government and Menzies School of Health Research found that Territory adult population gambling participation declined significantly between 2005 and 2015, other than online gambling on racing and sports. This may indicate limited scope for growth in gambling tax revenues.

8.2 Gambling in the Territory

Gambling in the Territory involves Electronic Gaming Machines (EGMs, colloquially known as poker machines or 'pokies'), table gaming in casinos, NT Keno and lotteries. Gambling also includes bets placed on events such as horseracing or sports betting.

Pokies, table games, lotteries, and NT Keno typically physically take place in the Territory, while betting on events, and in particular sports betting, can occur online with the bets being placed remotely by both local and interstate customers. To the extent the online bookmakers and betting exchange companies are located in the Territory, taxes are currently paid to the Territory regardless of where the customers are.

8.3 Taxes on community gaming machines

Community gaming machine tax is a monthly tax based on the gross profits, that is, player losses, from gaming machines in hotels and clubs. A Territory wide-cap limits the total number of community gaming machines to 1852. Limits in the number of gaming machines also apply for each venue, being 55 for clubs and 20 for hotels.

From 1 July 2017, community gaming machine tax is imposed on clubs and hotels at marginal rates ranging from 12.91 per cent to 42.91 per cent, with recent reform lowering the thresholds at which those marginal rates are imposed. From 1 July 2018, hotels will be subject to further changes to rates and thresholds.

8.4 Community benefits

Hotels and the casinos are also subject to a 10 per cent community benefit levy in addition to gaming machine taxes, with revenue from that levy contributing $11 million to the Community Benefit Fund in 2016-17. The Community Benefit Fund provides grants to offset gaming-related harm and improve community welfare.

Clubs are not subject to the community benefit levy in recognition that clubs are not-for-profit and already provide a range of benefits to the community.

Clubs have significant discretion in the manner and amount of community benefits they provide. The level of contributions to the community vary significantly from club to club and year to year.

Table 8.1 illustrates the reported gross gaming machine profit and community contribution clubs provide (either by way of financial assistance or in-kind contributions).

Table 8.1: Community support contributions from licensed clubs in 2016-17

Club size (by gross profit from gaming machines)	Gross profit from gaming machines	Gaming tax paid	Community contribution
Clubs 1-10	$44.3M	$15.3M	$3.8M
Clubs 11-20	$9.7M	$2.4M	$1.1M
Clubs 21-28	$0.8M	$0.1M	$0.4M
Total	$54.7M	$17.8M	$5.3M

Source: Northern Territory Department of Business Community Benefit Fund Annual Report 2016-17

8.5 Casino taxes

There are two casinos in the Territory, SKYCITY in Darwin and Lasseters in Alice Springs. Casinos are licensed to operate pokies, which are additional to the Territory-wide cap on machine numbers applicable to clubs and hotels. Territory casinos are also required to provide additional activities including table games, as well as restaurants and other facilities. This indirectly limits the number of pokies by requiring floor space to be put to other uses. SKYCITY also operates NT Keno, which is broadcast to other venues under licensing arrangements.

As part of a casino licence, operators enter into a tax agreement with the Government. Casino tax rates are set out in the agreements, with taxes subject to review by Government on the terms set out in the agreements. SKYCITY's next tax review is in 2025 (and then every 10 years), whereas Lasseters' review is in 2022 (and then every 10 years).

These tax reviews must take into account the profitability of the casinos, gambling harm, conduct of the casinos and the casinos' investment in the local economy, such as through expansion, refurbishment, community sponsorship and support, and the provision of non-gambling entertainment, retail and dining facilities. There is limited scope to amend casino tax arrangements outside the agreement review clauses.

Presently, different tax rates apply to the gross profits of each type of gambling activity undertaken at SKYCITY and Lasseters casinos. These are summarised in Table 8.2 below.

Table 8.2: Comparison of casino taxes

Casino	Poker machines	Table games and commission play	Keno
SKYCITY	15% plus 10% community benefit levy	Rate equivalent to the GST rate	10%
Lasseters	11%[1] plus 10% community benefit levy	Rate equivalent to the GST rate	Tax paid by SKYCITY

1 Increasing to 13 per cent in 2018, 15 per cent in 2019 and 20 per cent in 2022.
Source: Casino Operators Agreements

8.6 Lottery tax

Currently, the Tatts Group pays lottery tax based on net profits of lotteries physically sold in the Territory and online through the internet lottery licence granted by the Territory to Tatts Group.

Lottery tax is based on an exclusive 20-year licence and agreement between the Territory and Tatts, negotiated in 2012. To reflect the monopoly rights associated with these agreements, and the general lack of separate community investment in comparison with casinos or other community gaming venues, lottery tax rates are much higher than other forms of gaming tax. As lottery taxes are set by agreement, reform options are limited.

8.7 Wagering tax

Wagering tax is paid by UBET in relation to totalisator ('tote') wagering though Territory outlets, clubs and pubs, and at racecourses. In 2015, UBET was granted a long-term exclusive licence to operate tote wagering in the Territory for a period of 20 years.

Although the terms of that agreement reduced the amount of wagering tax payable to the Territory by UBET, it resulted in UBET providing sustainable, long-term funding to the racing industry through the peak bodies Thoroughbred Racing NT and the Darwin Greyhound Association. These bodies receive significant fixed annual funding, monthly payments based on fixed price betting revenue, a quarterly industry funding package, and racing and regional marketing support fees. These payments significantly reduce the amount of industry assistance government would otherwise provide to the racing sector.

Due to the 20-year exclusivity agreement currently in place with UBET (until 2035), tax reform options are limited.

8.8 Bookmaker tax and betting exchange tax

Although online bookmakers have a relatively small physical presence in the Territory, they nonetheless contribute to the Territory economy. Online bookmakers and betting exchanges employ about 380 Territorians and provide about $42 million in broader economic benefits including taxes, sponsorships, product fees, rent and Aboriginal employment programs.

Bookmakers and betting exchanges pay tax at a rate of 10 per cent on gross profits, capped at a maximum of 500 000 revenue units (currently $575 000). Bookmakers paid about $5.4 million in bookmaker tax in 2016-17.

The Territory's bookmaker tax cap was set in direct response to tax competition from other states. As a result, bookmakers remained in the Territory but at the cost of a significant reduction in Territory tax revenue. As long as current interstate tax competition remains, there is limited ability for the Territory to adjust bookmaker tax rates.

However, one area that could be examined is aligning the treatment of bets made in relation to sporting events. Currently, bookmaker taxes are levied on gross profits in relation to bets made on horse, trotting and greyhound races. Bets on other events are specifically excluded in calculating gross monthly profit for tax purposes. As a result, bookmakers primarily focused on betting in relation to sporting events pay lower bookmaker tax.

The reason for this inconsistency is largely historic, as gambling on other sporting events was much lower in the 1990s and Territory gambling tax on other sporting events was relatively low prior to being removed to make way for the introduction of the GST. Expanding the tax to include sporting events could raise up to $1.1 million per annum.

More recently, other states have expressed interest in a point-of-consumption tax on bookmakers based on the location of the person placing the bet, rather than the location of the bookmaker. South Australia commenced a point-of-consumption tax on 1 July 2017, and imposes a 15 per cent tax on the net wagering revenue of all betting companies from bets placed by customers located in South Australia. This new tax is expected to raise about $10 million per annum for the South Australian Government.

Western Australia is set to introduce a similar tax from 1 January 2019 and its racing industry will be compensated for any direct financial impacts relative to the current tax scheme. The measure is expected to raise over $20 million per annum for the Western Australian Government.

In comparison, the Territory would raise only about $1 to $2 million if it followed the South Australian approach, whereas more than $5 million in bookmaker tax was collected in 2016-17. Although a point-of-consumption tax has advantages for other state governments' tax revenues, it presents a challenge for the Territory, as most bets are placed by consumers residing in other jurisdictions.

Other issues include designing taxes to avoid double taxation, ensuring a new tax can be effectively implemented by bookmakers, and recognising the payment of GST and product fees paid to sporting bodies.

The Territory opposes the introduction of point-of-consumption taxes. However, given the moves by other states, the Territory has advocated, through the Council of Federal Financial Relations, that any introduction of a point-of-consumption tax should be through a unified national tax scheme, either through consistent state taxes collected by a single jurisdiction or by means of a Commonwealth tax. Such a model would reduce the administrative and compliance burden that would arise under divergent state tax models.

Discussion questions

Q8.1 Are the current broad policy settings for gambling taxes appropriate?

Q8.2 Are gambling tax collections at an appropriate level? If not, how should gambling profits be better distributed between gambling operators and the Territory?

Q8.3 If any gambling tax adjustments would reduce the revenue received by Government, what measures should be taken, or other sources of revenue considered, to compensate?