British Online Gambling Tax proposals need to be changed

A KPMG study, commissioned by The Remote Gambling Association (RGA), has concluded that HM Treasury's place of consumption tax regime for online gambling is likely to fail to achieve its aims unless the rate of gross profits tax is no higher than 10% and it makes allowances for companies to offset costs associated with bonuses and incentives.

In its 2012 Budget, the UK government announced plans to tax online gambling on a place of consumption basis. The current proposals are to apply the existing remote gaming, betting and pool betting duty rates of 15 per cent of gross profits.

Rather than undertake a comprehensive review of the tax regime, the Treasury has made minor changes to the current regime and has merely focussed instead on extending its application to operators in other jurisdictions who transact with British residents.

The RGA commissioned KPMG to test the economic impact of the proposed point of consumption tax on the British online gambling market. The report:

* analyses the economic merits of these proposals;
* considers the possible impacts of the imposition of a 15 per cent tax; and
* makes recommendations of how an optimum percentage figure might be identified.

According to the KPMG report:

“The dangers of introducing the proposed rate of 15 per cent immediately are:

* firms are unable to recover their costs and either go out of

business or are forced to operate in the grey market; and / or
* a very large number of UK customers switch to buying gambling products from offshore duty avoiding providers because they are able to offer lower priced, more attractive, products.
* If either of these come to pass, then it may be difficult to reverse these consequences with a subsequent reduction in the tax rate."

The Government's proposals to maintain the current position where some player bonuses in bingo, poker and casino gaming are not tax deductible will further damage the ability of licensed and taxpaying operators, who will already be required to meet a significantly higher tax burden, to compete with those overseas operators who will continue to target the UK market without holding the requisite licences or paying tax.

Clive Hawkswood, Chief Executive of the RGA said today:

"It is vitally important that the Government does not repeat past mistakes. It needs instead to set rates of remote gaming and betting taxation that give operators a realistic chance of being competitive in what is an inherently international market.

This is a challenging time for the industry and we will continue to engage with Treasury to ensure the impact of any tax changes is fully understood by the Government. The online gambling industry is a UK success story and already contributes significantly to UK Plc in terms of jobs, marketing spend and corporate taxes. We do not want to see the Government's plans put these companies and their investments in jeopardy.'

We argue strongly that any rate above 10% GPT is not sustainable in what is a very mature market where consumers already know what level of value and choice to expect.

_In two reports, Parliament's Culture, Media & Sport Select

Committee has already urged the government to get the tax regime right and it is in the interests of all concerned that HM Treasury takes note of that and all of the evidence which points to a sustainable rate being no higher than 10%."_