GENERAL BETTING DUTY

Standard Note

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On 6 October 2001 general betting duty – charged on bets placed with a bookmaker in the UK, other than at a racecourse, at a rate of 6.75% on the value of the stake – was abolished.[1] In its place a new gross profits tax was introduced: set at 15%, and charged on bookmakers' gross profits (defined as the difference between the stakes laid with them and the winnings they pay out). The Government had given notice of its intention to reform this tax in the March 2000 Budget, and following consultation, legislation was introduced in the *Finance Act 2001*. On 13 July 2001 the Financial Secretary Paul Boateng announced that the general betting duty would be abolished three months ahead of schedule, on the first weekend in October.[2] This note provides a short background to this measure.

In the March 2000 Budget the Government proposed reforming general betting duty, "to enable the gambling and racing industries to flourish in the internet age." To this end, HM Customs & Excise issued a consultation paper, to which it invited responses by 30 June 2000.[3] A Budget press notice provided a good introduction to the proposed reform:

> General betting duty (GBD) applies to bets placed with a bookmaker in the UK, other than at a racecourse. It is charged at a rate of 6.75% on the value of the stake. Bookmakers generally make a total deduction of 9% on bets, to cover the duty, their 1.25% contribution to the Horserace Levy, and their administrative costs. GBD contributed £480 million in revenue in 1998/99, of which around £50 million came from credit bets placed over the telephone. The Levy is paid to the Horserace Betting Levy Board (HBLB) and is used to improve horseracing through the provision of prize money, fixture fees and grants. It is payable only on betting transactions on horse racing, and in 1998/99 amounted to £57 million.
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> In May 1999, Victor Chandler International, operating from a base in Gibraltar, started offering "tax free" telephone bets to UK customers, levying a deduction of 3%. The three largest UK bookmakers have, over the last year, also moved some of their operations offshore, and some smaller offshore operators have also started targeting the UK market. Typically, these bookmakers offer nil deductions over the internet and 3% over the telephone. So far, however, there has been no significant

[1] The *Finance Act 2001 (Commencement) Order* SI 2001/3089 brought section 6 of the Act – which makes provision for the replacement of general betting duty with a tax on bookmakers' gross profits – into force on 6 October 2001.

[2] HM Treasury press notice 81/01, *Betting tax to be scrapped early*, 13 July 200

[3] HM Customs & Excise, *Our stake in the future: the modernisation of General Betting Duty for the 21st Century*, March 2000 The report is on Customs' internet site at: www.hmce.gov.uk/notices/condfin.htm

impact on GBD revenue, which has continued to rise, with receipts 3% higher in 1999/2000 (up to February) than in 1998/99.

The Government does, however, recognise that the bookmakers need a duty structure that allows them to take advantage of the increasing globalisation in this industry and remain competitive within the UK. HM Customs and Excise will be consulting on options for reforming GBD. Under one option, bookmakers would account for duty on all bets placed from the UK - so those who were offshore would still have to register and pay tax here on all the bets they took from UK punters [the 'place of consumption' (POC) proposal]. Under another option, suggested by the bookmakers themselves, UK-based bookmakers would account for tax on the balance between bets placed and winnings paid out, so the tax would no longer appear as a separate, additional charge to the customer [the 'gross profits tax' (GPT) proposal].[4]

The consultation document gave further details on the problems with the current system for taxing betting:

Problems with the current system

14. The increased volume of credit betting in recent years, coupled to the reduced cost of international telephone calls and technological developments such as the growth of the internet, has led to a rise in the number of bookmakers trading from outside the United Kingdom, diverting betting turnover away from their UK counterparts. So far the impact of this trend has been limited but there is potential for more serious damage to the UK economy in several ways: Lower employment levels in betting and racing . Lower horserace levy receipts. Lower profitability of UK betting industry. Lower duty receipts.

15. The existing law seeks to limit the impact of offshore betting activity by imposing a ban on offshore betting advertisements and on the business of transmitting bets overseas. A recent Court of Appeal decision (ref: CHANF 1999/0839/3) has confirmed that this ban extends to teletext services. The law applies within the UK jurisdiction but modern technology will increasingly enable advertisements to be broadcast into the UK from elsewhere. Offshore advertisements invariably highlight the duty element of stakes on bets placed in the UK, contrasting it unfavourably with the level of offshore deductions, creating unfair competition for the UK industry.

16. While the Government holds that the betting industry should expect to contribute its share of the nation's tax and that betting duty is fair and reasonable, it is committed to doing all it can to help equip the bookmaking industry to grasp the opportunities offered by the e-commerce revolution. The present system of deductions from stakes may not only encourage UK based bettors to place bets with bookmakers overseas - it may also act as a deterrent to potential overseas customers who may otherwise be attracted to bet in the UK because of its enviable reputation for integrity and probity.[5]

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[4] HM Customs & Excise Budget press notice C&E1, 21 March 2000

[5] *Our stake in the future*, March 2000 pp 4-5

At the time the *Financial Times* reported that the industry welcomed this move, though there were concerns that it was not proposed to bring in any changes until the following year:

> It has to be good news that they recognise there's an issue here," said John O'Reilly, managing director of e-commerce at Ladbroke. "UK bookmakers can't compete in the internet era unless the tax regime is radically changed." But the Betting Office Licensees Association, the industry body, was "disappointed" the rate of betting duty - currently 6.75 per cent plus a 1.25 per cent levy for racing - was not cut. "The government has missed a major opportunity to take a step towards establishing this country as an important centre of e-commerce," it said. Waiting until next year's Budget for changes, as planned by the Revenue, would be too late.[6]

In the November 2000 *Pre-Budget Report* the Government confirmed that it intended "to hold further discussions with interested parties in the coming months, including with the betting industry, on how to ensure that the benefits of any change are fairly shared, with a view to an announcement at the time of Budget 2001."[7] In addition Customs published a summary of responses to the consultation document, from which the following is taken:

> **Summary of Views**
> In total there were 33 written responses … to the consultation exercise mainly from bookmakers and racing with a number also from interested third parties and the general public. Detailed views were obtained from the main racing and betting industry trade bodies together with the views of a number of single shop and small chain bookmakers. The following is intended as a summary only of the key points made by respondents. It is not intended to be a comprehensive précis of all views offered.
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> **Views on the Current Structure and Rate**
> The majority of responses agreed that the key to maintaining a healthy UK based fixed odds/pool betting industry, with consequential benefits for the UK racing industry, is its ability to match the much lower level of deductions charged to the betting public by offshore bookmakers. On that basis most also agreed that the current 6.75% duty rate is unsustainably high and that it should be reduced significantly, typically to a maximum level of 3%. All bookmaker respondents agreed that the existing transaction based duty structure has served the industry well since its inception almost forty years ago.
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> However, the majority also concluded that industry developments since then made reform desirable. They highlighted the limitations of the present duty rate and structure in terms of the UK's ability to effectively target a larger share of the growing international betting market. Some respondents commented that any reform measures should reflect a range of overhead costs unique to the relatively small but UK only based spread betting arm of the UK betting industry. All respondents were

6 "Betting duty to be scrapped in move to beat web", 22 March 2000
7 Cm 4917, November 2000 p 115

united in their view that the present tax free arrangement for on-course betting should be retained.

Views on the Place of Consumption Tax (POC) proposal
While a number of respondents recognised the merits of this proposal all agreed that it would be open to abuse with Customs unable to exercise any control over non-compliant overseas-based bookmakers. Given the pace of development of communications technology this option was felt to be impractical and inappropriate.

Views on the Gross Profits Tax (GPT) proposal
GPT had a broad range of support from bookmakers, the public, and the horseracing industry. It was argued by several respondents that a GPT structure would encourage the development of high turnover, low margin business and would be more likely to allow the bookmakers to reduce or absorb their deductions. All those in favour of this change also stated that a change to the structure alone would not be enough to allow UK bookmakers to compete internationally. The effective rate of duty under GPT would need to be considerably less than the present rate. There was a strong belief that the rate of duty, regardless of structure, is the real issue. There were however some concerns raised about changing to GPT. Some respondents felt that this duty structure would be more complex to administer and verify and could be more prone to tax evasion or avoidance.

Conclusion
The consultation exercise has revealed that the main area of concern for most respondents is the future well being of the UK's offcourse betting industry in the face of e-commerce based competition from bookmakers operating from low tax jurisdictions. In response to the threat the majority view is that the current rate of betting duty should be reduced significantly irrespective of the duty structure. However most bookmaking interests are in favour of the modernising measure of replacing the existing duty structure with one based on a bookmakers gross profits. The alternative place of consumption duty structure found little favour with respondents on the grounds that whilst fair in principle it would be very difficult to ensure full compliance with its requirements.[8]

At this time Customs also published an economic analysis of the options for taxing betting, which it had commissioned from Nottingham University;[9] this report made some comments on recent developments in this sector:

Recent developments, notably the introduction of numerous independent bookmakers offering Internet access to betting sites, have tilted the balance away from the large bookmakers. In many cases, this has led to a situation in which bettors can, by judicious choice of the best odds on offer with the range of bookmakers, secure a

8 HM Customs & Excise, *Our stake in the future: Summary of Consultation*, November 2000 The document is on Customs' site at: www.hmce.gov.uk/bus/excise/pbr-sumv.htm

9 Dr David Paton, Professor Don Siegel & Dr Leighton Vaughan Williams, *An economic analysis of the options for taxing betting*, Nottingham University September 2000 The report is on Customs' site at: www.hmce.gov.uk/bus/excise/graphics/paton-rep.pdf

notional advantage in certain markets in their own favour. This advantage is potentially a problem to bookmakers who face growing ease of access by bettors to a highly competitive market, a situation facilitated by the growth of Internet sites which highlight the best odds at a glance.

An example is www.betagent.com, which currently provides access to the odds and web-sites of 55 different bookmakers, and highlights in each case where the best price can be obtained. The site is expanding rapidly, and competitor sites are growing to complement this development in the market …[10]

A number of established bookmakers have also now set up operations, in part or whole, off-shore. A pioneer in this regard, among UK bookmaker, has been Victor Chandler, from a position as the UK's leading independent rails bookmaker.[11] His operation, based in Gibraltar, is not subject to betting duty, but originally charged bettors a 3% 'administration charge' on bets. Subsequent competition has forced many on-line companies to waive 'tax' on bets altogether, at least in the short-term. The largest bookmaking chains, notably Ladbrokes, William Hill, Coral and the Tote are also developing off-shore operations as are the larger independents. Interactive tele-internet betting outlets are also gathering strength …

Estimates have been made of the growth and impact of Internet betting over the next few years by Datamonitor (1999)[12] and by the Henley Centre who have supplied results directly to the authors. These are both respected market analysis organisations, although the modelling used has not been verified for these purposes. The Henley Centre estimate that the share of Internet betting and gaming in the market will rise significantly over the next few years. The estimates are as follows:

2001 - 2% 2002 - 4% 2003 - 5% 2004 - 7% 2005 - 9%

As this develops, the degree of competition within this sector is likely to increase, and any bookmaker seeking to preserve a competitive position will have to match the prices of competitors, or else offer compensating quality attractions. For this reason, the level and type of taxation faced by UK bookmakers will have to be very carefully considered, when these bookmakers are competing in an international market populated by bookmakers with low-cost entry, and who are facing a lower (or zero) tax burden.

Estimates of the growth of Internet betting in Datamonitor (1999) suggest up to a hundred-fold increase in all Internet gaming activities in Western Europe between 1999 and 2004, matching at that point the size of the US market. Specifically, Datamonitor estimates that the Western European market will grow to a total of $5.5 billion by 2004, compared to just $55 million in 1999. Part of this, it is assessed, will be the result of a migration away from the US to Europe …

[10] [see, "Bookmakers place bets on mobile riches", *Financial Times*, 20 September 2000 & "Gambling gets an online makeover", *Financial Times*, 20 November 2000]

[11] [see, "Bingo! The Rock hits winner", *Financial Times*, 18 October 2000]

[12] *Online games and Gambling in Europe and the US*, 1999-2004 3rd edition, London: Datamonitor.

> From the point of view of tax revenue raising there are, however, encouraging aspects based on two avenues of thought:
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> 1. In the short to medium-term, by far the greater majority of bets will be placed in off-course licensed betting offices (LBOs), and so a revenue stream based on this is assured. The new Internet trade is aimed at, and likely to attract, a new additional clientele, composed of younger players, drawn from higher socio-economic groups.
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> 2. A new e-commerce friendly clientele has already started to emerge, and this is likely to accelerate. These bettors, from overseas as well as UK-based, are likely to bet larger stakes than the standard LBO client, and are also likely to complement this market, rather than substitute for it. Estimates of the potential size of this sector are unreliable, but it is likely to grow rapidly, and thus present the opportunity for competitive yet taxable betting outlets to generate additional tax revenue. The Racing Post Usage and Attitudes Study (June, 2000) indicates that Internet access had increased by 50% in the previous eighteen months (12 to 18% with access to the Internet at home or work). This penetration was very much higher in the ABC socio-economic groups. Among Racing Post readers, 40% had access to the Internet, with a further 9% intending to get access.[13]

The authors concluded that the introduction of a 'Gross Profit Tax' was preferable to a 'Place of Consumption Tax':

> The UK gambling industry is experiencing dramatic environmental changes fuelled largely by changing technology and increasing competition from abroad. The overall effect of these changes is that UK companies are now competing increasingly with companies based overseas who are able to operate outside the current tax system. At the same time, technological changes along with the likely continued growth in disposable income, provide an excellent opportunity for the UK betting industry to play a leading role in the expansion of betting activities through the development of innovative new sectors.
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> Given these changes in the competitive environment, Customs and Excise have to balance the objectives of establishing a fair and efficient system of taxation with the maintenance of tax revenue and the desire not to threaten the development of the UK industry. Within this context, we have provided a comprehensive economic analysis of the current situation and the options available to Customs and Excise …
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> Our key findings can be summarised as follows: • The UK betting industry is likely to face a continued increase in the intensity of competition it faces with consequent impacts on margins. • A Gross Profit Tax is likely to be more allocatively efficient than a revenue equivalent turnover tax, the price faced by consumers will be lower, betting turnover higher and the overall tax burden as a proportion of gross profits faced by firms will also be lower.[14]

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[13] *An economic analysis of the options for taxing betting*, September 2000 pp 16-19

[14] *op.cit.* pp 71-72

In his March 2001 Budget Statement the Chancellor announced the outcome of this consultation:

> Following our consultation with the betting and gaming industry over the impact of internet trading, I have decided from 1 January to abolish betting duty, which has been in existence ever since betting shops were legalised. I have now agreed that the tax on bookmakers' gross profits will be 15 per cent., which the leading bookmakers have agreed not to pass on to their customers. So by 1 January, no one will have to pay a tax on their bets.[15]

Further details were given in a Budget press notice:

> Under the new system, the current General Betting Duty (GBD) of 6.75 per cent on total stakes will be replaced with a 15 per cent tax on bookmakers' gross profits, defined as the difference between the stakes laid with them and the winnings they pay out.
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> This reformed tax structure makes it possible for bookmakers to absorb the tax and to end the 9 per cent 'deduction' that they currently charge on stakes, which means that punters will pay no tax. It therefore makes it possible for UK bookmakers to develop their domestic and international business from an onshore base, competing from a position of strength in the growing global market for telephone and Internet betting.
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> As a result of the changes announced today, the largest UK bookmakers have said that they will relocate their offshore operations to the UK. They expect to take advantage of the new duty system, the UK's reputation as a centre of bookmaking integrity and expertise, and the skilled staff and IT infrastructure that is available from a UK base to grow their e-commerce businesses, bringing international business and increased employment opportunities to the UK. The extra domestic and international betting turnover the reform will generate should enable both the betting and racing industries to prosper. Government revenues will share in the gain from increased turnover in the medium term …
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> Customs and Excise will be working with the bookmaking industry to put the new system in place, and the Government expects it to be introduced no later than 1 January 2002. By that time, the Government also expects that the biggest bookmakers will have brought their offshore operations back to the UK …
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> **How the Gross Profits Tax (GPT) will work**
> Under the current system, a punter placing a bet pays an additional charge of 9 per cent on his stake, representing:
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> - 6.75 per cent tax;
> - approximately 1.25 -1.5 per cent horse race levy (where appropriate);
> - and a residual deduction for bookmakers' administrative costs.

15 HC Deb 7 March 2001 c 304

Under the new system the customer should pay no deductions when placing the same bet. The tax charge, horse race levy and administration charges should be absorbed by the bookmaker.

For example:

	Old GBD	New GPT
Stake	£10.00	£10.00
Deduction	£0.90	£0.00
Return on a 2-1 bet	£30.00	£30.00
Net gain to punter	£19.10	£20.00

Basing the tax on gross profits allows bookmakers to offset winnings paid out against stakes received. It also recognises the commercial reality that margins are generally tighter on telephone and on-line betting than on cash betting in shops, thus giving a particular boost to these two growth areas.

The revenue cost of this measure is estimated to be £45 million in the first year and £145m in the year after. However, it is expected to generate significant growth in betting turnover in the medium term, probably future revenue streams.

This reform will remove any incentive for illicit gambling and should help eradicate the illegal untaxed market in betting, which is currently estimated to be worth approximately £500 million per year.

Spread betting

The spread betting industry operates in a different way and is subject to different regulatory requirements from the fixed odds bookmakers. To reflect these differences and ensure a more level playing-field, spread betting firms will be subject to lower rates of Gross Profits Tax: 3 per cent for financial spread bets and 10 per cent for other spread bets, including sports bets.

On-course betting

The Government recognises the importance of the duty exemption for on-course betting in attracting punters to attend racecourses and greyhound tracks, and in determining the 'Starting Prices' used extensively by off-course bookmakers. On-course betting at these venues will therefore continue to be exempt from duty under the Gross Profits Tax. The Government will be consulting on whether to retain the on-course exemption for betting at other sports venues, or to bring betting at these venues into the scope of the new system. In either case, the Government believes punters at these venues should not be charged deductions on their bets.

Other bets

Bets placed with brokers, or with 'agents' who hold bookmaker's permits, will be brought within the scope of the Gross Profits Tax, although this will not apply to bookmakers who are acting as agents for the TOTE.[16]

[16] HM Customs & Excise Budget press notice C&E1, 7 March 2001

The *Financial Times* reported the industry's reaction to the announcement as follows:

> Gamblers and bookmakers alike were celebrating an odds-on victory against the government this week in their battle to make betting duty-free. Gordon Brown said in his Budget speech that the betting levy of 9 per cent would be scrapped from January next year and replaced by a gross-profits tax of 15 per cent on the bookmaker. The big bookmakers pledged not to pass that cost on to the gambling public. Increased online betting from offshore locations had strong-armed the government into dropping betting tax.
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> They wanted to dissuade other bookmakers from locating offshore and to persuade those who had moved already to come back. Big-name bookies pledged to close down their offshore operations in exchange for the end to betting duty. The chancellor said the changes would "give punters a better deal". He said it should also "help eradicate the illegal untaxed market in betting", which provides little recourse for gamblers who feel they have been mistreated. Denis Smith, a partner at accountancy firm Moore Stephens, and a betting man himself, welcomed the change. "This can only be good news," he said ...
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> But rebels within the industry, such as Victor Chandler, who instigated the industry's flight offshore two years ago, warned that gamblers wouldn't get as good a deal as they might expect. "This looks like a hollow victory for punters," he said. "They will continue to pay - only this time they won't realise it." Those who like to have their flutter at the racecourse itself may be the surest to benefit. On-course betting has long been exempt from betting duty. Now it is to be exempted from the gross profits tax, too. Smith says that should mean tighter odds from on-course bookies. Consumer groups were critical of the government's climbdown. Gamblers Anonymous said: "Anything that makes the environment easier for the gambler is unwelcome."[17]

The *Times* quoted several other commentators, including the British Betting Offices Association:

> THE Chancellor gave punters a betting bonanza in the Budget yesterday by abolishing the 9 per cent duty in a move that sweeps away a 33-year history of taxation. The industry predicts that betting, already worth £9 billion, will enter its greatest boom in history and grow at a rate of 50 per cent after the changes take place on January 1, next year. A leading bookmaker predicted that the benefits would be "like Las Vegas in the 1950s" because many British companies which recently set up offices abroad for telephone and online bets would return home. Gordon Brown announced that betting duty, which had existed since 1968, would be replaced with a tax on gross profits of 15 per cent.
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> The Government has had to act because many leading bookmakers, such as Coral and Ladbrokes, have moved offices abroad in the past two years to avoid their punters paying duty on telephone and online bets. Warwick Bartlett, chairman of the British

[17] "Winners take all in betting shake-up", 10 March 2000

> Betting Offices Association, which represents the smaller independent bookmakers, said: "This is fantastic news. Our members have been hard hit by the attractions of tax-free offshore betting." Under the present system, the Government collects duty of 6.75 per cent from bookmakers based in the United Kingdom, which is passed on to punters in a 9 per cent tax. Mr Bartlett paid tribute to Victor Chandler, the bookmaker, who started the trend when he moved abroad in 1999 and persuaded punters to place their bets on freephone numbers. He said: "The steady drift to offshore betting forced the Government's hand when it realised it was losing a lot of money through decreased turnover. We should give Victor an award for innovation."
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> John Brown, chairman of William Hill, said everyone would benefit from the Chancellor's decision: "It is great news for the British punter, great news for UK plc and a sure-fire winner for the Treasury. The British punter wins because this will make it possible for us to offer deduction-free betting. The Treasury wins because at this level of duty we will be able to repatriate our offshore bookmaking operations, so the taxman will share in all the profits we make in our fast-growing international business. "UK plc will win because we have a real opportunity to be the world's leaders in online betting and turn the bookmaking industry into a big earner of foreign currency."
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> Peter Jones, Tote chairman, joined in the euphoria. He said: "Turnover could increase by 50 per cent or more as a result of this initiative." Tote Credit has been badly affected by bookmakers moving offshore and it plans to recover the turnover it lost and through aggressive marketing increase its share. The Tote's online betting arm, Totalbet, had secured a licence in Malta, from which it intended to trade to British and international punters. The Tote said that that transfer would not be needed now. Matthew Stubbs, for Littlewoods Leisure, owners of Bet Direct, said: "This puts us where we should be. It will put us at the centre of the world." The only cautionary note came from David Annat, the managing director of PA Sporting Life. He said: "We may well see foreign bookmakers coming over here now."[18]

These provisions were the subject of a short debate at the Committee stage of the Finance Bill;[19] on this occasion Stephen Timms, then Financial Secretary, summarised the purpose of this reform as follows:

> [This legislation] will radically reform the way in which betting is taxed and create the right competitive environment for UK-based bookmakers to develop their businesses domestically and internationally. It will give punters a better deal and secure for the Exchequer the revenue stream from betting in the long term.
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> The largest UK bookmakers have made it clear that, as a result of the reform, they will be able to absorb the tax and end the 9 per cent. deduction that they charge on stakes. That will mean that punters will pay no tax. The clause will also allow UK bookmakers to develop their domestic and international business from an onshore

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18 "Bookies gamble on a record bonanza", *Times*, 8 March 2000

19 Standing Committee A 26 April 2001 cc 40-49 They are now contained in section 6 and schedule 1 of the *Finance Act 2001*.

> base and therefore compete from a position of strength in a growing global market, in particular for telephone and internet betting. Many UK companies, including all the major ones, have gone offshore in the past year or so in order to offer low tax or tax-free telephone and internet betting.
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> The hon. Member for Croydon, South [Richard Ottaway] asked whether I thought that the bookmakers would deliver the zero deductions. They gave firm assurances before the Budget about removing reductions and have since restated them. Every major bookmaker quoted since the Budget has said that it will end the deductions, and there have been no conditions or caveats to those assurances. Any failure to deliver would be taken into account during future Budget processes, but I expect that competition in the industry will dictate that the reform will deliver deduction-free betting. One player in the industry would not be able to impose deductions if no other company was doing so.
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> The big UK bookmakers have said that they will relocate their offshore operations to the UK. The extra domestic and international betting turnover that the reform will generate should offer increased employment opportunities in the United Kingdom and benefit the betting and the racing industries. Government revenues will share in the gain from increased turnover in the medium term. I shall read out the reactions to the reform. Ladbroke's said: "This tax reform will benefit everyone. It is a fantastic example of Government listening to business." Coral's described the reform as a "bold and enlightened decision by the Government which will guarantee the long term prosperity and advancement of the UK betting and racing industry." There was similar enthusiasm from William Hill, which stated that the reforms were "Great news for the British punter and great news for UK plc." …
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> The UK industry is strong and highly respected. If we had not made the change, it is likely that revenue would gently and steadily have declined as online betting grew, almost all of it being hosted offshore. In the last week we have received receipts for last year's betting duties. After a number of years of buoyant growth, general betting duty receipts fell slightly by about 1 per cent. It is widely accepted that if no change had been made that decline would have continued, perhaps at a faster rate, in the years ahead.[20]

On 13 July 2001 the Financial Secretary Paul Boateng announced that the general betting duty would be abolished three months ahead of schedule, on Saturday 6 October:

> Gordon Brown announced in his March Budget that by January 1, 2002, the current tax on betting stakes would be replaced with a tax on bookmakers' gross profits, a radical reform which means Britain's bookmakers will end the deductions they currently charge punters, and look to grow their domestic and international business from a UK base. Since the Budget announcement, rapid progress has been made both by the bookmakers in re-locating their off-shore operations to the UK and by Customs in preparing to switch to the new system. The Government has therefore

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[20] *op.cit.* cc 45-46

decided to bring in the reforms to betting taxation a full three months early. The new system will now be introduced on Saturday, 6 October.

> Financial Secretary Paul Boateng said: "The old tax on punters has been in place almost unchanged since 1966. But we realised it was not going to work in the 21st century and would mean UK-based bookmakers losing out on the global betting market. Our reforms mean punters will get tax-free betting, bookmakers will see increased turnover, and both racing and Government revenues will share in the benefits. It's a good deal all round. We're therefore delighted to bring it in more than three months ahead of schedule. This demonstrates our ability to deliver real reforms with speed and efficiency - years ago, it would have been inconceivable to introduce these sorts of radical reforms, let alone push them through so quickly."[21]

Initially it was estimated that the revenue cost of this measure would be £45 million in the first year; this estimate has been increased to £75 million because of the earlier implementation date. That said the Government still expect these reforms to "generate significant growth in betting turnover in the medium-term, protecting future revenue streams."[22] The Treasury issued a second press notice the day before the new gross profits tax was introduced, which mentioned a number of developments since the Budget:

> **Progress since the Budget**
> Since the Budget, those major bookmakers with offshore sites have made rapid progress in re-locating them to the UK. This has already led to the creation of several thousand new jobs within the UK both in the traditional high-street betting shops and in call centres designed to cater for the growing telephone and on-line betting markets.
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> The decision by Ladbrokes to take on an additional 1,200 staff in its betting shops and by William Hill to recruit around 1,000 extra staff in its shops and telephone betting operation provide clear evidence of the confidence the UK betting industry has in its future growth. A number of other, smaller on-line betting firms such as Randombet.com and Alwaysbet.com have also started up in the UK to take advantage of the new system. Other offshore sites have made enquiries about re-locating to the UK, and are expected to do so once the necessary regulatory requirements are met.
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> **Smaller bookmakers**
> There are hundreds of smaller, independent bookmakers in the UK, often operating out of single shops. The Government recognises that - like other smaller businesses - they need help to reduce their compliance costs and improve their cash-flow. Customs have therefore introduced new accounting arrangements for smaller bookmakers under the new Gross Profits Tax system.
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> Instead of having to account for the tax every month, bookmakers with an annual turnover below £600,000 will be allowed to account for tax on a quarterly basis. This

[21] HM Treasury press notice 81/01, *Betting tax to be scrapped early*, 13 July 2001
[22] *ibid.*

will reduce their costs and improve their cash-flow. It will also allow them to manage the occasional, one-off months when they make a loss. These provisions will also be available to financial spread bet bookmakers and any other bookmakers experiencing genuine difficulties with loss-making months.[23]

Further guidance for bookmakers on the operation of the tax is available from Customs.[24]

Antony Seely
Business & Transport Section

[23] HM Treasury press notice 106/01, *Betting goes tax free*, 5 October 2001 see also, "Unbridled betting has broken free", *Times*, 15 September 2001; "England in demand as tax-free betting kicks off", *Financial Times*, 6 October 2001; and, "Betting bonanza ahead as the punters prepare for a tax-free day at the races", *Times*, 6 October 2001.

[24] *Reformed general betting duty: information note 2/01*, 21 September 2001 This is available from Customs' internet site at: www.hmce.gov.uk/bus/excise/gbd-info02-01.htm