Casino taxation

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The casino industry in this country is of a considerable size, and has been growing strongly in recent years. The Gambling Commission's annual report published in July 2006 records that there are 140 casinos trading, compared with 118 five years before. Total attendance has grown from just under 11.8 million visits in 2001-02, up to 13.9 million in 2005-06. Total 'drop money', which is the amount of money exchanged for gaming chips, has risen over the same period from £3.58 billion to £4.23 billion.[1]

The regulatory and licensing regime for casinos is reformed fundamentally by the *Gambling Act 2005*. Until now, casinos could be established in 53 permitted areas in England, Wales and Scotland providing that licensing justices are content to grant a licence in the light of prospective demand. Under the Act, 17 further casinos will be permitted, which will be much larger in terms of facilities offered than those currently permitted and will be in three categories (one regional, eight large and eight small, defined in terms of gambling and non-gambling areas). The Government intend to implement the Act fully by September 2007.[2]

All commercial gambling clubs must register with HM Revenue & Customs, and pay tax – 'gaming duty' - on their gross gaming yield (ggy).[3] For games in which the house is the banker, ggy consists of the total value of stakes minus players' winnings. For games in which the bank is shared by the players, ggy consists of participation charges – 'table money' – exclusive of VAT.[4] Receipts from gaming duty were £143 million in 2005-06.[5]

In the 2007 Budget the Government announced that the rates of gaming duty would be increased, and duty bands would rise in line with inflation, "to ensure this vibrant and expanding sector continues to make a fair contribution to tax receipts." It is estimated these changes will raise £30 million in 2007-08, rising to £35 million in 2008-09.[6] In addition a new duty of excise would be introduced on the net receipts from remote gaming, as the *Gambling Act 2005* will make it legal for remote gaming operators to locate in Great Britain, and be regulated under national jurisdiction. This note provides a short history of the tax treatment of casinos, following a major reform in 1980. It goes on to discuss the debate there has been about casino taxation in the light of the Government's reform of gambling law, before looking at these two measures announced in the 2007 Budget.

1 Gambling Commission *Annual Report 2005-06* pp 14, 21
2 For details see, "New casinos", Library standard note SN/HA/3930, 26 April 2007
3 Prior to 1 October 1997, this charge was known as gaming licence (premises) duty.
4 HM Revenue & Customs, *Gaming duty - Notice 453*, October 2006 para 2.1. This is available on HRMC's site at: http://customs.hmrc.gov.uk/channelsPortalWebApp/downloadFile?contentID=HMCE_CL_000258
5 HMRC, *Betting, gaming and lotteries factsheet*, February 2007 p 3. This can be downloaded from: http://www.uktradeinfo.co.uk/index.cfm?task=factbetting
6 HC 342 March 2007 para 5.129, p 209

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A. The 1980 reform in casino taxation

The taxation of casinos was reformed fundamentally in 1980. Prior to this casinos were charged an amount of gaming licence duty based on the rateable value of its property and the number of gaming tables it possessed. In 1978 a Royal Commission on gambling had been strongly critical of the method of taxation. (The Commission was established in 1976 to "inquire into the existing law, and practice thereunder, relating to betting, gaming, lotteries and prize competitions.") A long extract from the Commission's report – known as the Rothschild Report – is given below:

> 18.81 The existing method of taxing casinos consists of requiring each casino to pay gaming licence duty, the amount being determined by a formula related to the rateable value of the premises and the number of gaming tables. In their evidence, HM Customs and Excise explained that they would have preferred, had it been practicable, to have a duty on stakes in line with general betting duty, but felt that the continuous rapid transfer and re-investment of stakes in casino games made such a duty impossible to control in an adequate and economical manner.
>
> The Department hoped that a duty reflecting rateable values would "bear some relation to the scale of gaming". The system has been somewhat modified since its introduction but its essential features have remained the same. It is clear that the system is regarded, even by the authorities, as a second best, the first choice of a duty on stakes being impracticable. The duty yield … is very low in absolute terms and in relation to the money staked or spent in casinos, and by comparison with other forms of gambling. The profits, as we have already seen, are extremely high. In all these circumstances it is perhaps surprising that the casino industry and the casino punter have been asked to carry so light a tax burden.
>
> 18.82 We believe that the existing system and rates of casino taxation need a complete overhaul. The main criticisms of the system, which amount to a compelling indictment, are the following:
>
> (i) It is inequitable that the system does not relate the duty to the scale of gaming, the level of gross income of the casino or indeed to its net profits.
> (ii) It is incongruous that the casino gambler pays so little in tax.

(iii) The duty yield is very low absolutely and in relating to the money spent in casinos and in comparison with other forms of gambling.
(iv) The present system fails to control the high profits being made by some but not all casino operators.
(v) The duty can be partially avoided by legal devices known to HM Customs and Excise, the Gaming Board and ourselves.

18.83 We propose a new system of casino taxation to remedy these defects so far as possible. There are two separable strands:
(i) The question how casinos get money from the punters. At present this is almost entirely done through the operation of the edge which results from the rules of the games laid down by the regulations and designed with the expressed intention of allowing only moderate profits.

(ii) The question how the authorities extract money from casinos in the form of gaming duties. The present system is simple to administer and an alternative system should combine this virtue with the remedy for some of the deficiencies of the existing system mentioned above.

18.84 Ideally there should be a Customs and Excise duty, like the general betting duty, of 7.5% on drop, so that whenever a casino gambler buys chips he would be liable to this duty, as a punter in a betting office is. The general betting duty which the latter punter pays is 7.5% of the money he stakes. Since in practice casino drop is about one-seventh of stakes, a tax of 7.5% of drop would raise only one-seventh of what it would have raised had it been possible to apply general betting duty to each stake as is done in the betting office, though the analogy is admittedly inexact.

We do not recommend such a tax, however, since there are considerable administrative and practical problems in the secure collection of a duty in this form, partly because casinos and gamblers would share a common interest in avoiding it. Accordingly, we propose separating the way the casino passes on the tax to the punter from the way in which the money is recovered from the casinos; and this separation would have obvious enforcement advantages. This is because the natural interest of the punter to avoid the impost on him would not be shared by the casino; and the casino would be unable to avoid the duty which in turn would be liable to pay.

18.85 We therefore recommend that in future:
(i) Casinos should be allowed, though they are not now, to charge punters at a maximum rate of 7.5% of the value of the chips they sell to punters. For convenience we refer to this charge as the "casino general betting duty" though it is not a duty and will not be passed directly to HM Customs and Excise.

(ii) The money raised by this "casino general betting duty" should be recovered from casinos by multiplying by eight,[7] across the board, the current (1977) annual rate of casino gaming licence duty.[8] If this were not done the introduction of "casino general betting duty" would simply increase the profits of the casino. It is likely that the introduction of "casino general betting duty", which, in effect, puts up the price of

7 See, however, the footnote to paragraph 18.89(i) ["As a result there may be some loss to the revenue through corporation tax and income tax. This will be offset by the increase in gaming licence duty."]

8 It must be emphasised that multiplying the current duty by eight does not impose any tax increase on casinos except insofar as the introduction of the "casino general betting duty" on drop may cause a reduction in drop and, therefore, in gross revenue. The increase in casino gaming licence duty relates to the *recovery* of this "casino general betting duty".

> gaming to the punter, would lead to some reduction in the amount of money staked in casinos. The assumption made about this are explained later.
>
> 18.86 We do not propose that a casino *must* charge its clients the money value of the chips he buys plus 7.5%; simply that the increased casino gaming licence duty *is based* on the "casino general betting duty". If, therefore, a casino proprietor decides, for business reasons, not to charge his clients the full 7.5%, that is his affair. He pays the increased gaming licence duty all the same.
>
> 18.87 The recommendation made above and others made later require three subordinate recommendations: first, that no currency should be accepted as a stake in a casino (if it ever is) - only chips; secondly, in casinos with individual drops of £10 million or more a year, that whenever a player buys chips, he should receive a receipt for the money paid to the casino; and thirdly, that monthly audited accounts, including figures for drop and gross gaming revenue, should be rendered to HM Customs and Excise, and, separately, to the Gaming Board.[9]

In his March 1980 Budget speech the then Chancellor, Geoffrey Howe, announced that the Government had been persuaded by the Royal Commission's argument: gaming licence duty would be reformed, to increase its yield, and to ensure it related more closely to the profitability of casinos:

> I do not propose any changes in the general betting duty or the pool betting duty. But the Government have been persuaded by some of the criticisms of the present duty on casinos made by the Royal Commission on Gambling. The duty depends heavily on rateable value. It is not an equitable tax, and the more profitable casinos are seriously undertaxed.
>
> From 1 October, therefore, the present duty will be replaced by one related more closely to the profitability of casinos, and designed to produce about two and a half times as much revenue in a full year. At about the same time, the duty on bingo will be increased from 5 per cent to 7½ per cent. Provision will also be made in the Finance Bill for restructuring the duty on gaming machines. We intend to remove the duty on penny machines, and propose to increase the revenue from the very profitable jackpot machines usually found in clubs. These changes will yield £5 million in 1980-81 and £20 million in a full year.[10]

Legislation to amend the structure of gaming licence duty was introduced in the *Finance Act 1980*.[11] From the debate on these provisions in Standing Committee it appears that this reform was not controversial.[12] In 1980-81 total duty receipts were just under £5.4m, but two years later receipts had risen to £25.4m for 1982-83 following these changes.

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9 *Royal Commission on Gambling (Rothschild Report)* Cmnd.7200 July 1978 pp 308-310
10 HC Deb 26 March 1980 c 1470
11 Section 6 & schedule 5 of *FA 1980*
12 SC Deb (A) 22 May 1980 cc 175-179

B. Changes in duty administration : 1991 & 1997 Budgets

In 1991 the arrangements for duty payments were revised, to reduce the risk of default. To minimise the impact of this change on smaller casinos, a fixed annual fee which clubs had to pay - then set at £250 - was cut to £10. Details were given in a press notice issued in the 1991 Budget:

> The duty, which is based on half-year licence periods ending 31 March and 30 September, will be chargeable and payable in three stages for licence periods commencing on or after 1 October 1991:
>
> (i) a fixed charge of £10 payable on application for a gaming licence (this will replace the current fixed charge of £250);
>
> (ii) a graduated payment on account based on a casino's accrued gross gaming yield at the midway point of each licence period;
>
> (iii) a final charge at the rates set out below on the total gross gaming yield for the full licence period (less the payment on account under (ii)).

Part of gross gaming yield		
Old Structure	**New Structure**	**Rate of duty**
First £375,000	First £450,000	2½ per cent
Next £1,875,00	Next £2,250,000	12½ per cent
Next £2,250,000	Next £2,270,000	25 per cent
Remainder	Remainder	$33^1/_3$ per cent

> Under these proposals graduated payments on account will be due by 31 January and 31 July each year; finally payments will be due by 30 April and 31 October.
>
> Duty for licence periods ending before 1 October 1991 will be chargeable and payable under existing arrangements.[13]

Legislation to this effect was introduced under section 6 of the *Finance Act 1991*.[14]

In 1997 a number of changes were made in the administration of this tax, including its being renamed 'gaming duty'.[15] They were the subject of relatively little comment when scrutinised at the Committee stage of the Finance Bill that year, though the then Exchequer Secretary - Philip Oppenheim - confirmed that the yield from this tax was not expected to change.[16] A summary was provided in a press notice issued in the November 1996 Budget:

> 1. From 1 October 1997 the following changes will take place:

13 HM Customs & Excise press notice, *Revised charging and collection arrangements*, 19 March 1991
14 This was agreed to without debate in Standing Committee: SC Deb (B) 16 May 1991 c 42.
15 These provisions were introduced by sections 10-15 of the *Finance Act 1997*.
16 SC Deb (B) 30 January 1997 c 102

- six monthly licences will no longer be issued but replaced by a registration system, similar to that for VAT, replacing the need for regular renewals. Once registered, casinos will only need to advise Customs and Excise of changes.
- casinos will be able to adopt more flexible accounting periods. Currently, accounting periods run from 1 April to 30 September, and from 1 October to 31 March. Six-monthly accounting periods will remain, but casinos will be able to choose ones that suit their business needs;
- the requirement for a financial statement each year from each casino, certified by an independent accountant, will be withdrawn and groups of casinos will be able to make a single composite return; and,
- liability to duty will no longer be dependant on casinos having a licence under the Gaming Act.

2. The changes will also make it possible for Customs to tax illegal gaming. Previously the Department did not have the power to collect duty on any gaming not licensed under the Gaming Act 1968. They will now have the powers to impose penalties and collect duty which has been evaded.

3. These changes follow extensive consultation. Implementation is also being discussed with the trade to minimise the administrative burden to casinos from the changeover.[17]

Scrapping the requirement for casinos to obtain a revenue licence each six months meant that casinos were no longer liable to pay a £10 fixed charge as part of their liability to gaming duty. Following these changes in November 1997 the then Financial Secretary, now Paymaster General, Dawn Primarolo, noted that a "post-implementation review will be conducted after twelve months to evaluate the impact of the changes."[18]

In March 2000 the National Audit Office published a report on gambling duties, focusing on the department's management of risks to the revenue.[19] The report did not see avoidance of gaming duty as a particular risk, though it observed that the growth of betting and gaming provided on the internet "could affect substantially the future amounts of revenue that the Department collect from betting and gaming duties":

> A variety of betting and gaming activities, such as virtual casinos, is now available on the Internet. The majority of these are based offshore and they are able to take bets from anywhere in the world by accepting credit card payments. Where the web site is based overseas, the operator is liable to pay any applicable duties in the country from which they are operating but not the country from which they are receiving the bets … Because betting and gaming on the Internet is still developing the Department estimate that the amount of revenue that is currently being lost is only small but they recognise it as a growing threat. The Department are currently devising a strategy to deal with these new developments and are taking part in discussions within the Organisation of Economic Cooperation and Development (OECD) to find ways in which member countries can respond to them.[20]

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17 HM Customs & Excise press notice, *Deregulation for casinos*, 26 November 1996

18 HC Deb 13 November 1997 c 624W

19 *Revenue from gambling duties*, 30 March 2000 HC 352 1999-00. In turn the Public Accounts Committee produced a report on this issue: *Thirty ninth report*, 1 November 2000 HC 423 1999-00.

20 HC 352 1999-00 pp 14-15

The *Financial Times* reported at this time that it was clear internet gambling would have implications for the fiscal and regulatory regime, noted, "the pace of change poses a huge headache for governments. Internet gambling is unregulated, unlicensed and pays little or nothing in tax. Yet scarcely another day goes by without new corporate activity in the sector."[21]

It was also at this time that the Government announced the establishment of the Gambling Review Body – in December 1999 – to examine the regulatory regime; the *Financial Times* suggested that internet gambling was one of the reasons behind this decision, as it "threatens not only [the government's] tax take but runs the risk of a return to the dark ages of unregulated gambling that the [*Gaming Act 1968*] sought to address."[22] The work of the review body – which resulted in the *Gambling Act 2005*, and the establishment of the Gambling Commission – is discussed in section D of this note.

C. Changes in duty rates : 1998 to 2006

1. The 1998 Budget

At the time of the March 1998 Budget the Government announced that the top rate of gaming duty would be increased from $33^1/_3$% of gross gaming yield to 40%, and the three thresholds for paying duty would be revised. The changes would be effective for accounting periods beginning on or after 1 April 1998, and were expected to yield £25 million in a full year. Details were given in a press notice issued at the time:

> The new rates and reduced gross gaming yield (ggy) thresholds for each band are shown in the table below alongside the current rates.

New rates		**Current rates**	
The first £400,000 of ggy	2.5%	The first £450,000 of ggy	2.5%
The next £1,000,000 of ggy	12.5%	The next £2,250,000 of ggy	12.5%
The next £1,500,000 of ggy	25%	The next £2,700,000 of ggy	25%
The remainder	40%	The remainder	$33^1/_3$%

> The current rates have been in force since 1 October 1991 firstly as gaming licence duty and from 1 October 1997 as gaming duty. The changes made on 1 October 1997 removed the need for a revenue gaming licence, introduced flexible accounting periods and made provision for group registrations …
>
> The duty is calculated on the ggy for a period of six months, which allows for seasonal variations and any exceptional wins and losses to be evened out. Casinos make an interim payment based on the ggy for the first three months of the six month period and then deduct this payment from the duty due on the ggy for the full six months. The revenue effect of this measure will be to yield an additional £20 million in the years 1998/99 and £25 million in 1999/2000 and 2000/01 on an indexed basis,

21 "High stakes in the cybercasino", *Financial Times*, 29 August 1999
22 "Government set to take a chance on gaming review", *Financial Times*, 11 December 1999

> and £20 million in 1998/99 on a non-indexed basis. The effect on RPI will be negligible.[23]

The impact that this proposal might have on the industry was raised in a written question:

> **Mr. Heathcoat-Amory:** To ask the Chancellor of the Exchequer (1) what estimate he has made of the impact on the profitability of British casino companies of the increase in gaming duty announced in the Budget; (2) what assessment he has made of the economic impact of the increase in gaming duty announced in the Budget.
>
> **Dawn Primarolo:** Overall the casino industry is undertaxed compared to most other betting and gaming sectors when looked at in terms of the effective rate of tax on the net consumer spend (broadly equivalent to the house winnings). In determining the changes to the duty rates and thresholds careful consideration was given to the overall profitability of the industry as well as the likely impact on casino companies, taking account of their turnover, profitability, location and ability to bear the cost of the increase. The increase in gaming duty will raise £25 million in the first full year.[24]

The industry was highly critical of these proposals, particularly the two largest London casino companies, London Clubs and Capital Corporation, as well as a number of institutional investors with holdings in each company:

> Fund managers have taken the unusual step of protesting to the government about a Budget increase in casino gaming duty. Scottish Widows, Mercury Asset Management and Jupiter Asset Management are among the institutional investors in London Clubs and Capital Corporation, the two most affected casino companies, to have written to the Treasury. Shares in London Clubs and Capital Corporation have fallen by 26 per cent and 20 per cent respectively since the Budget measure two weeks ago which increased the top rate of gaming duty from 33 1/3 per cent to 40 per cent. The four casino duty thresholds were also lowered. The measure, which came into effect yesterday primarily affects London casinos, which pay 80 per cent of gaming duty.
>
> London Clubs, the largest London operator, said if the increases had been applied last year, it would have paid 60 per cent of the sum, amounting to £12m - or 30 per cent of pre-tax profits. "It's a body blow to us. Where does it end? Are they going to attack us next year again?", said Alan Goodenough, chief executive of London Clubs yesterday. He said the company would consider moving its corporate headquarters to Las Vegas where the tax regime was less punitive and could also encourage its customers, more than 80 per cent of whom are from overseas, to gamble at its casinos outside the UK.
>
> The company would also no longer be able to invest in its London properties, which include Les Ambassadeurs and the Ritz casinos. Mr Goodenough called for the measure to be reversed or to be spread equally spread across the industry. Fund managers said they were concerned at the apparently arbitrary nature of the rise and questioned why it affected primarily two companies. Stan Pearson, head of UK equities at Scottish Widows, which has a 5 per stake in London Clubs asked whether the Budget measure represented a shift in attitude towards the gaming industries.

[23] HM Customs and Excise Budget press notice C&E12, 17 March 1998
[24] HC Deb 8 April 1998 cc 246-247W

"This has a material effect on the profits of London Clubs. Can we expect other industries to be hit similarly? What is next - property perhaps?"[25]

Legislation to this effect was included in that year's Finance Bill, and it was selected for debate by a Committee of the Whole House on 28 April 1998.[26] In response to the debate Dawn Primarolo (then Financial Secretary, now Paymaster General) discussed the concerns of the industry about the impact of these changes; an extended extract from the Minister's speech is reproduced below:

> Some serious points were made in the debate … The argument covered four categories: the phasing of the introduction of the increase; bad debt; indexation; and the structure of the bands that are being introduced, to which the hon. Member for Rochford and Southend, East referred particularly. He argued that the burden of the increase falls less on the profitable casinos and more on those in the middle band. Reducing the bands would not result in casinos other than the top, most profitable clubs paying increased amounts of duty. The Government's proposal is deliberately designed to spread the burden of the tax, attaching it to those casinos most able to bear it. It is the Government's opinion that the industry pays an unfair level of tax: it could pay additional tax. The industry's response has not been to dispute whether it could afford to pay the increase or whether it should pay it, but to argue about the distribution of the tax …
>
> Let me deal first with the changes to the gaming duty bands and the top rate of gaming duty. The House will wish to know that the casino industry is under-taxed compared with most other betting and gaming sectors. However, there is little scope for increasing the duty burden on smaller, less profitable casinos. There is every indication that the casino industry is thriving and can afford to pay the increased duty. Receipts of gaming duty are up on previous years and the drop -the amount staked at a casino - has increased, particularly in larger, more profitable casinos. In the 12 months to December 1997 - the most recent figures we have - the drop in larger, more profitable casinos increased by around 8 per cent. over the previous 12 months and the gross gaming yield increased by around 10 per cent. That demonstrates the industry's ability to pay more tax.
>
> Secondly, I am aware of the industry's representations on indexation and I am persuaded that there is a case for creating an environment that allows the industry and its investors a reasonable level of certainty in which to operate and plan. Therefore, I am prepared to give a commitment to index the gaming duty bands for the remainder of this Parliament. That said, I should make it clear that, if the business climate in which the casinos operate were to change significantly - through further deregulation, for example - we would not rule out the possibility of further restructuring the duty in future, to ensure that the level of taxation remained fair. Subject to that proviso, I accept the principle of indexation for the lifetime of this Parliament.[27]

The Minister went on to challenge the case made by the industry for increasing the duty thresholds:

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[25] "Fund managers in protest at casino tax rise", *Financial Times*, 2 April 1998
[26] HC Deb 28 April 1998 cc 221-237. This legislation is now set out in section 11 of the *Finance Act 1998*.
[27] HC Deb 28 April 1998 cc 233-4

I now turn to the restructuring of the bands proposed in amendment No. 15.[28] I am not persuaded by the argument that the amendment would reduce the liability of London casinos as the proposed changes would significantly reduce the revenue that we intend to collect from the casino industry. It is quite clear to the Government that the industry can afford to pay the additional duty. I am aware of the trade representations concerning the structure of the duty bands, in particular the impact of the Budget changes on some of the less profitable London clubs--those with gross gaming yields of between £5 million and £12 million--and the points that the hon. Member for Rochford and Southend, East made about his experience in Southend.[29]

(The then hon Member for Rochford and Southend, East - Sir Teddy Taylor MP - had argued at an earlier point in the debate that casinos outside London would find it much harder to pay the increase in duty: "In a seaside town - where things can be tough and where unemployment tends to be high - it seems irrational to impose the increase. In London clubs - where exciting people come from overseas countries, where they appear to be wealthy - one might see that there is an opportunity to get more tax.")[30]

However, Ms Primarolo went on to say she would consult on possibly amending the structure of the rate bands in the light of these concerns:

I shall continue to ensure that the forecast revenue yield on the measure is maintained, but as a member of a Government who are prepared to consult and listen, I am prepared to consider the industry's proposals on the best way forward in respect of the structure of the bands. As has already been said, my officials continue to discuss the issue with representatives of the industry. I shall report back to the House with my findings … As I have said on a number of occasions, the industry is under-taxed compared with most other betting and gaming sectors and we believe that it can afford and should pay the proposed increase in the name of fair taxation.[31]

A subsequent PQ asked the Minister about this particular assertion:

Mr. Brooke: To ask the Chancellor of the Exchequer, pursuant to the oral statement of the Financial Secretary to the Treasury of 28 April 1998, Official Report, column 234, what factors led her to conclude that the casino industry is undertaxed compared with most other betting and gaming sectors.

Dawn Primarolo: In reaching these conclusions, I took into account a number of factors. These included the effective rate of taxation on net consumer spend (effectively the house winnings) compared to other sectors of the betting and gaming industry, levels of profitability, turnover and the capacity of the industry to bear a higher burden of taxation.[32]

At the Report stage of the Finance Bill, Ms Primarolo moved an amendment to restructure the new rates of gaming duty: the new rates were the following:[33]

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28 The amendment proposed increasing the ggy band for 25% from £2.7m to £3.5m, whereas the Government has proposed cutting it from £2.7m down to £1.5m.
29 HC Deb 28 April 1998 cc 234-5
30 HC Deb 28 April 1998 c 225
31 HC Deb 28 April 1998 cc 235
32 HC Deb 30 June 1998 c 177W
33 HM Customs & Excise press notice 14/98, 30 June 1998

New rates		Budget proposals	
The first £450,000 of ggy	2.5%	The first £400,000 of ggy	2.5%
The next £1,000,000 of ggy	12.5%	The next £1,000,000 of ggy	12.5%
The next £1,000,000 of ggy	20%	The next £1,500,000 of ggy	25%
The next £1,750,000 of ggy	30%		
The remainder	40%	The remainder	40%

The Minister's explanation of the Government's amendment - which was accepted - is reproduced below:

> During an earlier debate on clause 11 on the Floor of the House, in response to points made by several hon. Members, particularly the hon. Member for Rochford and Southend, East (Sir T.Taylor), I undertook to re-examine the table in clause 11 and its specific impact on casinos outside London whose gross gaming yield was in the range of £5 million to £12 million annually. The hon. Gentleman said that the provision would have a damaging impact on casinos and cited the cases of casinos in his own constituency. Government amendment No.19 will replace the table in clause 11 - which will substitute for the table of gaming duty rates in section 11(2) of the Finance Act 1997 - introduce new 20 per cent. and 30 per cent. duty rate bands, and revise the gross gaming yield thresholds set out in clause 11.
>
> I agreed to consider the matter further, and there have been discussions with the industry on how the objectives could be achieved. In the light of representations about the impact of the Budget changes on the casino industry, I have tabled the amendment. I should say that, unfortunately, the industry was itself unable to reach any consensus on the model that it would prefer. I suppose that I should not be surprised that a number of individual groups offered proposals that met their own objectives but not necessarily those of their competitors. Government amendment No. 19 will reduce the burden on casinos that are within the £5 million to £12 million gross gaming duty range. The Government's amendment deals with the specific point that was raised and will significantly reduce the burden on casinos in that range.[34]

2. Subsequent developments

The Paymaster General Dawn Primarolo, gave a commitment during the debate of the Committee of the Whole House in April 1998 that duty bands would be increased annually in line with inflation for the life of the current Parliament, provided that any future changes in the business climate did not result in the level of taxation being unfair.[35] When an inflation-only increase in duty bands for 1999 was debated, Barbara Roche, then Financial Secretary, noted that, "the Government keep rates of gaming duty and all other duties under constant review, although we consider the present level of taxation to be fair and appropriate."[36]

[34] HC Deb 1 July 1998 c 373
[35] HC Deb 28 April 1998 c 234
[36] SC Deb (B) 11 May 1999 c 101

As it has transpired, duty bands have simply been increased in line with inflation in each Budget since then.[37] As a consequence the duty bands from 1 April 2006 were:[38]

Current rates	
The first £546,500 of ggy	2.5%
The next £1,212,500 of ggy	12.5%
The next £1,212,500 of ggy	20%
The next £2,124,000 of ggy	30%
The remainder	40%

During the Committee stage of the Finance Bill in May 2004, the then Economic Secretary John Healey, summarised the Government's approach:

> Simply put, the clause increases the duty bands for gaming duty in line with inflation, ensuring that their value is maintained. It is a measure that continues the practice of the last six Budgets. It is supported by the casino industry and is designed to prevent a tax increase being caused by the erosion in the value of duty bands by inflation.

The Minister went on to give a little more detail about the measure of inflation chosen to index the gaming bands:

> The 1997 Act was the first point at which the bands were set out in their present form. There was an increase in duties in 1998, but there is no change in the rates this year; instead there is a revalorisation of the bands to which those rates relate … The measure of inflation [used for the 2004 uprating] was the retail prices index. The figure for inflation was 2.8 per cent. That was the rate in December 2003, a figure taken by convention under an agreement with the industry that has been in place for five or six years.[39]

The following year the timing of the General Election saw a shortened *Finance Bill* being presented to the House, subject to very limited debate;[40] provision to increase duty bands in line with inflation was included in this Bill, but not discussed.[41] Throughout this period the Government's decision to index the gaming bands appears to have been uncontroversial and has not been raised at length in the House.[42]

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37 The *Finance Act 1997* contains the provisions which establish gaming duty in its current form. Subsequent Finance Acts which amend the duty bands simply amend the table of duty rates and bands set out in section 11(2) of *Finance Act 1997*.

38 HM Revenue & Customs Notice BN61, 22 March 2006

39 SC Deb (A) 6 May 2004 cc 56-8. This remains the case. For 2006 duty bands are to increase by 2.21% which was the RPI for the year ended 31 December 2005 (Bill 161–EN "Clause 10: rates of gaming duty").

40 *Finance (No.2) Bill* [Bill 104 of 2004-05] was scrutinised in its entirety on the floor of the House (HC Deb 6 April 2005 cc 1432-1491) and received Royal Assent the next day (HC Deb 7 April 2005 c 1641). A second *Finance Act* was passed after the Election, containing the remainder of the Government's Budget measures.

41 It now forms section 6 of *Finance Act 2005*.

42 Duty rates and bands for 1998 to 2006 are set out in, *Betting and gaming factsheet*, February 2006 (table 3.2)

D. Regulatory reform in the gaming sector

Summary
In March 2002 the Government announced that it would bring forward legislation to consolidate all gambling law "into a single Act of Parliament covering all categories of gambling activity."[43] Draft legislation was published in stages, and following consultation the *Gambling Bill* 2003-04 was published in October 2004. The *Gambling Act 2005* received Royal Assent on 7 April 2005.[44] The Act, which is due to come into force in September 2007, will allow three new types of casinos to operate in Britain: regional, large and small. Only one "regional casino" will be permitted, along with eight large and eight small casinos.[45]

In September 2005 the Government established an independent panel to advise on the location of all 17 of the new casinos; the Casino Advisory Panel published its final conclusions on 30 January 2007.[46] On 1 March the Government announced it had accepted these recommendations, and a single Order would be laid before the House to this effect.[47] The Panel's recommendation that the one regional casino be located in Manchester proved particularly controversial, and the Government lost the vote when the draft Order was considered by the House of Lords on 28 March.[48] The present position is that "Ministers are considering the implications" of this, and "will make a further announcement in due course."[49]

1. Proposals for deregulation

On 8 December 1999 the then Home Secretary, Jack Straw, announced that he would appoint an independent body to conduct a 12-month review of the laws governing gambling.[50] The terms of reference and membership of the Gambling Review Body (GRB) were announced the following spring,[51] and the 'Budd report' – after the GRB's chairman Sir Alan Budd – was published on 17 July 2001.[52] Following changes in departmental responsibilities that year, responsibility for gambling passed to the Department for Culture, Media & Sport (DCMS), and following consultation, in March 2002 the Department published its response in the white paper, *A safe bet for success* (Cm 5397). This made the proposal that all gambling legislation should be consolidated into a single Act of Parliament.

The next stage in this process was the publication of a draft Bill in a number of stages (in July 2003[53], November 2003[54], February 2004 and March 2004) and its consideration by a

43 *A safe bet for success: modernising Britain's gambling laws* Cm 5397 March 2002 p 6
44 Further background is given in the Library paper on the final Bill when it was presented to Parliament: *The Gambling Bill*, Library Research paper 04/79, 28 October 2004
45 The Department for Culture, Media & Sport collates material on the reform to gambling law on their internet site at: http://www.culture.gov.uk/what_we_do/Gambling_racing/
46 Details of the Panel's work is collated on its site at: http://www.culture.gov.uk/cap/index.htm
47 DCMS press notice 026/07, 1 March 2007
48 HL Deb 28 March 2007 c 1693. The Secretary of State gave the Government's initial response at the end of the debate on the draft Order in the Commons (HC Deb 28 March 2007 c 1601).
49 HL Deb 18 April 2007 c 65WA
50 HC Deb 8 December 1999 c 534W
51 HC Deb 16 February 2000 cc 537-538W; HC Deb 10 March 2000 cc 857-858W
52 DCMS, *Gambling Review report*, Cm 5206, July 2001. The Government's initial response was set out in a written answer at the time: HC Deb 17 July 2001 cc 80-81W.
53 DCMS press notice 081/03, 15 July 2003
54 DCMS press notice 132/03, 19 November 2003

Joint Committee of both Houses, which completed its report in April 2004. In November 2003 the Committee had invited written evidence on "the key issues" relating to the draft Bill, which – it is worth noting – included "tax implications – how the proposed deregulation will fit with the existing tax regime for different aspects of gambling."[55]

The Budd report proposed that the regulations governing casinos should be substantially reformed - affecting a wide range of issues, including planning permission for a new casino, membership requirements placed on prospective punters, and the limits placed on the variety of gambling products and other services offered by casino operators.[56] The report anticipated that, if accepted, these changes would make the establishment of 'resort casinos' – equivalent to those in Las Vegas and Atlantic City – a "legal possibility", although, "whether they would be an economic proposition in Blackpool or anyway else is a matter of commercial judgement."[57]

It lies beyond the scope of this note to discuss the regulation of casinos in depth. However, it may be helpful to reproduce a short section of the Joint Select Committee's report on the rules as they stood then:

> Under the *Gaming Act 1968*, casinos are highly regulated. They can only be located in designated 'permitted areas', of which there are 53 in the UK. Local authorities have a responsibility to consider demand before granting a licence. If the demand criterion is not demonstrated an application can be refused. Casinos are required to operate as private members' clubs with a 24 hours statutory interval between membership and play. This means that casinos in the UK tend to operate as small members' clubs serving specific and often local social groups rather than the general public. They can only open between 2pm and 6am on weekdays and until 4am on Sundays. Advertising is currently restricted and casinos are limited to having a maximum of 10 gaming machines, offering a maximum prize of £2,000.[58]

In the event the Government strongly endorsed the GRB's approach, agreeing that there "should be wide-ranging deregulation of casinos, which are currently subject to a number of controls which unnecessarily discourage innovation and restrict customer choice" although it also noted that "it remains important, however – in fact vital to the development of British casinos – that they retain their reputation, built up over the last 30 years, for honesty and integrity, and that they continue to be free from money laundering and other financial crime":

> The overall impact of these changes would be to create a regulatory environment within which – commercial and planning considerations permitting – it would be possible to establish in Great Britain 'resort casinos' of the type seen elsewhere in the world, for instance in Las Vegas or Atlantic City. The creation of resort casinos is not a specific policy objective of these changes. The extent to which schemes of this kind are promoted and taken forward will be primarily a matter for the private sector, subject to local authority approval. The Government will naturally be watching any such developments with interest, and will wish to ensure that any wider public policy considerations, for example, in relation to tourism or regional economic development,

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55 JCDGB Press Notice No. 3 of Session 2002-03, 19 November 2003
56 Cm 5206 July 2001 pp 140-44
57 Cm 5206 July 2001 para 24.37
58 Joint Committee on the Draft Gambling Bill, *Draft Gambling Bill*, 7 April 2004 HL Paper 63-I HC 139-I 2003-04 para 336

> are properly taken into account. But we see no case for granting preferred or pilot status to any particular developer or area.[59]

The proposals for deregulation were followed up in the draft Bill;[60] the Joint Select Committee summarised the main measures affecting casinos as follows:

> Under the draft Bill there will be a significant deregulation of the controls governing casinos, including:
>
> - removing the requirement to operate as private members' clubs, with a statutory interval between membership and play;
> - extending the gambling products casinos can offer, including betting and bingo, and the linking of gaming machines within a casino;
> - abolishing the demand criterion and 'permitted areas' rules;
> - allowing large casinos to have an unlimited number of gaming machines with unlimited stakes and prizes; and
> - allowing casinos to offer live entertainment and to advertise.[61]

The Committee raised a series of concerns about this part of the draft Bill. In response the Government proposed that there would be three categories of casino premises licence – for small, large, and regional casinos – with related restrictions relating to the division of space within the premises (casino tables, other gambling areas, and areas where gambling is not available), and to the other forms of gambling offered to punters. The third of these categories – 'regional casinos' – would offer the greatest amount of choice for consumers – including access to 'category A' gaming machines.[62] Particular concerns over the Government's proposals concerning regional casinos lead to the Joint Committee producing a second report in July 2004[63] to which the Government responded in September.[64] Notably *neither* document discussed the taxation of casinos. The Government published the final form of the Bill on 19 October. Changes to lift certain restrictions on the casino sector remained, as a press notice issued at the time made clear:

> The Gambling Bill will also lift some out of date restrictions on casinos and bingo halls, allowing them greater commercial freedom, providing they act in a socially responsible way.
>
> These include:
>
> - Removing the '24 hour' rule that means people must be a member of a casino or bingo club for 24 hours before they enter
> - Removing of the permitted areas rule that defines in law strict areas where casinos can be built
> - Allowing casinos to advertise in a limited way for this first time.[65]

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59 Cm 5397 March 2002 pp 18-19

60 HC Deb 19 November 2003 cc 36-7WS

61 HL Paper 63-I HC 139-I 2003-04 para 337

62 (Unlike other categories of gaming machines, these may offer a *range* of stakes and prizes, including – controversially – very large payouts.) For details see, DCMS, *Draft Gambling Bill: Government Response to the First Report of the Joint Committee*, Cm 6253 14 June 2004

63 *Report of the Joint Committee on the Draft Gambling Bill (Regional Casinos)*, 22 July 2004 HL 146-I HC 843-I 2003-04

64 DCMS, *Draft Gambling Bill: Government Response to the First Report of the Joint Committee on the Draft Gambling Bill (Regional Casinos)*, Cm 6330 22 September 2004

65 DCMS press notice 131/04, 19 October 2004

The Government also emphasized that the Bill would introduce important provisions in gambling law to protect children and vulnerable people which would extend to casinos. Introducing the Bill the Secretary of State Tessa Jowell said,

> "This is a Bill about new protections, not new casinos. The current law leaves people vulnerable and only new legislation will fix this. But we also have to recognise that gambling is a popular leisure activity enjoyed by millions of people. Adults need to be treated as grown ups and allowed to choose what they do in their leisure time. That's why I believe it is right to take this opportunity to remove some of the more draconian restrictions on casinos, such as the '24 hour' rule. However we will only allow extra choice where we are confident sufficient protections are in place to protect children and vulnerable people, and licences will be withdrawn if the new safeguards are flouted. This is my priority and this is why we need this legislation urgently."[66]

A regulatory impact assessment was published alongside the Bill; in its discussion of casinos, it noted that one expected benefit from implementing these changes was "higher revenue generation":

> With the removal of the demand test and the system of restricting casinos to "permitted areas" the number of casinos seems likely to increase from the current figure of 131, many from new builds. There is likely to be a move towards a higher proportion of large casinos offering a wider range of gambling activities. Some will offer a larger range of gaming machines with jackpot gaming machines with unlimited stakes and prizes. There will be the ability to link machines offering large prizes. This should increase casino turnover and therefore (all being equal) tax/duty revenue.[67]

2. Potential implications for gaming duty

There are six different duty regimes covering general betting, pool betting, bingo, gaming machines and the National Lottery, as well as casino gaming. Duty structures and rates vary considerably as do the yields from the various duties. Over the last few years the Government has made a number of changes to modernise the structure of general betting duty (in October 2001), pools betting duty (in April 2002) and bingo duty (in October 2003), and in July 2003 published proposals to reform the tax on machines (Amusement Machine Licence Duty).[68] (In the event, the Government decided not to pursue this reform, retaining amusement machine licence duty with some minor modifications.[69])

In its submission to the Joint Select Committee the Treasury noted that the proposed programme of deregulation "raises a number of challenges and issues on tax."[70] When giving evidence the then Economic Secretary, John Healey, told the Committee "there is a very important potential supplementary role for tax reform to reinforce and reflect the sort of

66 *ibid.*
67 DCMS, *Draft Gambling Bill: regulatory impact assessment*, October 2004 p 46
68 A summary of these changes is given in, HM Customs & Excise, *The modernisation of gambling taxes: consultation on the review of amusement machine licence duty*, July 2003 pp 3-8.
69 HM Revenue & Customs Budget Notice BN62, 22 March 2006
70 *Memorandum from the Economic Secretary to the Treasury on the Gambling Bill and Taxation (DGB 95)*, Minutes of Evidence 13 January 2004, HL Paper 63-II 2003-04

regulatory changes that [the draft] … Bill is looking at" and that work was going on in this area "but that on the tax side we are inevitably at a relatively early stage":

> Recently Lord McIntosh[71] and I have agreed that we should set up and formalise certainly between the two departments, DCMS and the Treasury. So we have set up now a formal steering group of officials to back the work that we need to do together. Principally, the first task of that group of officials will be to try and develop the analysis that allows us better to estimate the economic impact and the potential benefits from the deregulatory reform and, also, form the modelling that is obviously essential to considering any tax options for the future.[72]

Some details of the Government's thinking were given in the 2004 Budget:

> Following consultation, the Government has decided to defer any reform of Amusement Machine Licence Duty (AMLD), and any further major reform of other gambling taxes, to align with the Gambling Bill.
>
> Examination of the future of gambling taxation will include:
> - consideration of whether a gross profits tax structure for the lottery would be more efficient and provide a better basis for generating money for the good causes while protecting tax revenues. Furthermore, the Government intends that the same principles that apply to the existing National Lottery would apply to any Olympic themed lottery games;
> - development of the Government's work with the machines sector, following this year's consultation on AMLD, and in the context of Gambling Bill proposals;
> - re-examination of the tax treatment of Fixed Odds Betting Terminals (FOBTs), in light of the potential competition and machine definition issues they raise in a developing UK gambling industry;
> - continuing work with the industry to settle a fair and equitable tax treatment for betting exchanges and their clients; and
> - consideration of the appropriate tax treatment of hedged bets.[73]

The Committee's final report – which was published in April 2004 – made a number of observations on the taxation regime, but did not make any strong recommendations:

> **Changes to the taxation regime**
> 654. The Economic Secretary to the Treasury, John Healey MP, told the Committee that the tax regime for gambling could not be finalised until the modernisation of gambling legislation has taken place: "in terms of sequencing, the conclusion I would suggest is we can do the tax work and we can conclude our tax work only after elements of the regulatory regime have been properly settled".
>
> 655. The proposals in the draft Bill, particularly relating to casinos, will lead to a significant change to the gambling industry. There are currently "six different duty regimes covering general betting, pool betting, bingo, casino gaming, machines and the Lottery". Under the Government's proposals, casinos will be able to offer a wide range of gambling products within the same premises, most of which will be subject

[71] [Parliamentary Under-Secretary of State (Media and Heritage) Minister with responsibility for Gambling]
[72] HL Paper 63-II 2003-04 Q 375
[73] *Budget 2004* HC 301 March 2004 para 5.111

to different tax regimes. Written evidence from the Treasury concedes that "the proposed programme of deregulation raises a number of challenges and issues on tax". Barcrest note that "it is difficult to see how the existing taxation regime will fit with these proposals, as the profile of the casino sector will be dramatically altered".

This view was echoed by Business In Sport and Leisure, in their oral evidence to the Committee. Brigid Simmonds told us, "it would certainly be ridiculous to have four or five different types of taxation in a resort casino. I do not think it would work". Mr Kelly, Chief Executive of Gala told the Committee, "my view, and the view of the Cross-Industry Group is quite clear that there should be a gross profit tax regime (that is the most appropriate regime), that it should be a non-VAT regime - as the licensed betting offices and pools operators are - and that it should be levied at around 15 per cent".

Inward investment

656. The future tax regime, along with the regulatory environment, will be a critical factor in determining the level of inward investment that occurs as a result of the modernisation of gambling legislation. Brigid Simmonds of Business In Sport and Leisure told the Committee "investment will be dependent on taxation". The economic impact study carried out by Pion Economics for the Cross-Industry Group on gaming deregulation estimated that the level of inward investment could be as much as £5bn. Several foreign investors have expressed an interest in developing gambling businesses in the UK. Mr Byrne of Sun International told the Committee, "we have been planning to invest upwards of £500 million if the regulatory conditions are absolutely right and taxation and so on".

The London First Centre "urges for the setting of a sensible tax policy with a rate attractive to inward investors". Mr Kelly of Gala stressed the importance of a having a suitable taxation regime when he told the Committee: "Were the taxation regime deemed to be "draconian", then that might well have a negative effect - in fact, I think it is almost inevitable it would have a negative effect - on […] inward investment […] and on the investment decisions that overseas operators are currently making". The Association of British Bookmakers noted that this was particularly important for remote gambling. "It is essential that a competitive low-rate taxation regime for remote gambling is put in place if operators are to be persuaded to establish (or indeed retain) businesses in the UK"

657. **The Committee accepts that it is difficult to finalise the tax regime until the legislation is complete but encourages close co-operation between the Treasury and the DCMS on this matter.**[74]

The Government's response to the report was published in June 2004; on the particular question of taxation, DCMS said:

The Government welcome the Committee's recognition of the difficulty in developing tax regimes without full knowledge of the new regulatory environment. As John Healey MP, Economic Secretary to the Treasury, said in his evidence to the Committee, officials from the Treasury, Customs and Excise, and the Department for Culture, Media and Sport have been working together closely and will continue to do

[74] Joint Committee on the Draft Gambling Bill, *Draft Gambling Bill*, 7 April 2004 HL Paper 63-I HC 139-I 2003-04 pp 167-9

> so through the steering group sponsored by John Healey MP and Lord McIntosh of Haringey. The Treasury will use this work when it considers the options for the future gambling tax regime.[75]

Following the publication of the *Gambling Bill* in October 2004, it was reported that the industry were keen to see changes in the tax regime to ensure that regional casinos could be established successfully in the UK.[76] This was one theme in submissions by the industry to the Joint Select Committee on the draft Bill. One casino operator – MGM Mirage Development – raised this issue at some length in its written memorandum:

> We observe that the current rates of gaming duty are prohibitively high and will potentially make less attractive the type of high levels of capital investment required to build large gaming and entertainment complexes. We have made separate presentations to Her Majesty's Treasury and to Her Majesty's Customs and Excise showing, among other things, the relationship between jurisdictions with low and stable taxation rates and resulting high investment and jurisdictions with high tax rates and therefore low investment, as well as our estimated projections on the levels of employment, both construction and operational (direct and indirect), that the new legislation could create …
>
> Currently, table game revenues in the United Kingdom are subject to gaming duty and are VAT exempt. Slot machine revenues are subject to VAT (plus a machine licence fee). We believe that table games and slot machines should be common rated. One approach would be to introduce a Gross Profits Tax. However, in this instance, to achieve a financially viable rate, gaming revenues ("gross gaming yield") would need to be exempt from VAT or zero rated.
>
> If exempt, this would create significant irrecoverable VAT on initial capital investments, annual recurring capital expenditures as well as operating costs. This would be a significant deterrent to investment: we estimate that if gaming revenues were exempt, the irrecoverable VAT would give rise to an up-front additional tax of approximately 8 per cent to 10 per cent on the cost of investment plus an additional annual recurring tax of approximately 4 per cent on gaming revenues.
>
> The alternative, and in our opinion better, approach of establishing a common-rated effective gaming tax rate would be to make all gaming activities subject to VAT at the standard rate or zero rate gaming activities with a Gross Profits Tax set at a rate equivalent to the VAT standard rate. Her Majesty's Customs and Excise has invited comments on Machine Licence Duty and we have submitted a formal response, which articulates our thoughts relating to this key issue in more detail, a copy of which we will gladly provide should you so request.[77]

In evidence before the Committee the European managing director of this company – Lloyd Nathan – along with other industry executives, expressed their views on the matter:

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75 DCMS, *Draft Gambling Bill: Government Response to the First Report of the Joint Committee*, Cm 6253 June 2004 p 45

76 "US casinos will not come to Britain unless tax rates cut", *Independent*, 26 October 2004

77 *Memorandum from MGM Mirage Development Ltd (DGB 56)*, December 2003 in HL Paper 63-II 2003-04 Ev 169. The issue was also raised in evidence submitted by other industry players: Ev 163-4 & 171. Responses to the proposed changes to AMLD are given in, HM Customs & Excise, *Consultation on the Review of Amusement Machine Licence Duty: A Summary of Responses*, January 2004 [Dep 04/194].

Q505 Lord Brooke of Sutton Mandeville: … What, if any, changes to the current tax regime would affect your willingness to invest?
Mr Nathan: Again, there would have to be two main changes. One is that the current tax rate with respect to gaming duty would be prohibitive to the type of large-scale investment that we would see in this country, and secondly, we are very concerned about irrecoverable VAT, with both slots and table games not subject to VAT. If I can put that simply, machine income is currently subject to VAT and on a table the income is not. Therefore, any VAT on what would be a significant investment in construction could at present be recovered from machine income. However, if machine wins were then to be amalgamated with table wins and attracted gaming duty, an operator would not be able to recover that VAT and that would be a significant deterrent to investment.
Mr Byrne[78]: It would simply be necessary to move from gaining the VAT in a sense to VAT zero rates which would make it recoverable.
Mr Tottenham[79]: I would endorse that view entirely.
Mr Prior[80]: I concur with those views …

Q507 Lord Brooke of Sutton Mandeville: I readily understand that in a situation with, at the moment, quite a lot of variables that must make planning and decision making quite difficult … you have got to make decisions that involve the regulatory regime, planning and taxation. At the moment out of 0-100 what is your degree of confidence with what you understand to be the regime you are going to be under in each of those categories?
Mr Tottenham: I will try. On tax I think the answer is that the degree of confidence is fairly low. We just do not understand as yet what the tax regime will be. Until such time as that is clarified we cannot make any commitment to invest in this country. In terms of the regulatory regime, I think we feel reasonably confident because we can look to the experience of the Gaming Board and how they have regulated this industry, and we can be comfortable that an environment will be created where we can operate effectively.[81]

It was also reported in the press that DCMS took the view that tax rates on gaming should be cut to ensure the impact of the Gambling Bill was 'revenue neutral'.[82] The Secretary of State, Tessa Jowell, was asked about the issue at the second reading of the Bill on 1 November 2004:

Mr. Peter Viggers (Gosport) (Con): The right hon. Lady's Department said that the Bill would be revenue-neutral, implying a very substantial reduction in gambling duty. Although that statement was later slapped down, was the reduction in gambling duty discussed when the Labour party fundraiser Lord Levy met representatives of the international gambling industry?

Tessa Jowell: No, it was not. Secondly, the reference to revenue-neutrality was an error. It was a term in common use that was misunderstood. [Interruption.] Let me explain. The point being made was that revenue is not a motivator for this legislation. It is my job as Secretary of State for Culture, Media and Sport to establish the

78 Mr Peter Byrne, Executive Director, Sun International
79 Mr Andrew Tottenham, UK Representative of Caesar's Entertainment (formerly Park Place Entertainment)
80 Mr Tobin Prior, Chief Executive Officer, UK Gaming, Kerzner International
81 HL Paper 63-II 2003-04 Qs 505-7
82 "Secret offer to cut tax on casinos fuels Brown anger", *Times*, 25 October 2004

> regulatory framework; it is the Treasury's responsibility to establish the taxation regime. [Hon. Members: "Ah!"] Precisely. The taxation regime will follow once the regulatory regime is in place. I do not think that anything has changed very much on that front in the past seven and a half years.[83]

As the Bill progressed, the provision for large-scale "regional" casinos proved to be one of its most controversial features, and during its Committee stage in November the Government signalled that it had had taken on board criticisms that, in the words of the Minister, Richard Caborn, "the proposed licensing controls, working alongside the planning system, would not be strong enough to guard against the proliferation of gambling facilities hitherto untested in this country, or against the location of regional casinos in unsuitable areas."[84] As a result the Government introduced new clauses setting limits to the numbers of new casinos to be permitted in each category, setting the number of regional casinos at eight.[85] This limit was later reduced to one as the Government faced further opposition and the timing of the 2005 General Election created a tight deadline for the Bill to complete its passage through the House.[86]

3. Recent developments

The Government's approach to gambling taxation was raised in relation to the taxation of internet gambling in a written answer in February 2005:

> **Dr. Starkey:** To ask the Chancellor of the Exchequer what plans are being developed by Customs and Excise to levy a tax on internet gambling.
>
> **John Healey:** Betting via the internet already falls within the scope of general betting duty and is taxed at 15 per cent. of gross profits. Existing social legislation makes no provision for licensing internet-based gaming so all such gaming is currently provided from outside the UK and is beyond the scope of UK tax. The Gambling Bill will introduce new licensing arrangements for all forms of gambling via the internet and other 'remote' media (such as mobile telephones and interactive digital TV). HM Treasury, together with HM Customs and Excise, will consider the tax implications of this as part of a wider examination of gambling taxation in the light of the Gambling Bill changes.[87]

The Government gave an update on its review of gambling taxation in the *Pre-Budget Report* in December 2005; in this it stated that "the current taxation arrangements for gambling are generally working well at present and that maintaining stability in the overall structure of taxation is desirable in a period of transition." However, certain minor changes would be make to align the tax regime with the *Gambling Act*:

> 5.111 The Government is committed to a modern and fair gambling tax system, consistent with wider tax principles and with supporting social and economic

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[83] HC Deb 1 November 2004 c 30
[84] SC Deb (B) 16 November 2004 c 139
[85] DCMS press notice For more detail on the changes made to the Bill in the Commons see, *Gambling Bill*, House of Lords Library note LLN 2005/003, 2005
[86] HL Deb 6 April 2005 c 855
[87] HC Deb 7 February 2005 cc 1241-2W

objectives. Budget 2004 announced that the Government would review gambling taxation in light of the Gambling Bill. This review has benefited from substantial input from stakeholders. The Government has considered taxation arrangements within the wider context of changes to regulation, technology and gambling markets. It has concluded that the current taxation arrangements for gambling are generally working well at present and that maintaining stability in the overall structure of taxation is desirable in a period of transition. In these circumstances, the Government has therefore decided to maintain the current regimes which are working well for betting, betting exchanges, lottery and bingo, and to retain the system of amusement machine licence duty (AMLD), rather than move to a gross profits tax.

However, the Government will make some modifications to align the tax regime with the Gambling Act:

- the definition of a gaming machine for VAT purposes will be aligned with that of the Gambling Act, with effect from tomorrow. From Budget 2006, the AMLD regime will also be aligned with the Gambling Act;
- the Government will consider options for simplifying the administration of AMLD and reducing compliance costs; and
- following the Gambling Act's provision for remote gaming licences to be offered in the UK, remote gaming will be brought within the scope of gambling taxation. The rate of taxation will be set in Budget 2006.[88]

In January 2006 there were reports that the number of regional casino licences might be increased if there were sufficient support from local authorities, MPs and the public,[89] although a written answer the next month the Government stated that it did "not believe the case has yet been made for an increase."[90]

In *Budget 2006* the Government confirmed the changes to AMLD that had been announced previously, but went on to state that reform to the tax treatment of remote gambling would be deferred: "so that the tax system can reflect detailed regulations for the sector being developed by the Gambling Commission."[91] The Financial Secretary John Healey referred to this issue when the Standing Committee scrutinising the Finance Bill considered the increase in gaming bands for 2006:

Increasing the value of the duty bands in line with inflation ensures that the real value of the thresholds above which the casino operator is liable to pay the higher rate of tax are maintained. In looking at the decisions on gaming duty bands, there has been a question on the taxation of remote gaming. As we confirmed in the Budget, we are not looking to make announcements on the taxation of remote gaming until Budget 2007 so that the tax system can reflect detailed regulations for the sector. They are currently being developed by the Gambling Commission and are planned to be ready by the autumn.

The industry acknowledges the international nature of the remote gaming industry and recognises that it raises difficult issues for taxation. Nevertheless, the

88 Cm 6701 December 2005 pp 114-5. Further details were given in, HM Revenue & Customs Business Brief 23/05, 5 December 2005.
89 "Scramble for super-casino turns into lottery", *Financial Times*, 20 January 2006
90 HC Deb 8 February 2006 c1294W. For more details on this issue see, "New casinos", Library standard note SN/HA/3930, 23 February 2006
91 HC 968 March 2006 paras 5.112-3

Government will continue the work with the industry over the coming months to consider the shape and rate of a valid tax regime for remote gaming. It is not an easy issue. There are many factors influencing the decision by remote gaming operators about where to locate. It is not clear that the rate of remote gaming duty will be the decisive factor. There may not be a tax solution to the aspiration of bringing remote gaming operators onshore into the United Kingdom and therefore under UK jurisdiction for social regulation purposes. The decision to delay an announcement resulting from the Budget 2006 on the remote gaming system and bands has been warmly welcomed by the Remote Gambling Association. Officials and I met members of the Remote Gambling Association before the Budget and shall continue meeting them to discuss the implications of this issue.[92]

As noted above, the Government is reconsidering its options following the rejection by the House of Lords on 28 March 2007 of the draft Order to determine the location of the 17 new casinos to be created under the 2005 Act. Following the vote the *Times* reported that, "Ministers are weighing up a Tory offer to allow the 16 proposed smaller casinos – 13 of which are in Labour areas – to sail through Parliament or whether to return to the Lords to try to secure a supercasino for Manchester."[93] Coincidentally with these developments, new tax levels for gambling were announced in theThe question of gaming duty does not appear to have been discussed in this context, though the implications of the Act for tax receipts was the subject of a short written answer:

Mr. Pickles: To ask the Chancellor of the Exchequer what assessment the Government have made of the effect on tax revenues of the implementation of the Gambling Act 2005.

John Healey: The Government have not made an assessment of the overall effect on tax revenues of the implementation of the Gambling Act 2005.[94]

E. Budget 2007

In his Budget speech on 21 March 2007 the Chancellor Gordon Brown announced, "I propose to align the bottom two rates of gaming duty at 15 per cent, and for the largest casinos to set a 50p rate."[95] The Budget report gave further details of this change, and the new duty to be imposed on remote gaming:

The Government today announces changes to Gaming Duty bands and rates. These changes increase the effective rate of duty on the majority of casinos to 15 per cent, in line with the rate applied to other parts of betting and gaming, and introduce a new top rate of 50 per cent to ensure that this vibrant and expanding sector continues to make a fair contribution to tax receipts … Following consultation with affected businesses, Finance Bill 2007 will introduce a new duty of excise known as Remote Gaming Duty on the net receipts from remote gaming of all operators licensed by the

92 SC Deb (A) 11 May 2006 cc 87-8
93 "Cabinet 'bent on revenge' after casino vote defeat", *Times*, 30 March 2007
94 HC Deb 20 June 2006 c 1856W
95 HC Deb 21 March 2007 c 823

> Gambling Commission. The rate of Remote Gaming Duty will be set at 15 per cent, in line with the rate of General Betting Duty.[96]

The new duty rates are estimated to raise £30 million in 2007-08, rising to £35 million in 2008-09. The new duty on remote gaming is expected to have a negligible effect on the Exchequer, amounting to less than £3 million a year.[97]

The new rates and bands for gaming duty are set by clause 7 of the *Finance Bill 2007*. This is to apply for accounting periods beginning on or after 1 April 2007. (Gaming duty is charged on premises in respect of accounting periods of 6 months, beginning 1 April and 1 October with interim 3 monthly payments.) The old and the new tax structure for gaming duty is set out below:[98]

Current					
Tax Rate	2.5 per cent	12.5 per cent	20 per cent	30 per cent	40 per cent
GGY	£546,500	£1,212,500	£1,212,500	£2,124,000	Remainder
Amended					
Tax Rate	15 per cent	20 per cent	30 per cent	40 per cent	50 per cent
GGY	£1,836, 500	£1,266,000	£2,217,500	£4,680,000	Remainder

Clause 8 and schedule 1 of the Bill introduces the framework for taxing remote gaming by extending the existing legislation on gambling duties.

Following the Budget the casino industry argued that the new duty regime could make some casinos unviable:

> The casino industry predicted closures and job losses following the chancellor's unexpected increases in casino duty, as operators accused ministers of a schizophrenic attitude towards gaming. Shares in Rank dived 6 per cent, on top of a drop of 4 per cent on Wednesday afternoon. The casino operator said the introduction of a flat 15 per cent levy and a rise from 40 to 50 per cent on duty for big-profit casinos would cost it £8m a year. Ian Burke, Rank's chief executive, said the extra duty represented a 25 per cent hit on operating profits. "This comes straight off the bottom line; we can't pass these costs on to customers. I am not really sure the government themselves crunched the numbers to see the impact on the casino business," Mr Burke said. "It seems the more successful you are, the more your revenues are hit. How can you make sensible long-term investment decisions if rules change at a whim?" The duty increase comes ahead of Wednesday's vote by MPs on

[96] HC 342 March 2007 paras 5.129, 5.128
[97] HC 342 March 2007 p 209, 223
[98] *Finance Bill 2007: Explanatory Notes*, March 2007 (clause 7)

> whether to accept the recommendations of the Casino Advisory Panel on the location for 17 new casinos, including the supercasino proposed at Manchester.
>
> The British Casino Association said operators for the licences would need to factor in the new duty levels in their bids, undermining the regeneration pots available to the local authorities holding the licences. "It does seem that the government are very schizophrenic about what they want to achieve," said Penny Cobham, chairman of the BCA. "On one hand, they are talking about developing new casinos, that enables money to go into regeneration, and at the same time they've brought in hugely increased tax rates." Rank and the BCA say the increased duty, which gives the Treasury an extra £100m from casinos in the next three years, would make some casinos, particularly in the regions, unviable. Rank has already seen its forecasts downgraded by the introduction in the summer of the smoking ban in England and Wales which will hit profits in bingo. Gala Coral, the other big casino and bingo operator, declined to comment. Both companies were hoping for relief on bingo duty, claiming that clubs in some of Labour's heartlands would close. But the Treasury was unswayed. Andrew Lee, an analyst with Dresdner Kleinwort, said the increased duty would constrain investment in the casino industry and stall new entrants.[99]

Following the Government's defeat on 28 March over the location of new casinos, several papers suggested that the rise in gaming duty indicated the Chancellor's opposition to this aspect of the 2005 Act. The *Guardian* reported that "MPs believe Gordon Brown is not keen to see an expansion of the gambling industry, citing the 50% tax rate he introduced for the largest casinos in last week's Budget."[100] The *Financial Times* reported that "the Chancellor's scepticism [for liberalising gambling], evidenced by his decision to impose a 50% tax on big casinos in the Budget, means a Brown premiership would be unlikely to sanction a new super-casino."[101] Of course it could be argued that the duty rate changes simply show the wish to ensure that the financial benefits of liberalisation are shared between the industry and the Exchequer.[102] However, the issue does not appear to have been raised at any length in the House, say in the Treasury Committee's report on the Budget, or during the second reading of the Finance Bill on 23 April.

Turning to the new duty on remote gaming, ss 67 & 89 of the *Gambling Act 2005* create a new class of "remote operating licence", allowing the website (or any "remote gambling equipment") to be based in Great Britain and licensed by the Gambling Commission.[103] Effective regulation is seen as fundamental to securing confidence in this change to the law, as a DCMS position paper on this issue has emphasized, "For various reasons more questions may be asked of the new online gaming sector than any other part of the gambling industry. It is untested, it lacks many of the physical controls available to premises based gambling, it facilitates unsupervised gambling, and it will be more widely available than any

99 "Casinos warn of closures after increase in duty", *Financial Times*, 23 March 2007

100 "Lords throw out plans for Manchester supercasino", *Guardian*, 29 March 2007

101 "Lords vote topples plans for new casino", *Financial Times*, 29 March 2007

102 By comparison, the Conservative Government's decision to charge duty on lottery tickets when the National Lottery was launched in November 1994 was not taken as a sign that the Government were sceptical about the benefits of the Lottery being a success.

103 For details on the development of Government policy in this area see, "Online gambling", Library standard note SN/HA/4041, 24 May 2006

other gambling product. This underlines why the Government attaches so much importance to regulating it effectively."[104]

The Government has not made a formal estimate of the number of online casinos that may elect to be registered:

> **Mr. Don Foster:** To ask the Secretary of State for Culture, Media and Sport whether her Department has made an estimate of the number of online casinos that will be based in the UK from September 2007; what the Gambling Commission's most recent estimate is of the number of remote casino operators based on-shore from September 2007; what discussions she has held with Ministers at HM Treasury on the taxation of online casinos; and if she will make a statement. [130036]
>
> **Mr. Caborn:** Neither DCMS nor the Gambling Commission has made a formal estimate of the number of online casinos that will be based in Great Britain from September 2007. However, from September 2007, the Gambling Commission will have records of all new holders of remote operating licences. The Secretary of State regularly discusses a wide range of subjects with Treasury Ministers.[105]

That said, the Commission has published statistics on participation in remote gambling recently: the key findings of the research were:

- In 2006 nearly 8% of adults said they took part in at least one form of remote gambling, including the National Lottery, in the previous month. This falls to under 6% if those only gambling on the National Lottery are excluded. The remaining 92% of respondents said they had not participated in any form of remote gambling.
- The National Lottery is the main activity for remote gambling, with over 5% of respondents saying they had gambled remotely on the Lottery in the previous month, which is around two and half times the next most popular activities of on line poker and remote betting (horses, football etc).
- Those participating are more likely to be male than female and aged 18-34.
- Remote gambling via a computer, laptop or handheld device was most popular (5.2% of all adult respondents gambling this way in the previous month), followed by gambling via mobile phone (2.2%) and interactive/digital TV (1.7%).[106]

In February 2007 HM Revenue & Customs published a consultation paper, setting out its position on the shape of the new tax regime:

> The Government deferred introducing legislation in Budget 2006 as at that stage it was unclear how the licensing principles set out in the Gambling Act would apply in practice. Since then the Gambling Commission has consulted on many aspects of the detailed regulatory framework and although this work is still in train it has progressed sufficiently for the Government to take a view on the design of the new tax framework for remote gaming. Legislation will be introduced in the 2007 Finance Bill to ensure

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[104] DCMS, *The future regulation of remote gambling: a DCMS position paper*, April 2003 para 39
[105] HC Deb 27 March 2007 c 1429W
[106] Gambling Commission press notice, *Gambling Commission publishes statistics on participation in remote gambling*, 27 February 2007. The Commission's survey is available at: http://www.gamblingcommission.gov.uk/Client/detail.asp?ContentId=184

that the necessary tax arrangements are in place when the new licensing regime comes into force. Over the past two years HMT has had a very constructive dialogue with the industry to analyse the issues surrounding taxation of the remote gaming sector and to identify possible models for the tax regime.

Against this background Ministers have now reached conclusions on the overall policy approach and shape of the tax regime and do not wish to consult further on these aspects at this stage. However the Government would welcome industry input on the detail of the draft legislation to ensure that it has the intended effect and that proposals for the administration of the tax are workable and efficient. In this context we invite comments from the industry on the draft Finance Bill clauses attached. Please note that the section of the draft clauses that deals with the rate of the remote gaming duty does not contain a final decision on the rate. The rate of remote gaming duty has already been the subject of extensive informal consultation with the industry and the Government will announce the tax rate in Budget 2007.[107]

The document went on to explain that in setting the scope of remote gaming duty, it sought to minimise any impact on other gambling taxes:

In its 2005 Pre Budget report the Government indicated that it had reviewed gambling taxation in the light of the changes to regulations, technology and the market. It concluded that generally the existing tax system was working well and that maintaining stability, as far as possible, would be helpful during the period of transition. In keeping with this principle of minimising disruption to the existing tax regimes the Government is disinclined to amend the existing duties to accommodate remote gaming but instead proposes to create a new duty of excise ("remote gaming duty"). This will, like other duties of excise, be under the care and administration of HM Revenue and Customs. It is intended that remote gaming duty will be a self assessed tax and businesses will be required to apply for registration and account for duty themselves. The Government's aim is to extend the scope of tax only in so far as is necessary to bring gaming activity that is delivered remotely within the tax net. It will, therefore, exempt any supplies of gambling that are already charged with, or specifically exempted from, another form of gambling tax. This will ensure that we do not disturb the existing gambling tax regimes and we avoid the risk of taxing the same activity twice.[108]

Further details were given in the regulatory impact assessment for the new duty, published alongside the Budget, on why a separate duty regime was needed:

Existing gaming duty, which is applied to the 21 casino games explicitly listed in the Finance Act 1997, and played on bricks and mortar premises, is a banded structure of taxation with the top band of 40% applying to any casino with a gross profit from gaming in excess of £2,124,000. This structure would be totally inappropriate for a UK online gaming market. Online gaming is not premises based, it offers games that when taken out of their premises based form and offered remotely are very hard to define, and it is worth an estimated £450 million in 2005, of which single sites can account for up to 1/6th.[109]

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[107] HMRC, *Remote gaming duty: taxation of online gaming*, 2 February 2007 p 1. This is available on HMRC's site at: http://customs.hmrc.gov.uk/channelsPortalWebApp/downloadFile?contentID=HMCE_PROD1_026753

[108] *op.cit*. p 2

[109] HM Revenue & Customs, *RIA for a new duty of excise called 'Remote Gaming Duty'*, March 2007 para 9

The assessment also underlined the reason why the Government had decided this form of gambling *should* be taxed: “The ‘do nothing’ option would create the potential for a commercial gambling activity to be offered from the United Kingdom, without being subject to gambling taxation of any sort. This would create inequity with our treatment of other forms of betting, gaming and lotteries which fall within one of the existing six duty regimes for gambling activities.”[110]

Prior to the Budget the *Daily Telegraph* reported that the industry were keen to see the duty rate set at 2-3%:

> The Treasury's willingness to embrace online gambling is in sharp contrast to the authorities in the United States, which last year launched a drastic crackdown on the industry. The success of the plan depends on the exact level of Remote Gaming Duty, but Andrew McIver the chief executive of Sportingbet, currently based in Antigua, said he intended to apply for a UK licence if the duty was "a nominal amount". Clive Hawkswood, the chief executive of the Remote Gambling Authority, the online gaming trade body, justified the low rate of tax because "these companies have grown up in zero tax jurisdictions. They operate on very thin profit margins. A 15pc gambling duty would wipe out half the industry overnight."[111]

As it transpired the rate was set much higher than this: “Legislation will be included in *Finance Bill 2007* to introduce a new duty of excise on the gaming profits of remote gaming operators. Remote gaming refers to playing a game of chance for a prize by the use of remote communication - for example, the internet, telephone or television. The rate of duty will be 15%.”[112] The industry’s reaction was that this would be far too high to result in any companies choosing to be licensed in the UK:

> Online gambling companies will be deterred from applying for a UK licence by the new 15 per cent tax set by Gordon Brown, industry experts predicted yesterday, casting doubt on the country's hopes of becoming a world leader in remote gaming. The level is in line with the duty imposed on other forms of gambling and is much higher than the 2-3 per cent companies were lobbying for in order to justify switching their licences to the UK. The chancellor also made life harder for bricks-and-mortar casinos, raising the bottom rate of tax from 2.5 per cent to 15 per cent on profits for most casinos and increasing the rate for the big high-roller casinos from 40 to 50 per cent. The British Casino Association estimates the increase will cost operators £100m over three years and Rank warned the Stock Exchange that the increase would hit the company by £8m a year. The Remote Gambling Association said the duty level set by the chancellor in effect closed the door on remote gambling in the UK.
>
> The UK's new licensing regime, which comes into effect on September 1, faces competition from low-tax offshore locations such as Gibraltar, Malta, Alderney and the Isle of Man. Clive Hawkswood, RGA chief executive, said the 15 per cent level was unrealistic and blew a hole in the government's liberalisation of gambling laws. "Given the overall tax burden, it is very hard to see how any remote gaming operation could be profitable in the UK." Ministers, he added, had frequently said the gambling act was driven by the need to regulate remote gaming. "They will not now be able to do

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110 *op.cit.* para 10
111 “Brown set to lure web gaming in from cold”, *Daily Telegraph*, 23 February 2007
112 HM Revenue & Customs Budget Note BN73, 21 March 2007

that and the UK will not share in the growth of the fastest-growing sector of the international gambling industry. The British government has missed a real opportunity to lead the way in terms of international regulatory standards." Jason Chess, of media lawyers Wiggins, said: "This is where the whole project of bringing the offshore operators on shore hits the buffers." Martin Dane, tax principal at BDO Stoy Hayward, said the 15 per cent rate "sounds the death knell" for the country's aspiration as a regulated online gaming world leader. Karen Potts, betting and gaming tax partner at Deloitte, said the casino tax increases were likely to reduce the number of bids for the 17 new licences. "If operators are paying up to 50 per cent gaming duty then there is less money for investment in local regeneration - a key element of the bid process," she said. The Treasury has argued that online gambling companies need to take into account the reputational and regulatory benefits of being licensed in the UK. A spokesman said: "We will not get into some sort of race to the bottom. We are looking at a rate that is right for the UK. This offers a fair and competitive environment across all types of gambling."[113]

However, HMRC's impact assessment of the new duty regime suggests that firms *will* be encourage to register:

We estimate that there are around 1,700 firms operating in the remote gaming market. On simple economic grounds, the firms most likely to move to Great Britain and pay the new remote gaming duty are the smaller providers. To see why this is the case, consider the example of the Isle of Man, home of 5 online gaming sites. In the Isle of Man the licence fee is £35 thousand per annum. The table below shows the marginal tax rate that is paid on gross gaming yield between specified bands.

Gross Gaming Yield	Tax Rate
Up to £20 million	1.5%
£20million - £40million	0.5%
Over £40 million	0.1%

Therefore, a firm with a gross gaming yield of £50,000 will pay £750 in tax and £35,000 in the form of licence fee. This equates to an effective rate of payment to government (tax and the licence fee) of 71.5%. However, a firm making £500,000 gross gaming yield will pay £7,500 in tax and £35,000 in the form of a licence fee. This equates to an effective rate of payment to government (tax and the licence fee) of just 8.5%.

In summary, at very low levels of gross gaming yield, the effective rate of payment to government is high in the Isle of Man, but as gross gaming yield rises, it drops sharply because tax on gross gaming yield is such a small part of the cost of locating in the Isle of Man. Tax on gross gaming yield is a small part of the cost of locating in all of the tax havens for remote gaming. It may, therefore, be easier for Great Britain to attract the smaller providers to its shores.[114]

In addition, the prospect of being regulated by the Gambling Commission is likely to be more attractive to UK facing firms than to firms where the UK makes up a smaller

[113] "Increase loads dice against online gambling companies," *Financial Times*, 22 March 2007

[114] This is before taking into account the benefits of other remote gaming tax "breaks" in off shore jurisdictions e.g. Corporation tax at 0% (provided the site does not accept bets from Isle of Man residents), zero rate of income tax for employees of e-gaming companies etc.

> portion of their customer base. There may be revenue benefits accruing to UK facing firms that choose to be regulated in and pay UK tax. In particular being regulated by the UK may make the operation more attractive to customers, particularly those in the UK, and so increase revenues. Again, most research has concluded that the benefits of being regulated by the UK will be greater for smaller firms since larger firms typically have established reputations that do not rely on being in the UK.[115]

Much as with the rise in gaming duty rates, this issue does not appear to have been raised at any length in the House, to date.

[115] *RIA for a new duty of excise called 'Remote Gaming Duty'*, March 2007 paras 14-18