The Duty to Differentiate

How gambling tax reform can raise revenue for the Government, reduce harm to the public and save British horse racing

James Noyes

SMF Social Market Foundation

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ABOUT THE AUTHOR

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Dr James Noyes is a Senior Fellow of the Social Market Foundation. He previously helped lead the Labour Party's policy agenda on gambling reform and has written a number of reports on the subject.

FOREWORD

This report is a welcome contribution to the Government's review on gambling taxation. As the Treasury considers changes, it is vital that they reflect the real impact of gambling on people's lives.

This report challenges the idea of applying a single tax rate to all types of online gambling – so-called harmonisation – and instead makes the case for treating different products differently, based on their risks and contributions to society.

The evidence is clear: some gambling products – like online slots – cause far more harm than others. These harms carry huge costs, from personal debt and family breakdown to rising pressure on public services. Our tax system should reflect this. It is not right that more harmful, low-employment sectors pay less tax than less harmful ones that bring greater social and economic value, like horse racing.

What I like about this report is how practical its suggestions are. It does not just highlight the problems – it shows how we can fix them. Raising tax on online operators who are often based offshore, while easing the burden on sports like horse racing is a fair and balanced approach. The idea of protecting small businesses and treating betting on all sports equally also makes a lot of sense.

Most importantly, this approach could raise up to £2 billion a year. That money could be spent on reducing child poverty or supporting the deprived communities that are targeted by gambling operators. These are smart, fair ideas that deserve serious attention. I encourage Ministers to take this report seriously and act on its proposals.

By Alex Ballinger MP

EXECUTIVE SUMMARY

This report is a published version of a submission that the Social Market Foundation made to the Government's 2025 consultation on the tax treatment of remote gambling. The Government is considering replacing the existing three rates of remote gambling duty with a single Remote Betting and Gaming Duty (RGBD). In the words of the Government, this would deliver a "modern, resilient, and agile tax system", making it easier for businesses to comply. The purpose of the Consultation was to gather views on the shape, scope, coverage, administration, and enforcement of the proposed RBGD.

The Consultation asked whether respondents supported its proposal to merge the three existing taxes for remote gambling. In this report, we argue against the principle of merging, or what we call tax harmonisation. Rather than a single duty, Government should continue to differentiate between sectors based on their economic contribution and the fiscal costs caused by their activity – as is common practice in other jurisdictions and with other types of duty. In terms of gambling, this also means differentiating based on the relationship between that activity and any harm to individuals and society.

Britain's current gambling tax system is distorted by outdated rules and perverse incentives. Some types of remote gambling (such as online slots) are proven to be more harmful than other types of land-based gambling, while some land-based types of gambling are shown (according to the industry's own figures) to support more economic activity.[1] Yet the tax system does not reflect this. The lower-employment, low-cost, higher-harm remote casino sector pays less tax than its equivalent land-based sector. We argue that this should be reversed. Remote gambling should be taxed at a higher rate than land-based gambling.

In terms of remote gambling, merging different remote betting and gaming duties into the same single rate would risk precipitating more harm, because it is likely that those operators which offer both remote betting and gaming on the same platform would be incentivised to drive customers away from more-expensive, less-harmful activities such as single event horse racing betting to less-expensive, more-harmful activities such as high frequency online slots, in order to protect their profit margin. In addition to increasing the risk of harm, the result of this would also be catastrophic for the horse racing sector, which would see a decline in customer engagement.

While it was beyond the scope of the Government's Consultation to determine specific rates of duty, the question of rates is inseparable from the question of harmonisation. As such, this report proposes a system of differentiated rates. We argue that sectors which are more harmful and contribute less to the British economy, such as online slots, should be taxed more; while sectors which are less harmful and provide more to the economy, such as traditional horse racing betting, should be taxed less.

In summary, this report makes the case against the harmonisation of remote gaming and remote betting duties. It makes the case for significantly higher rates being applied to remote casino content, moderately higher rates applied to betting content, and lower rates for horse racing betting, achieved through changes to the Horserace Betting Levy. We argue that this proposed model of differentiation, if applied by the Treasury, would bring an extra c.£2bn to the Government.

CHAPTER ONE – CONTEXT TO THE 2025 GAMBLING TAX CONSULTATION

In April 2023, the Government published a White Paper that reviewed the main elements of the 2005 Gambling Act and made a series of proposals for reform. Some of these proposals (for example, the introduction of a statutory levy) are in the process of being implemented, while others (for example, the introduction of an ombudsman) are yet to happen. The 2025 Consultation on the tax treatment of remote gambling made reference to the White Paper and stated that:

> *"The White Paper set out the previous government's plans to modernise the regulation of the gambling sector to keep pace with the opportunities and challenges of a modern remote gambling world. In proposing RBGD, we share DCMS's aim to have a gambling industry that is growing, sustainable, offers jobs and brings social value to the UK. In line with plans to modernise regulation, this tax proposal aims to create a modern and coherent tax system that is simpler to use for the UK-facing remote gambling industry".* [2]

In addition to the objective of modernising regulation, the White Paper also had the objective of preventing gambling-related harm, stating that:

> *"Prevention of harm will always be better than a cure, so we are determined to strengthen consumer protections and prevent exploitative practices".* [3]

The Government's position can therefore be summarised as follows:

- The Government aims to support a growing gambling industry, if growth means more jobs and social value
- The Government aims to prevent gambling-related harm

Building on these two main principles, the Consultation set out a series of more detailed claims in support of its position on harmonisation, saying that:

- Remote gambling products have common characteristics which reflect the technology that delivers them (namely, the internet), and customers engage with both remote betting and remote gaming in similar ways. The Consultation stated that "any duty system involves taxing diverse activities that are sufficiently similar in the same way."
- Britian's remote gambling tax system, as currently structured, is inconsistent with the government's objective of tax simplification, and "the proposal of a single Remote Betting & Gaming Duty will create a simpler, streamlined system that is easier for operators to navigate." [4]

The 2025 Consultation fulfilled a pledge made by the previous government in November 2023 to bring remote gambling into a single tax as part of "Backing British Business". [5] The idea of harmonising remote gambling duties is therefore something that has been inherited from a previous Conservative government, first put forward in a very different economic and political context from today. Since 2023, not only has the party of government changed, but so too has the political situation and economic outlook. Notably, in 2024 the new Chancellor identified a £22bn fiscal "black hole" – a shortfall in public finances which, according to other assessments, could be even

higher.[6] This figure of a £22bn shortfall was repeated by the Chancellor in the Spring 2025 Spending Review.[7]

In other words, the previous government's proposal to harmonise remote gambling tax rates should not necessarily be conflated with the fiscal crisis faced by the current government today. Tax harmonisation is not necessarily the answer to filling a fiscal black hole. If the current government needs to raise revenue, while upholding the Treasury's commitment to social value and the White Paper's commitment to reducing harm, then an alternative approach could be more appropriate and effective. In this report, we argue that differentiation should therefore be considered by the Government as part of its plan to reform remote gambling taxation.

Since the pandemic, remote gaming (remote casino and bingo) Gross Gambling Yield (GGY) – 79% of which is now made up by online slots – has seen year-on-year growth.[8] Since 2016, slots have taken an increasingly bigger percentage of remote gaming, rising from 55% of market share in 2016 to 74% of market share in 2024. At the same time, according to the Consultation, GGY from premises-based gambling declined by 15% between 2016 and 2024, while GGY from remote gaming increased by 82%. Within the remote sector, GGY for online slots increased by over £600m between 2022 and 2024, an increase of 21%, while GGY for remote sports betting, including horse racing, saw almost no change. Considering the different growth trajectories of the betting and gaming sectors, we argue that the tax expectations of these sectors should also be differentiated.

In addition to these different growth trajectories, Gambling Commission data shows that online slots players are six times more likely to be classified as problem gamblers than the typical gambler,[9] while a 2023 study of 100,000 users of an online gambling website showed different risk and harm rates associated with different online products, with single bets on horse racing being the least harmful type of gambling.[10] We argue that the remote tax system would therefore reflect the different harm rates of the gaming and betting sectors.

Since pre-pandemic levels, turnover on remote slots has increased from £60.1bn to £79.0bn – representing an increase of 31.4%. At the same time, operator margin (GGY divided by turnover) on remote slots has also increased from 3.9% to 4.5% – representing an increase of 15.5%. Turnover on other remote casino products decreased by 27.6% since 2021, from £37.3bn to £27.0bn, with GGY falling 27.1% from £1.1bn to £0.8bn. Yet operator margin remained the same at 2.9%. This demonstrates how operator customers are being driven to online slots from other types of betting and gaming content. We argue that any reform to the treatment of remote gambling tax should take into account this trend of customer migration towards higher volume, higher harm remote casino content.

Finally, while over the past 12 months there has been widespread political and policy support for increasing remote gambling tax in general, there has been little support for the harmonisation of specific remote gambling duties. In September 2024, the Institute for Public Policy Research (IPPR) published the final report of its landmark *Commission on Health and Prosperity* in the UK, chaired by Lord Darzi (the Government's adviser on health reform) and Sally Davies (the former Chief Medical

Officer). The report called for a doubling of GBD from 15% to 30% and an increase in RGD from 21% to 50%, arguing that this would raise £3bn for the Treasury in 2026. [11] Building on IPPR's work, former Prime Minister Gordon Brown has also called for an increase in gambling tax, saying that the £3bn raised would contribute to reducing child poverty. [12] Similarly, in November 2024 the Liberal Democrats called for an increase in Remote Gaming Duty, based on the proposals in our Social Market Foundation report, arguing that it would be a "much fairer" way to raise money for the NHS and care funding. [13] While all of these various calls have made the case for an increase on remote gambling duty, none of them have made the case for the harmonisation of different remote duties under the same rate.

CHAPTER TWO – PRINCIPLES OF GAMBLING TAXATION – AND WHY THE GOVERNMENT SHOULD NOT HARMONISE DUTIES

Taxation is the income and expenditure of the state. It is inherently redistributive. Historically, this principle of redistribution applies in three ways:

- The first principle is that tax raised in one part of the economy can be redistributed across other parts of the economy.
- The second principle is that tax raised in one part of the economy can be used to offset costs related to that same part of the economy.
- The third principle is that there is an optimal rate at which this redistribution can happen without creating imbalance within the economy, and that an Exchequer acts as an arbiter in determining the optimal rate.

For the first of these principles, that tax raised in one part of the economy can be redistributed across other parts of the economy, even libertarians (who believe that tax revenue should be limited to the provision of services that the market otherwise undersupplies) allow for the idea that a minimum of tax can be legitimately imposed in order to pay for the provision of essential public services.[14] In terms of free market thinking, it should be noted that Margaret Thatcher's Chancellor, Geoffrey Howe, introduced a betting duty on bookmakers in 1981, followed by significant increases in the rates of duty on gaming machines in the 1982 Budget, while not increasing duty on traditional seaside arcade games. This increase in differentiated indirect taxation was designed to offset a corresponding decrease in personal income tax, as part of a wider growth agenda focused on job creation – a context to the budget which is not dissimilar to that facing the Chancellor today.

This basic principle of redistribution applies to both individuals and corporations. Personal income tax is set at different rates according to individual circumstances, with an allowance for those on low incomes. The same principle also applies to corporations. Tax on corporations in England has long been used to redistribute wealth for the public good. After the Fire of London in 1666, imported coal was taxed to rebuild the city, and tax was also applied to pay for the rebuilding of St Paul's Cathedral. While income tax has historically been unpopular in England – and the source of political disagreement throughout the 19th century – tax on goods and services is long established and has almost always been differentiated. A famous example of this would be the Corn Laws of the 19th century, which imposed tariffs on imported "corn" (a term at the time for wheat and barley) that was cheaper than crops produced domestically.

Today's government is facing a moment of serious fiscal crisis, with a series of pressures – including inflation, trade wars, the Russia-Ukraine conflict, the consequences of Brexit and a stagnation in living standards – coming together at the same time to create the shortfall in public finances identified by the Chancellor in 2024. Some of these pressures are immediate and relate to questions of national security, such as the recent increase in defence spending. Some relate to deeper and systemic problems, such as living standards and the rates of child poverty in the UK highlighted by Gordon Brown. In addition to borrowing and spending efficiencies,

these costs will need to be met by the redistribution of revenue derived from taxation in other areas of the economy, including tax on the gambling industry.

The second principle, that tax raised from activity in one part of the economy can be used to offset costs created by that same activity, is at the heart of the idea that "the polluter pays". We have seen this in action in the UK with the introduction of the new £100m statutory levy on gambling operators, designed to fund the commissioning of research, prevention and the treatment of gambling-related harm. Another example of this kind of 'internal' redistribution would be the offsetting of a decrease in one type of duty applicable to an industry through the increase in a related duty on that same industry. Concretely speaking in terms of gambling duties, this would mean the offsetting of a decrease in duty on a less harmful activity such as horse racing betting through an increase in a more harmful activity such as remote gaming duty. There is a popular and empty myth that the Treasury does not like hypothecated taxation, but events over recent years show us that this myth is exaggerated: Boris Johnson and Jeremy Hunt's Health and Social Care Levy was explicitly presented as a hypothecated tax, and the statutory gambling levy is one of many examples where revenue is ringfenced for a particular purpose (Hunt was also Chancellor when the idea of gambling tax reform was put forward in 2023).

By extension, then, the idea that the polluter pays more to cover its own costs can be inverted: when the Government states that it wants to support a sector that has social value, then it makes sense that sectors which have more social value carry less of a tax burden than sectors which do not. Horse racing is widely recognised as having greater social, cultural and economic value than remote casino. By the Government's own terms, then, it follows that horse racing betting should be taxed less than the "pollution" of online slots.

The third principle relevant to the question of gambling duty is that there is an optimal rate of taxation at which the maximum amount of revenue can be returned to the Treasury while maintaining the commercial viability of the industry subject to that rate. This is the so-called Laffer Curve theory, which identifies a "revenue maximising point" between regions of increasing and diminishing returns. While there is debate over where the maximising point would be situated on the curve when it comes to gambling duties, one thing is irrefutable: the same gambling operators which resist tax increases in the UK are willing to pay significantly more tax in other jurisdictions (such as Delaware, Pennsylvania, Austria and the Netherlands) in order to access those markets. This would suggest that the UK is nowhere near the revenue maximising point of the Laffer Curve.

It should be noted that the Laffer Curve theory is made problematic when it comes to gambling, because of the fact that a proportion of gambling industry revenue is derived from harm. In other words, any calculation of the revenue maximising point for gambling should not just calculate the optimal amount of potential revenue to the Exchequer but also the fact that this revenue is connected to a fiscal cost of harm which must be met by the Exchequer.

In addition to these general principles of gambling taxation, the Government's Consultation made a series of claims in support of harmonisation. The Consultation argued that the merging of remote gambling duties would:

- reflect the reality of remote gambling
- be similar to other duties
- be easier for operators to navigate
- reflect the Government's wider objective of tax simplification
- reduce the administrative burden on HMRC

We argue that there are several flaws in these claims. First, the Consultation stated that "the current tax structure maintains a distinction between general betting, pool betting and remote gaming. As remote gambling has matured, these distinctions in tax treatment are less reflective of real-life distinctions in customer experience of the products. Remote gambling products have common characteristics that reflect the technology that delivers them, in most cases the internet. Customers engage with both remote betting and remote gaming in similar ways." Yet the evidence contained within the Gambling Survey for Great Britain (GSGB) clearly demonstrates the differences between remote betting and gaming, particularly in terms of speed of play, the frequency of spins and bets, and the differences between the structural characteristics of content. Customers do not engage in remote horse race betting and remote slots in the same way. Nor are the rates and the risk of harm the same.

Second, the Consultation stated that "gambling taxation should reflect the reality of the gambling industry. Any duty system involves taxing diverse activities that are sufficiently similar in the same way". Yet even the most cursory examination of other duties and taxes shows that this claim is inaccurate. The principle of differentiation underpins practically the entire tax system. For example, corporation tax rates are based on the profit of a company, with a small profits rate for companies with profits under £50,000 and a main rate for companies with profits over £250,000 – even if the smaller and larger companies are engaged in 'sufficiently similar' activities. Likewise, alcohol duty is differentiated according to the rate of alcohol by volume, with the Government recently announcing a reduction to Alcohol Duty rates on draught products in order to support the hospitality industry, "recognising the role that pubs play in communities and as supervised settings less associated with alcohol harm".[15] From a regulatory and licensing perspective, gambling is frequently compared to alcohol. If so, the same should be the case from a taxation perspective too, based on the relationship between different gambling sectors and harm.

Finally, the Consultation stated that "the proposal of a single Remote Betting and Gaming Duty will create a simpler, streamlined system that is easier for operators to navigate," adding that "this change will help bring fairness and greater simplicity" and "will create a modern and coherent tax system that is simpler to use for the UK-facing remote gambling industry." It also argued that the new rules would reduce administrative burdens. But neither of these claims are true. For a start, even if the Government's proposed harmonisation were to be introduced, General Betting Duty would still exist for land-based betting, so the number of tax rates would not change. There is no reason to suggest that the administrative "burden" would decrease,

either for HMRC or for operators. A genuine example of reducing this kind of burden on companies can be seen in the decision by HMRC to no longer require employers to provide detailed employee hours data as part of PAYE from 6 April 2026. The idea of harmonising remote gambling duties while keeping the same number of total gambling tax rates is not a comparable example of administrative efficiency. Furthermore, it is curious that the Government would seek to create a tax system that is "easier for operators to navigate" when we consider that this is an industry which bases large parts of its operations in tax havens by establishing headquarters in places like Gibraltar, Malta and the Isle of Man.

CHAPTER THREE – WHY REMOTE GAMING IS DIFFERENT – AND IS CURRENTLY UNDERTAXED

At present, remote gaming in the UK is under-taxed, meaning that it is in effect subsidised by the state. There are a number of reasons to support this claim, as we argued in our 2024 report:

- Unlike most other goods and services in the UK, gaming does not attract VAT.
- Remote gaming has higher levels of harm than other gambling activities, and these harms impose a cost on the gambler and wider society.
- Many remote gaming operators have historically avoided taxes by basing parts of their operations offshore.
- British tax rates are lower than those in other jurisdictions – for example, in some European jurisdictions tax on remote casino is closer to 40%, and in some US states it is over 50%.

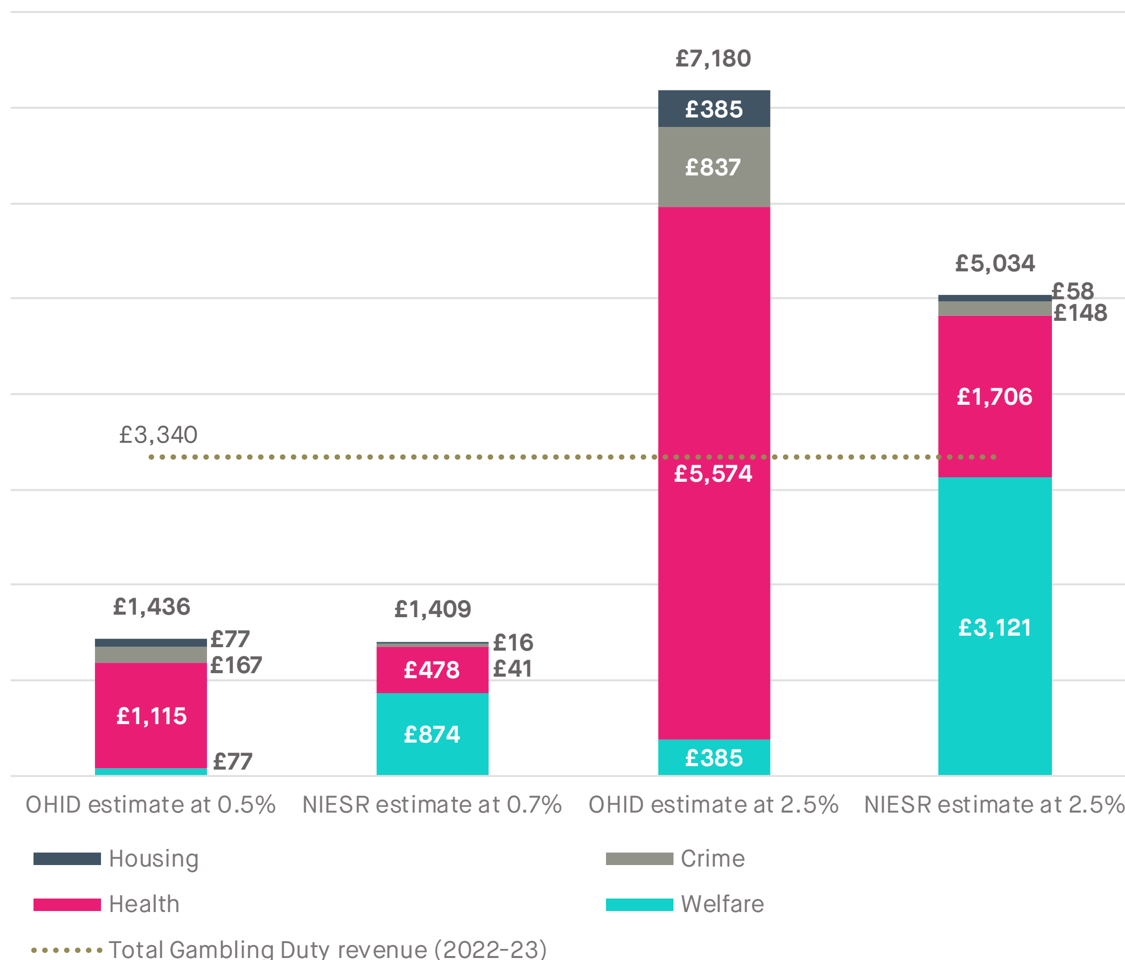
Many of these factors apply to both remote gaming and remote betting. For example, neither remote gaming nor remote betting operators pay VAT, and many operators offering both gaming and betting on the same platform locate parts of their activity in offshore tax havens. However, some of these factors are particularly relevant to remote gaming, strengthening the argument for why remote gaming duty should be differentiated from betting duty.

As we have argued, gambling-related harm creates a range of social, economic and fiscal costs. These costs are greater for online casino games, because the rates of harm for these games are higher than other types of gambling activity. For other harmful or potentially harmful products, such as tobacco and alcohol, duty on those products can be differentiated in terms of strength (for example, with some types of alcohol) or used as a mechanism to decrease consumption (for example, with tobacco). Tobacco and alcohol producers both pay a price designed to partially mitigate any costs on society which are created as a result of smoking and drinking. Environmental taxes, such as fuel duty and air passenger duty, are another example of this approach to taxation. Yet tax on remote gaming does not operate in the same way.

In terms of defining these costs, the 2020 Lords Select Committee inquiry found that "there is also a cost to society: lost tax receipts, benefit claims, welfare, and the cost to the NHS and the criminal justice system."[16] While the 2023 White Paper highlighted "the difficulty involved in establishing the cost of the harms caused by gambling using the existing evidence base,"[17] attempts have been made to attribute numbers to the scale of harm. The Office for Health Improvement and Disparities (OHID) has estimated that the direct financial cost to government due to harmful gambling was £413 million in 2022 and that, when combining the annual societal value of health impacts, the total annual cost of harmful gambling was between £1.05bn and £1.77bn.[18] Similarly, economists at the National Institute of Economic and Social Research (NIESR) have argued that a person experiencing problem gambling costs the public purse an additional £3,700 per year through higher welfare payments, healthcare and criminal justice costs, and the costs of homelessness.[19]

We recognise that the Government has stated that both the OHID and NIESR research had “elements which are likely to over or underestimate various aspects of the true costs”.[20] Existing estimates of the societal costs of gambling also tend to focus relatively narrowly on tangible fiscal costs. Yet costs to the public purse are only one type of externality, and external costs do not have to be financial. As we argued in our report last year, all types of cost should be included in any estimate of the externalities associated with gambling – as should the impact on families and the cost of relationship breakdown.[i]

Figure 1: Estimates of fiscal costs of gambling harm in England (£ millions)



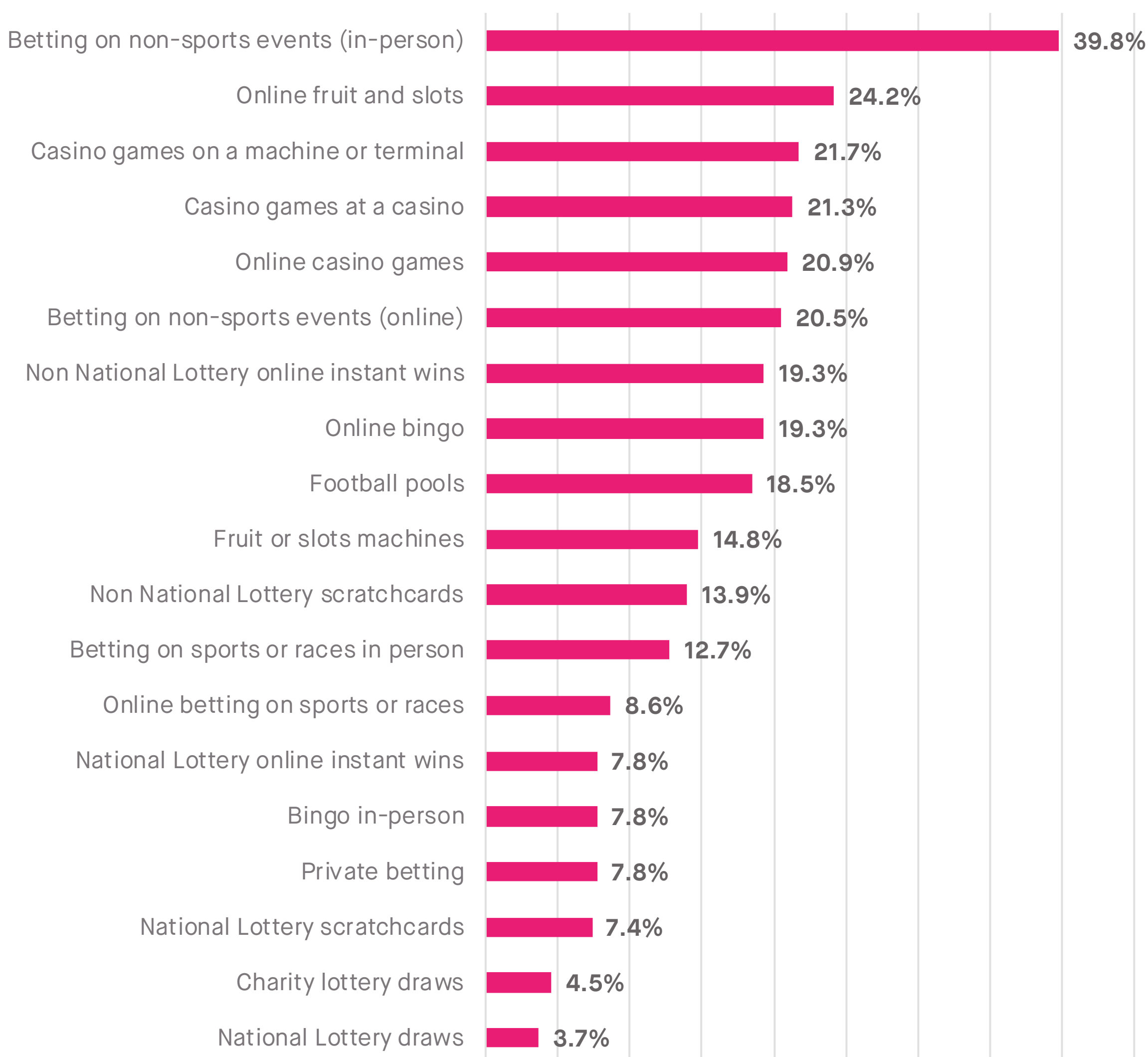
Source: SMF analysis of OHID, NIESR[ii]

[i] It should be noted that there is some discrepancy between the NIESR and the OHID figures. OHID limited its analysis of welfare costs to the impact on unemployment benefits rather than universal credit more broadly. NIESR limited its analysis of health costs to consultations and hospital visits, while OHID looked at the cost of deaths, depression, alcohol, and drugs. Nonetheless, by different means they both arrive at a similar conclusion, estimating that problem gambling costs the Exchequer a total of c.£1.4 billion.

[ii] Higher prevalence estimates calculated by scaling up original estimates by 5 (2.5%/0.5%) for OHID and 3.6 (2.5%/0.7%) for NIESR. Where the original estimates were provided in a range, we have taken the midpoint.

Using Health Survey for England (HSE) data, both the OHID and NIESR studies used relatively low estimates of problem gambling, assuming it affects around 0.5% of adults. The more recent Gambling Survey for Great Britain (GSGB), using an experimental method first released in 2024, has estimated that the prevalence of problem gambling is five times as high, at 2.5%.[21] That may represent an upper bound, but it would substantially increase the estimated fiscal cost of gambling, to £7.2bn using the OHID method and £5.0bn using the NIESR method. Our purpose in this report is not to determine which of the HSE or GSGB methodologies of measuring harm is the correct one or not, but rather to demonstrate to the Treasury the lower and upper bounds of fiscal costs using both these studies. While there is uncertainty over the size of the externalities generated by gambling harm, it is clear that the costs are likely to be in the billions, rather than hundreds of millions, of pounds. By comparison, gambling duty generated £3.3bn for the Treasury in the 2022-23 financial year, meaning the sector is likely failing to cover its external costs.

Figure 2: Prevalence figures for problem gambling (PGSI scores of eight or higher) by activity



Source: Gambling Commission and SMF analysis

Moreover, these analyses looked at gambling as a whole, despite the fact that we know that some forms of gambling are more closely associated with harm than others. The Gambling Survey for Great Britian has shown that online slots have a higher-than-average proportion of people with a Problem Gambling Severity Index (PGSI) score of 8 or more. 24% of online slots players had a PGSI score of 8 or more, while for players of online casino games, 21% were classified as problem gamblers. Only betting on non-sports events in person exceeded these rates.[22] These findings echoed the results of the 2021 Health Survey for England, which found that the prevalence of at-risk and problem gambling was higher among gamblers who gambled online.[23] Similarly, a 2023 study of 100,000 users of an online gambling website showed different risk and harm rates associated with different online products, with slots and in-play combination bets on sports being the most harmful types of gambling, and single bets on horse racing being the least harmful type of gambling.[24]

Figure 3: Products listed in order according to markers of harm

Gambling activity	Rate of harm
Slots	**0.34**
Combination bets on sports (in-play)	**0.22**
Other table games (live)	**0.21**
Roulette (live)	**0.20**
Combination bets on sports (pre-event)	**0.20**
Single bets on sports (in-play)	**0.15**
Bingo	**0.14**
Combination bets on racing	**0.13**
Less established sports	**0.13**
Roulette (software)	**0.10**
Blackjack (live)	**0.10**
Single bets on sports (pre-event)	**0.09**
Multiple bets on sports (in-play)	**0.08**
Poker (tournament)	**0.07**
Poker (cash)	**0.07**
Blackjack (software)	**0.06**
Multiple bets on sports (pre-event)	**0.06**
Single bets on racing	**0.04**

Source: Delfabbro et al (2024)

Crucially, because high risk gamblers tend to spend more, they account for a disproportionate share of online gambling revenue. The 2022 *Patterns of Play* report highlighted the online gaming sector's dependence on a "vital few" customers, with the top 20% of customers by volume generating just over 90% of revenue. The research pointed to slots as the most popular product, stating that "just one percent of players generated a little more than 40% of GGY and in this group the average loss over the year was £10,491. Thus, a large chunk of revenue derived from exceptionally heavy spenders".[25]

There is a correlation between the fiscal costs of harm and areas of social and economic deprivation. In terms of high streets, research has shown a densification of gambling premises in areas of higher levels of income deprivation.[26] The same trend is also found with online gambling, with data from the University of Liverpool and the National Centre for Social Research showing that twice as many online gaming accounts belong to customers in the most deprived areas.[27]

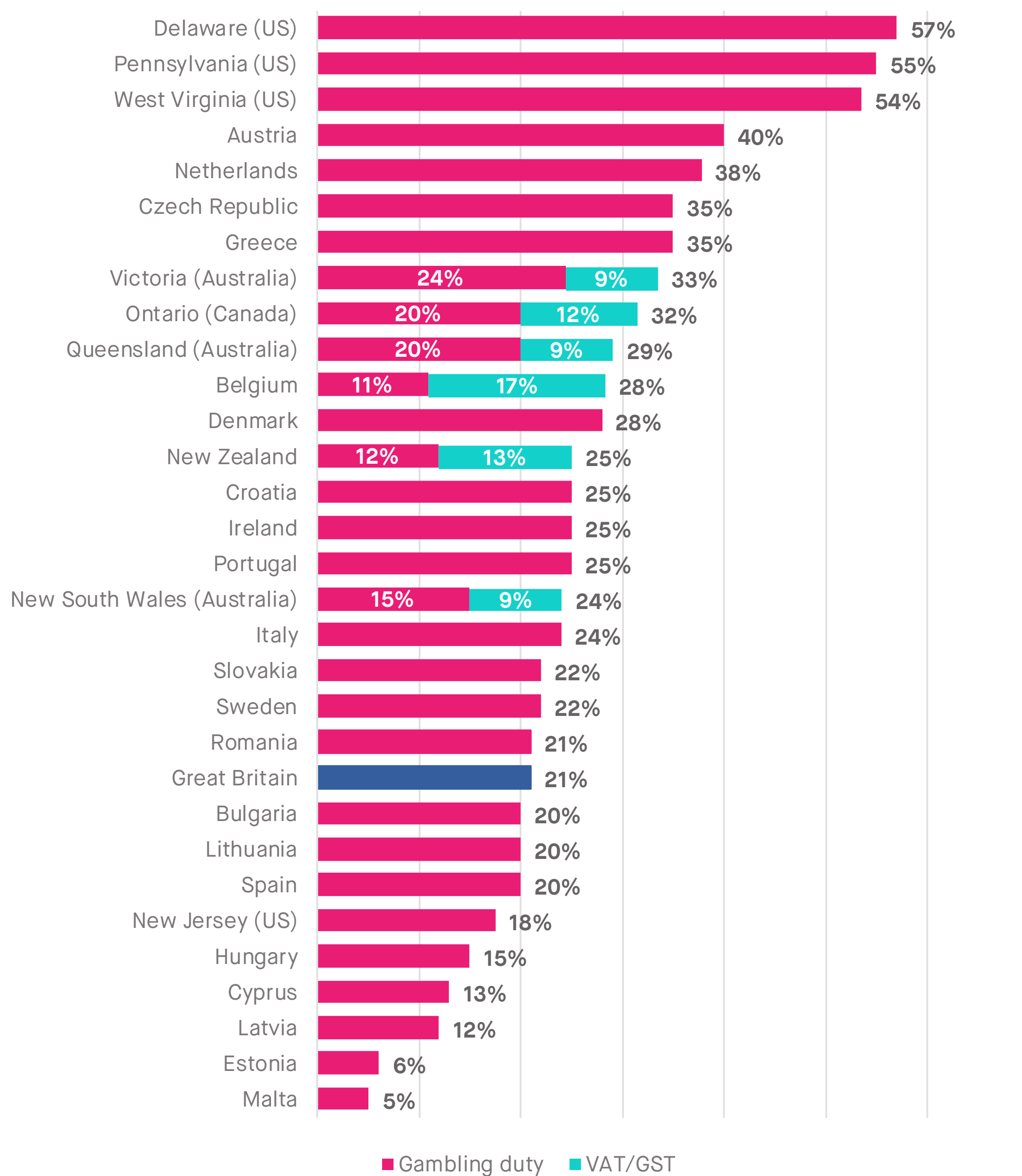
In addition to the fiscal costs of harm, there is also a strong justification to increase remote gambling duties in the UK in order to bring them in line with other jurisdictions. Remote gambling duties are modest in the UK by international comparison. In our report last year, we compared tax rates on remote gambling across the EU, the main US states that allow remote casino gaming, and major Australian and Canadian states. Britain's remote tax rate is lower, often significantly lower, than comparable international markets. For example, Pennsylvania has a remote sports betting tax rate of 36% and a remote slots tax rate of 55%. Ohio has a remote sports betting tax rate of 20%, recently doubled from 10% in the 2024 budget. Similarly, the major market of Illinois has increased its previously flat rate of 15% for remote sports betting to a sliding rate of between 20% and 40%. And New York has a remote sports betting tax rate of 51%. In Europe, the Netherlands is changing its remote tax rate from 30.5% to 37.8% in 2025, just behind Austria's rate of 40% on online gambling. Poland's 12% turnover tax is estimated to amount to around 55-65% of GGY. And France has a remote sports betting rate of 55% – increased to over 59% in 2025.

Some US states tax remote slots higher than non-slots, applying a product-specific tax rate on different types of content. For example, in Pennsylvania, remote slots are taxed at 55%, non-slots at 16%, and sports betting at 36%. This raises an important question about how different tax rates can be applied depending on levels of revenue, harm, and venue.

These facts – the fact that UK remote gaming duty is modest by international comparison and that remote gaming activity incurs a higher fiscal cost of harm – in addition to the fact that UK gambling operators do not pay VAT while frequently basing some of their activity in offshore tax havens (and therefore also avoiding UK corporation tax), illustrate why remote gambling duties should not only be differentiated but should also be increased, in order to offset the loss to the Treasury. With the top band for Gaming Duty in land-based premises set at 50%, there is clearly scope for any increase in Remote Gaming Duty to be ambitious. There is no

reason why remote gaming operators should pay less tax than their land-based counterparts, when they enjoy far fewer overheads and far greater profits.

Figure 4: Tax on remote slots, % of Gross Gambling Yield (2024)



Source: SMF analysis of multiple sources

CHAPTER FOUR – WHY HORSE RACING IS DIFFERENT – AND SHOULD BE SUPPORTED THROUGH THE TAX SYSTEM

Over the past year, the UK Parliament has seen a number of interventions, questions and debates take place about the future of horse racing in the context of potential increases in betting duty. There has been unanimous support for racing across all political parties, with a recognition that the sport has a cultural and social importance for communities across the country, as well as economic importance in terms of rural jobs and supply chains. During recent oral questions in the House of Commons, when asked by the Chair of the Culture, Media and Sport Select Committee about the "looming and imminent crisis" facing horse racing, the Secretary of State replied that "we are absolutely determined to back British horse racing to the hilt".[28] Not a single parliamentarian has spoken in favour of increasing duties on horse racing.

In our 2024 report, we suggested that while there is a strong case for increasing Remote Gaming Duty on online casino products, there is equally a case for reviewing, with a view to decreasing, the fiscal burden on a sector such as horse racing. This position has been echoed by various parliamentarians, including the MP for Aintree in a recent interview with Racing TV.[29]

The demands, costs, economic conditions and jobs in horse racing are quantifiably different from the demands, costs, economic conditions and jobs in remote casino gaming. For example, racecourses and training yards (as well as all equine yards) are expected to pay full business rates, notwithstanding a partial exemption for stud farms which has not been updated since 1989, and training yards are ineligible for agricultural exemptions. In terms of jobs, an ecosystem of employment exists within and around the racecourses, training yards and stud farms; this includes jockeys, stable staff, vets, feed merchants, ground staff and racecourse staff, as well as over 85,000 associated jobs[30] – all examples of extended supply chains that are clearly different from the short supply chains involved in providing online slot content. Unlike remote gaming operators, racing trainers have to pay VAT on their training fees, and racecourses have to pay VAT on all their income, including media rights and ticket admission sales.

In addition to the economic pressures specific to horse racing, the current framework governing British horse racing's funding is inadequate, further jeopardising the long-term viability of the sector. At the heart of this framework is the question of funds returning to the sport through prize money, the majority of which is raised by payments made to the sport from betting operators – first through media rights deals agreed on a small percentage of turnover, and second through the 10% of gross profits secured via the Horserace Betting Levy. To keep pace with the other two major European horse racing jurisdictions, Ireland and France, it is clear that British prize money would need to be at least doubled from its current £190m per annum.

There are three main reasons as to why British horse racing is in such a precarious financial position:

- First, Britain has the lowest percentage of betting turnover returned to racing of any major racing jurisdiction in the world.
- Second, there is significant 'leakage' within the revenue streams of British horse racing, notably involving media rights.
- Third, British horse racing faces significant challenges from a regulatory environment that has, in the quest to limit harm in other sectors (particularly remote casino content), proven detrimental to the viability of the sport.

Britain has by far the lowest percentage of betting turnover returned to racing of any major racing jurisdiction in the world – a critical indicator of the financial health and sustainability of a regulated market. Currently, British horse racing receives a mere 0.6% of betting turnover. This figure stands in marked contrast to other key jurisdictions:

- Japan: 16.6%
- USA: 14.5%
- France: 8.6%
- Hong Kong: 4.4%
- Australia: 3.9%
- Ireland: 1.5%
- Britain: 0.6%[31]

The second factor contributing to British horse racing's precarious financial state is the presence of significant 'leakage' within its revenue streams. While some degree of leakage is inevitable within any industry, the current structural inefficiencies and lack of transparency in British racing mean that a disproportionately low share of the value generated by the sport ultimately reaches its grassroots participants – that is, trainers, breeders and the horsemen and women who invest in and maintain the wellbeing of the animals. An example of this lack of transparency can be seen in the current commercialisation of media rights. Media rights represent a substantial revenue source for the sport, yet racehorse owners, trainers, and breeders have virtually no visibility when it comes to the gross revenues derived from broadcasting, streaming and data sales, making it impossible to ascertain whether the sport is receiving a fair return or not.

Similarly, despite the Betting and Gaming Council's claim that its members contribute a substantial sum (often quoted as £350 million annually)[32] to British racing, a significant disparity exists between this figure and what directly benefits the sport. Of this £350 million, only £188 million ultimately ends up as prize money[33] – a key example of the scale of the leakage within the system. However, the median number of fixtures a racecourse operates is 20 days per year, with virtually no revenue for the other c.350 days. Therefore, prize money will never be close to 100% of gambling revenue from betting operators. The Professional Racing Association estimates the leakage at £30-£50m, which is considerably shy of the £190m shortfall in racing's funding.

In addition to the question of inadequate betting turnover and the issue of leakage within the sport, racing's financial position is also exacerbated by a regulatory environment that has, in key areas, proven detrimental to its long-term sustainability. An example of this would be the implementation of enhanced affordability checks on bettors. While initially designed to protect consumers from the risk of harm in high-risk sectors such as remote casino gaming,[iii] there are claims that the execution of these same checks on racing consumers has had an impact on racing betting turnover.[34] This reduction in betting volume translates to a diminished revenue, as media rights deals are conducted on a turnover basis (as opposed to the Horserace Betting Levy, which is calculated on GGY), further starving the sport of funds.

Finally, unlike other major racing jurisdictions such as Australia, British racing lacks an enforceable system of Minimum Bet Limits (MBLs) across wagering service providers. Licensed bookmakers are compelled to accept fixed-odds bets up to a specified liability: namely, £1,000 ($2,000AUD) to win on higher-quality metropolitan thoroughbred races and £500 ($1,000AUD) on lower-quality country thoroughbred races. The absence of such a regulatory safeguard in Britain allows bookmakers to disproportionately restrict or refuse bets from punters deemed to be average or better. This practice allows British gambling operators to focus on those bettors who are more likely to lose money and are more at risk of harm. The lack of MBLs not only puts British racing at a competitive disadvantage by failing to protect the interests of a significant segment of its customer base, but also demonstrates how the gambling industry places profitability – including from those at risk of harm – at the top of its list of priorities.

With British horse racing in such a precarious situation, it is clear that any increase on horse racing betting duty would risk causing significant damage to the sport. Recent analysis by the British Horseracing Authority shows that even just harmonising GBD on racing to 21%, in line with the current RGD rate, would cost British racing £66m per year.[35]

For this reason, we argue that rather than harmonising horse racing betting duty with remote gaming duty, the Government should differentiate between the two and decrease the fiscal burden on racing at the same time as increasing the fiscal expectation of remote gaming.

In practical terms, this decrease of the fiscal burden on racing would need to be achieved through changes to the ratio between betting duty and the Horserace Betting Levy. Currently, bookmakers pay a *de facto* horse racing betting duty of 25%, with 15% of GGY being paid as General Betting Duty and 10% of GGY being paid as the Horserace Betting Levy. The monies raised as duty are returned to the Treasury, while the monies raised as the Levy are returned to the sport through prize money.

[iii] It should be noted the Social Market Foundation was a leading advocate of affordability checks in 2020. However, the proposals that we made five years ago were for a system of non-intrusive checks on net losses, not stakes, using existing operator data already available for AML checks, and which would affect a small minority based on the Betting and Gaming Council's data on the number of "high spend" consumers. The system of intrusive and arbitrary checks that have since been put into place by the BGC and the Gambling Commission are a world away from what the SMF initially advocated.

We argue that this ratio of distribution fails to provide the necessary investment for the sport to compete internationally. One recent proposal, put forward by the Chief Executive of Arena Racing, Martin Cruddace, has advocated for an inversion of this ratio, so that 15% would be returned to the sport through the Levy and 10% return to the Treasury through Betting Duty.[36] We agree with this proposal in principle. However, we argue that while the principle of the proposal is right, the scale of the redistribution does not go far enough, if Government hopes to bridge the £190m gap that racing currently faces. An inversion of the 15/10 ratio would see an increase of funds to racing of only c£50m. This is not enough to address the systemic underfunding.

Analysis reveals that in 2023, the average prize money per race in the UK was £18,395, compared with £36,638 in France. In order to keep pace with leading European nations, as well as the US, Australia, and the Far East, British prize money would need to be at least doubled. Based on the Levy's current yield of approximately £100 million per annum, increasing the Levy contribution from 10% to 20% of GGY would generate an additional £100 million annually for British horseracing. This would mean that the proportion of Betting Duty allocated to the Treasury from these specific bets would be reduced from 15% to 5%, in order to maintain the existing 25% tax burden on operators for racing-related GGY. This recalibration would ensure fiscal neutrality for the betting industry, while fundamentally reorienting the distribution of revenue in favour of the sport. We recognise that it would represent a loss of around £100m to the Treasury. However, this would be more than offset by an increase in Remote Gaming Duty from 21% to 50%, which would bring to the Treasury an extra £1.6bn.

A notable anomaly within the current taxation framework is the absence of a Levy on international racing, which is presently subject only to General Betting Duty. This effectively creates a scenario akin to imposing tariffs on domestic products while exempting foreign counterparts. Historically, until the early 2000s, the Levy was applied to both domestic and international racing bets. The shift occurred following a proposal for 'Data Rights' by the British Horseracing Board (BHB), intended to mandate a 2% turnover payment, via the Horserace Betting Levy Board, from gambling operators for betting on UK domestic horse racing data. Although Data Rights initially passed in UK courts, the initiative was subsequently overturned by the European Court of Justice. Despite this reversal and the non-implementation of Data Rights, the Levy was not reinstated for international racing. We argue that reinstating this Levy would be both straightforward and logical. While precise data on potential revenue is not publicly reported, it is estimated that this measure could increase the current Levy by an additional 20%, equating to approximately £20 million per year. Should the Levy itself be doubled as proposed, this figure could rise to £40 million annually. Together with the rebalancing of the Levy/GBD split of 20/5, this would return a combined extra £140m to horse racing. While remaining £50m short of the doubling of prize money required for the long-term sustainability of British racing, it would remain within the estimates of what the Professional Racing Association has said can be resolved internally through stopping leakage.

Beyond horse racing, there is a question as to what should happen with other sports betting duty. Currently, bookmakers pay a *de facto* horse racing betting duty of 25%, with 15% of GGY being paid as General Betting Duty and 10% of GGY being paid as the Horserace Betting Levy (a 15/10 ratio that we propose should be changed to 5/20). Yet all other sports betting is taxed at only 15%. It cannot be right that horse racing should be subjected to a higher rate of duty than other sports, particularly considering the significant economic challenges that racing currently faces. Furthermore, the Government is looking for opportunities to harmonise duties. While there is not a case to harmonise betting and gaming duties, for reasons we have given, there could be a case to harmonise betting duties. This would mean that other sports betting would be subject to the same duty as horse racing, at a rate of 25%. For those who might claim that such an increase is unfair or damaging to the sector, we would remind them that bookmakers do not pay 20% VAT, that bookmaker margin is higher on other sports (12.5%) than it currently is for horse racing (10.8%), and even with an increase of betting duty from 15% to 25%, bookmaker revenue from other sports would continue to have an advantage over horse racing, because it does not pay the same contributions to media rights.[37]

This proposal to raise GBD to 25% includes one caveat. There is a strong case to be made that small and independent businesses should not be subjected to the same tax rate as large multinational corporations. The principle of different rates according to profit is already established when it comes to Corporation Tax (with a Small Profits Rate applying to companies with profits under £50,000). We argue that a similar principle should be applied to betting duty. Currently, companies with annual profits under £500,000 do not pay the Horserace Betting Levy. The same principle should apply to betting duty, whereby businesses pay 0% tax under an equivalent threshold and 25% tax above that threshold. We argue that this threshold should be set at £600,000.

Our rationale for a GBD small businesses threshold of £600,000 is this: according to 2024 Gambling Commission statistics, GGY for horse racing equates to around one-third of GBD-related products. Therefore, a commensurate threshold of £1m for non-horse racing related GBD would be reasonable. However, to simplify the tax rates, and to better protect small business, we propose replacing these 15% thresholds with a lower, tax-free threshold, which would be £200k for horse racing-related GGY and £400k for non-horse racing-related GGY. This would mean that if an operator makes £500k GGY on racing, that operator would pay £75k tax under the old 15% rate and also £75k tax on our new proposed system. Operators which are below the £500k in GGY for horse racing would be better off under our proposed system. The same would be true for operators with non-horse racing GGY of under £1m. Under the Freedom of Information Act, it was disclosed that there are 175 operators which have licences for sports betting.[38] If we assume that all of them reach the £200k threshold for horse racing GGY and the £400k threshold for non-horse racing GGY, the loss to the Treasury of introducing this allowance would be a maximum of £26.25m.

For this to be effective in terms of protecting small businesses, at the same time as enabling an increased revenue to Treasury and disincentivising harm, it is important that the threshold is applied per license-holder rather than per unit (meaning that a

large corporation with hundreds of units cannot claim the tax allowance on each unit) and that this threshold is applied only to GBD for betting operators – meaning that it is not used as a reason to extend the same principle to Machine Gaming Duty or Remote Gaming Duty for Adult Gaming Centres and their online equivalents.

In summary, we propose to:

- Increase the Horserace Betting Levy contribution to 20%
- Reduce betting duty on horse racing to 5%
- Increase Remote Gaming Duty to 50%
- Harmonise General Betting Duty across all betting products at 25%
- Exempt small business

This proposal would generate the necessary c.£140 million in additional annual revenue for British racing, and would achieve parity between racing and other sports.

CHAPTER FIVE – WOULD ANY TAX INCREASES GET PASSED ON TO THE CONSUMER?

In June 2025, the Betting and Gaming Council announced the findings of a survey claiming that if gambling taxes were increased, it would lead to the majority of consumers migrating to the black market – and that the impact of this would be "catastrophic for horseracing".[39] The BGC has not explained what actions on the part of operators, in response to a tax increase, would force their consumers to leave for the black market. However, we know what these actions would be from a claim made by the Tax Foundation, a Washington D.C. think tank that has frequently cited the BGC's sister organisation in the US, the American Gaming Association. The Tax Foundation claims that if taxes were increased, "sportsbooks would be forced to offer games with substantially worse odds for consumers and pass on the new tax burden to consumers. The likelier outcome, if the tax is so substantially increased, would be the death of the legal sports betting industry as it exists today."[40] In other words, the argument against tax increases is that consumers would migrate to the black market because operators would be forced to offer worse odds in order to protect their profit margin.

Claims around the potential cost of a gambling tax increase to consumers are longstanding. In 2014, the same year that Remote Gaming Duty was introduced, HMRC commissioned the consultancy Frontier Economics to undertake research on price elasticity estimates for specific sectors of the UK gambling market, including both land-based and remote gambling. The Frontier report claimed that demand is most price sensitive for remote gaming, that demand for terrestrial betting is unit elastic (meaning that a 1% increase in price leads to a 1% fall in the quantity demanded), and that demand is less sensitive to price changes for terrestrial gaming and remote betting.[41] Similarly, an academic study of price elasticity and the demand response to a gambling tax reduction was published in 2005, a decade before the Frontier report, which concluded that demand for bookmaker gambling is highly sensitive to the rate of taxation and that a decline in the rate of taxation results in a large increase in demand.[42]

We argue that any potential or speculated cost to the consumer through a change in price in response to a gambling tax increase is neither sufficiently understood nor significant enough to warrant keeping duties on remote gambling the same. Our argument is five-fold:

(1) We disagree with many of the claims contained in the 2014 Frontier Economics report.
(2) The Frontier report was published over ten years ago, and the Paton/Vaughan Williams research a decade before that; clearly the market, fiscal and policy context has changed significantly since that time.
(3) We argue that many of the potential impacts on price are speculative, because we cannot know how operators would respond to a change in duty.
(4) We argue that price elasticity for betting is not the same as price elasticity for gaming.

(5) We show that even if duty is increased, gaming operators are able to accommodate this increase (as they do in other jurisdictions) and remain commercially viable.

We have identified three main problems with the Frontier analysis:

(1) There is a lack of previous econometric evidence (this reflects a wider lack of evidence on the elasticity of demand for remote gambling in the UK).
(2) There is insufficient data to derive good elasticity estimates.
(3) There are problems with the econometric specification used (primarily due to conceptual problems with the regression analysis of demand elasticity).

The literature review in the Frontier report shows that for many of the areas examined, the evidence base on elasticities (in terms of previous empirical papers, and particularly papers relating to the UK) was thin. Notably, there was no evidence from previously published research for remote gambling. There was also little evidence on cross-price elasticities (which are important for analysing how changes in taxation on one form of gambling might affect the demand for other forms of gambling) and limited evidence on the use of promotions in the gambling market (which are important for estimating how changes in gambling duties might affect gambling companies' use of promotions).

In terms of the econometric specification used to identify the price elasticities of demand for various gambling activities, the Frontier report suffers from a number of conceptual weaknesses, if we follow Berry and Haile's work on demand estimation in the most recent *Handbook of Industrial Organization*. Haile and Berry present two "fundamental challenges of demand estimation" which make the accurate estimation of demand elasticities difficult, namely:

(1) The endogeneity of prices, namely the statistical dependence between prices and unobservable factors that also affect demand (for example, technological changes, or the effects of advertising);
(2) That demand for any one good (a particular type of gambling, in this case) will in general depend on the prices, observed characteristics and demand shocks of that good and all related goods. This means that "many familiar econometric tools cannot be used to estimate demand unless one is willing to rely on strong functional form assumptions for identification. For example, demand estimation typically cannot be treated as standard regression analysis."[43]

The Frontier Economics strategy for addressing the first of these challenges – price endogeneity – was to use instrumental variables (2-Stage Least Squares) estimation by finding instruments for the price of gambling: variables that are correlated with the price of gambling but are not correlated with demand for gambling conditional on price.[44] A number of supply-side changes to the gambling market are considered as possible instruments, including the introduction of the 2005 Gambling Act and changes to Bingo Duty. However, none of these pass econometric tests for valid instruments (for example, the Sargan-Hansen test). This means that the Frontier report is forced to fall back on using Ordinary Least Squares regression, which offers

no real protection against endogeneity of the price of gambling. The econometric specification shown in Section 3.51 of the Frontier report does include a linear time trend and controls for macroeconomic variables and other factors that might be expected to affect overall demand for gambling (such as major sporting events), but this is a fairly minimal set of controls and it is unlikely that they would control fully for all the unobservable factors which might affect demand for gambling.

The second challenge – that demands for all types of gambling (and other goods which are substitutes or complements for gambling) are fundamentally interrelated – is not addressed at all by Frontier (although the report does attempt to estimate cross-price elasticities between different types of gambling products). Overall, there is no reason to believe that the Frontier econometric modelling is close to being a valid estimate of demand elasticities for any type of gambling, given the limitations of the econometric model used.

The weakness of the existing evidence base on elasticities (as surveyed in 2014) means that the econometric analysis in the Frontier report increases in importance, as it needs to fill the hole which is left by the lack of previous evidence in the literature review. However, the econometric results within the report largely fail to do this, mainly because of poor data. For most sectors the time period of data used for the Frontier regression modelling is no longer than 10 years (2004-13) and for remote betting and gaming only 7 years. The data is analysed on a monthly basis to give a larger number of time series observations than if quarterly or annual data was used. However, using monthly data increases the possibility of measurement error due to the short time periods used for each data point, and therefore increases attenuation bias in the estimated elasticities (biasing them towards zero).

Because of the failure to produce price elasticity estimates for most gambling activities – either own-price elasticities or cross-price elasticities – as well as the failure of the literature review to identify a sizeable number of previous elasticities, the Frontier report is forced to use “economic reasoning” to attribute many of the own-price elasticities. The problem with this approach is that it leads to results being assumed rather than empirically derived. Essentially, the elasticities are chosen according to researchers’ pre-conceived notions of what the elasticity should be. Examples of this include:

- For terrestrial betting, the estimated (long-run) elasticity is -0.79, but the report recommends that an elasticity estimate of -1 be used, mainly because Ordinary Least Squares (OLS) estimation is biased downwards. This may well be the case, but it is not clear that choosing an estimate of -1 gives the correct amount of downward bias.
- For terrestrial gaming, the estimated long-run elasticity from the report’s regression modelling is -0.15, but this is not statistically significant. The report chooses an elasticity of -0.50 which is more in line with previous research (most of which finds elasticities of -1 or greater in absolute magnitude), but this seems like an arbitrary compromise.
- For remote betting, the report suggests an elasticity of -0.5; again, it is not clear why this particular value was chosen. The econometric specification produces a long run elasticity estimate for remote betting of -0.12, but this is

statistically insignificant. The report also finds no clear evidence of cross-price effects for this sector, despite the fact that land-based and remote betting would appear to be obvious substitutes for one another.

- For remote gaming, the report suggests an elasticity of -1.5. Although the OLS estimate of -1.8 is higher than this in absolute magnitude – and OLS is likely to produce estimates that are too small in absolute terms – the report nonetheless suggests a smaller estimate. This seems inconsistent with the reasoning in Section 3.7.2 of the report.

In addition to this, the estimates from the Frontier report are now significantly out of date, being based on data from between 2004 and 2013. In the decade or more since the Frontier study was completed, the structure of the gambling market in Great Britain has changed. Industry statistics from the Gambling Commission show that as a proportion of the total gambling market measured by Gross Gambling Yield (excluding lotteries), remote gambling grew from 15% in the year April 2012 to March 2013 to 60% in the year April 2023 to March 2024. In other words, the remote gambling market is now almost four times larger (as a share of the total market) than it was 11 years ago. Even if the Frontier report or the previous study by Paton and Vaughan Williams[45] had been able to estimate statistically significant elasticities for remote betting and remote gaming, they would now be so out of date as to be of limited use to the Treasury today.

We have argued that different types of gambling sector and activity relate to different rates of prevalence, yield, harm and fiscal costs. Similarly, it is apparent that there is not a uniform price elasticity of demand across each form of gambling. The data in terms of regression results and elasticity estimates in the Frontier report, while imperfect, supports this conclusion. For example, Figure 5 of the report suggests that the estimated long-run elasticities range from +0.36 for pools to -1.80 for remote gaming. In Figure 6, the preferred elasticities range from -0.485 for pools to -1.50 for remote gaming. In particular, the preferred elasticity estimates for remote gaming and remote betting are different in Figure 6 (-1.5 and -0.5 respectively). This means that it is unlikely that the revenue-maximising rate of duty on each of these would be the same.

Despite the increase in Remote Gaming Duty in 2019 from 15% to 21%, when General Betting Duty remained the same at 15%, an examination of GGY shows that the rate of gaming growth – driven by the growth in online slots – was consistent with previous years and was substantially in excess of betting GGY which stagnated. This would suggest that remote gaming is able to accommodate a far higher tax rate than betting and that the Laffer Curves are different for the two activities.[46]

While the increase in Remote Gaming Duty from 15% to 21% in 2019 was of a smaller magnitude than our 2024 proposal to increase RGD to 42%, it nonetheless offered some indications that the sector can weather tax increases. In real terms, turnover in 2023 was around the same as it was in 2019 when the tax came in (with a pandemic spike in between). Expected returns to gamblers have gone down, which could reflect the tax being passed through, but these cannot conclusively be attributed to the tax increase. 47 Slot margin was 3.9% in 2019, and remained at 3.9% for 2020, 2021 and 2022. It only went up in 2023 (4.3%) and again in 2024 (4.5%), suggesting

that the 2019 tax was not passed on to the consumer. In fact, many of the claims that the cost of an increase in tax would "likely" be passed on to consumers are speculative. We do not know how the gambling industry would respond to changes in remote duty. Operators could cut costs, notably in terms of marketing budgets. Alternatively, they could decide to encourage customer migration from casino to betting products. They could also decide to reduce dividends to shareholders, or find alternative options to maintain their profit margin. None of this is inevitable. All of it is a choice.

The Betting and Gaming Council states that the industry supports over 110,000 jobs and pays over £4 billion in tax.[48] It claims that if the Government taxes the sector too much, jobs will disappear and consumers will migrate to the black market. But when we look more closely at those figures, we see that the online betting, bingo and gaming sector – a sector which, it should be noted, took £6.5bn Gross Gambling Yield in 2022 – directly employs just 10,000 people.[49] We argue that the Government should apply a good dose of scepticism when told by industry representatives that an increase in Remote Gaming Duty would lead to a collapse in the remote gaming workforce.

Finally, as we have shown in this report, it is important to note that many other jurisdictions have higher tax rates on online gambling. The fact that operators – often the very same operators that trade in the UK – manage to survive profitably in those contexts suggests that these rates are manageable for the sector, and that the UK is nowhere near the revenue maximising point of the Laffer Curve.

CHAPTER SIX – WHAT WOULD DIFFERENTIATION BRING TO THE TREASURY?

In this report, we have argued that Government should reject the recent proposal to harmonise remote gambling duty rates and should instead apply a differentiated approach to these rates based on sectoral specificities. The question is then: how much would a differentiated system of remote betting and gaming rates bring the Treasury, compared to a harmonised single rate?

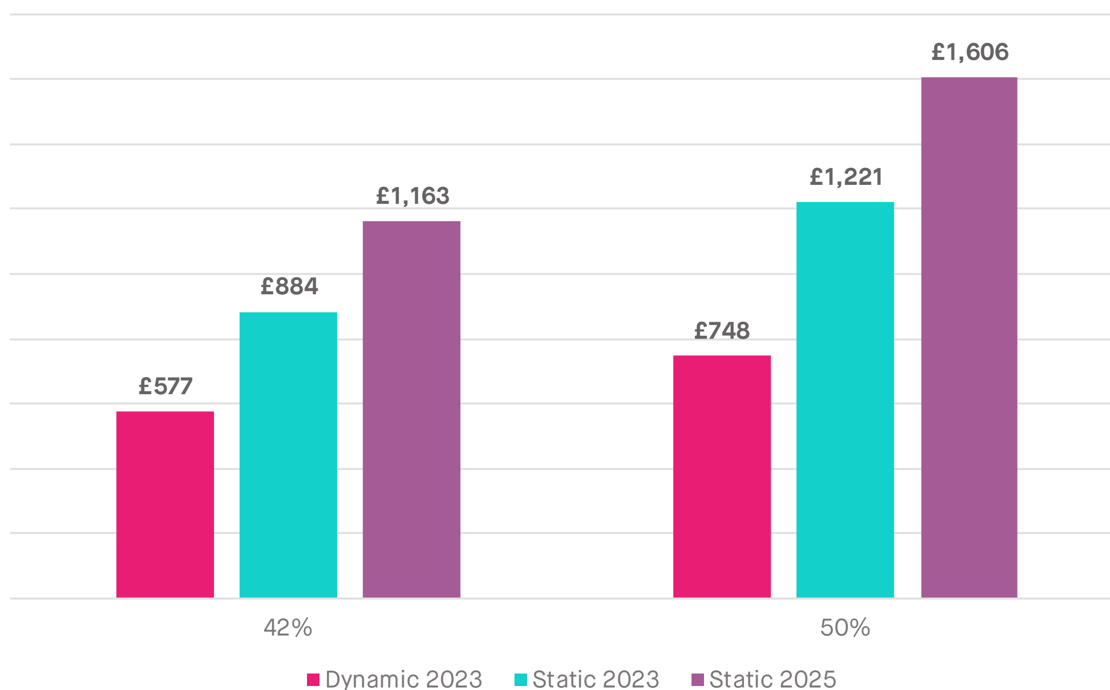
In 2024, the Social Market Foundation published a report on remote gambling taxation, arguing that Remote Gaming Duty should be increased from its current rate of 21% to a new rate of at least 42%. Our report stated that this would better reflect the economic impact of a sector that has grown substantially in recent years, as well as the social impact of higher rates of harm. We argued that a doubling of duty on remote casino products would lead to an extra £900m return to the Treasury, based on 2023 figures.

Our 2024 report also accommodated the possibility that some of the additional tax might be passed through to consumers, resulting in some reduction in gambling. We therefore included an additional lower bound estimate in line with the literature that consumers' price elasticity is -1 (i.e. for every 1% increase in the cost of gambling, spending falls by 1%),[50] which showed that tax revenue would still increase by over £550 million with a doubling of RGD. We also provided the same figures for a projected increase of RGD to 50%, which showed additional revenue to the Treasury of £1.2bn (or £748m if -1 elasticity were to be factored).

In this report, we have given reasons for why assumptions about -1 price elasticity do not apply to the question of a gambling tax increase. Furthermore, the data from our 2024 report would now need updating to include the latest RGD receipts, which have been published for year ending March 2025.

Taking the static figure of £1.2bn additional revenue to the Treasury from an increase of RGD to 50%, without -1 elasticity, and considering that remote casino GYY grows year-on-year, **we are therefore able to show that an increase of RGD to 50% based on estimates for March 2025 would lead to a higher return: £1.6bn**.

Figure 5: Estimated additional revenue from RGD increases (£ million)



Source: Gambling Commission, SMF analysis

It will be noted that we have not made mention of either remote bingo or of Pool Betting Duty in this report. The reasons for this are two-fold: first, remote bingo is included in Remote Gaming Duty and is therefore incorporated in our fiscal modelling. Second, the fiscal return from Pools Betting Duty is so insignificant (£8m per year) that it does not affect the modelling that underpins our proposal.

In this report, we have argued that bookmakers pay a *de facto* horse racing betting duty of 25%, with 15% of GGY being paid as General Betting Duty and 10% of GGY being paid as the Horserace Betting Levy. Yet all other sports betting is taxed at only 15%. It cannot be right that horse racing should be subjected to a higher rate of duty than other sports, particularly considering the significant economic challenges that racing currently faces. Furthermore, the Government is looking for opportunities to harmonise duties. While there is not a case to harmonise betting and gaming duties, for reasons we have given, we have argued that there could be a case to harmonise betting duties. This would mean that other sports betting would be subject to the same duty, at a rate of 25%. For those who might claim that such an increase is unfair or damaging to the sector, we would remind them that bookmakers do not pay 20% VAT, that bookmaker margin is higher on other sports than it currently is for horse racing, and even with an increase of betting duty from 15% to 25%, bookmaker revenue from other sports would continue to have an advantage over horse racing, because it does not pay the same contributions to media rights.

Within GBD, we have argued that horse racing should be treated differently from other sports, using the existing (and unique) mechanism of the Horserace Betting Levy. In order to keep pace with leading racing nations, we have argued that British

prize money would need to be at least doubled – an argument also recently made by a leading sports promoter in the *Racing Post*. Not only is the average prize money in Britain the lowest of any major jurisdiction, but the costs are also some of the highest. This means that the returns to owner (in prize money) divided by the cost are by far the lowest amongst major racing nations. To achieve parity with Ireland, British prize money would need to rise by approximately 60%, while to achieve parity with France, prize money would need to almost triple to £522m. In 2023, the Irish government gave horse racing in Ireland €72.8m (£63.3m), which equates to £22,004 per race. In 2023, the UK government gave horse racing £100m via the Levy, which works out at £9,981 per race, less than half of their Irish counterparts.

Figure 6: Average Prize Money and Costs to Owners by Jurisdiction (2023)

Country	Average Monthly Training Fees §	Total Prize Money (PM) in £m	No. Races	Average PM per Race	Average PM to Monthly Training Fees ratio	PM/Training Fees ratio vs. Britain (%)	Increase needed in Britain for parity (£m)
Hong Kong	£2,854	£149.3	835	£178,786	62.6	720.2%	£1,142.9
Japan	£3,500	£500.5	3,456	£144,810	41.4	475.7%	£692.4
USA *	£1,903	£704.4	12,261	£57,451	30.2	347.1%	£455.4
France	£1,487	£251.3	6,859	£36,638	24.6	283.3%	£337.8
Australia **	£1,748	£340.5	9,743	£34,948	20.0	229.9%	£239.5
Ireland	£1,500	£59.2	2,877	£20,577	13.7	157.7%	£106.4
Britain	£2,115	£184.3	10,019	£18,395	8.7	-	-

** USA includes states of California, Florida, Kentucky and New York only*
*** Australia includes states of New South Wales and Victoria only*
§ Average Monthly Training Fees has been calculated as the mid-point between the lowest and the highest monthly training fees that are publicly available. In Britain, the lowest training fees to be made publicly available are Chris Grant's at £42/day, and the highest are Charlie Johnston's at £99/day.

Source: SMF analysis; British Horseracing Authority, Racehorse Owners Association, Johnston Racing, Chris Grant Racing, Horse Racing Ireland, French Racing and Breeding Committee, The Jockey Club, Racing NSW, HK Jockey Club, Japan Racing Association

Based on the Horserace Betting Levy's current yield of approximately £100 million per annum, we have shown that increasing the Levy contribution from 10% to 20% of GGY would generate an additional circa £100 million annually for British horseracing. This would mean that the proportion of Betting Duty allocated to the Treasury from these specific bets would be reduced from 15% to 5%, in order to maintain the existing 25% tax burden on operators for racing-related GGY. This recalibration would ensure fiscal neutrality for the betting industry, while fundamentally reorienting the distribution of revenue in favour of the sport. We recognise that it would represent a loss of around £100m to the Treasury.

Factoring an increase of GBD from 15% to 25%, without an elasticity of -1, using 2024-25 figures, and including a new ratio of 5/20 between duty to the Treasury and levy funds to racing, **we can therefore calculate that our proposal to raise GBD (with the exemption for horse racing) would bring the Treasury an additional £320m**.

We have also argued that provision should be made for small and independent businesses to not be subjected to the same tax rate as large multinational corporations. Currently, companies with annual profits under £500,000 do not pay the Horserace Betting Levy. The same principle should apply to gambling duties, whereby businesses pay 0% tax under an equivalent threshold and 25% tax above that threshold. We have argued that this threshold should be set at £600,000.[iv] For our proposal to be truly effective in terms of protecting small independent businesses, at the same time as enabling an increased overall revenue from GBD to Treasury and disincentivising harm, it is important that this threshold is applied per license-holder rather than per unit (meaning that a large corporation with hundreds of units cannot claim the tax allowance on each unit) and that this threshold is applied only to GBD for betting shops, not to Machine Gaming Duty or Remote Gaming Duty for Adult Gaming Centres or their online equivalents.

Finally, a notable anomaly within the current taxation framework is the absence of a Levy on international racing, which is presently subject only to General Betting Duty. This effectively creates a scenario akin to imposing tariffs on domestic products while exempting foreign counterparts. Historically, until the early 2000s, the Levy was applied to both domestic and international racing bets. The shift occurred following a proposal for 'Data Rights' by the British Horseracing Board (BHB), intended to mandate a 2% turnover payment, via HBLB, from gambling operators for betting on UK domestic horse racing data. Although Data Rights initially passed in UK courts, the initiative was subsequently overturned by the European Court of Justice. Despite this reversal and the non-implementation of Data Rights, the Levy was not reinstated for international racing. We argue that reinstating this Levy would be both straightforward and logical. While precise data on potential revenue is not publicly reported, it is estimated that this measure could increase the current Levy by an additional 20%, equating to approximately £20 million per year. Should the Levy itself be doubled as proposed, this figure could rise to £40 million annually.

Factoring in these variables, we are therefore able to provide the Treasury with a calculation of additional revenue that our proposals would bring. An increase of RGD to 50%, combined with an increase of GBD to 25%, but with an exemption for horse racing through the Levy and an exemption for small businesses via a small profits threshold, including bets on international horse racing as part of the Levy, and

[iv] Our rationale for a GBD small businesses threshold is this: according to 2024 Gambling Commission statistics, GGY for horse racing equates to around one-third of GGY for GBD related products. Therefore, a commensurate threshold of £1m for non-horse racing related GBD would be reasonable. However, to simplify the tax rates, and to better protect small business, we propose replacing these 15% thresholds with a lower, tax-free threshold, which would be £200k for horse racing-related GGY and £400k for non-horse racing-related GGY. This would mean that if an operator makes £500k GGY on Racing, that operator would pay 75k tax under the old 15% rate and also £75k tax on our new proposed system. Operators which are below the £500k in GGY for horse racing would be better off under our proposed system. The same would be true for operators with non-horse racing GGY of under £1m. Under the Freedom of Information Act, it was disclosed that there are 175 operators which have licences for sports betting. If we assume that all of them would reach the £200k threshold for horse racing GGY and also the £400k threshold for non-horse racing GGY, the loss to the Treasury of introducing this tax-free allowance would be a maximum of £26.25m.

assuming no price elasticity, **would bring the Treasury an additional £1.93bn in revenue from betting and gaming based on 2024/25 gambling duty receipts.**

We can also provide the Treasury with a calculation of additional revenue that other proposals would bring, namely if remote betting and gaming were harmonised at 21%, at 25%, or if GBD remained at 15%. These options are outlined in Figure 7, and show that **our proposal for differentiation would bring more revenue to the Treasury than both the current status quo and alternative harmonisation options.**

Figure 7: Net Gain to Treasury Comparing Harmonisation and Differentiation Rates (2025)

Scenario	GBD (£m)	RGD (£m)	HBLB (£m)	TOTAL (£m)
Harmonise - increase GBD to 21% - keep RGD at 21%	£285.6	£0.0	£0.0	**£285.6**
Harmonise - increase GBD to 25% - increase RGD to 25%	£476.0	£221.5	£0.0	**£697.5**
Differentiate - keep GBD at 15% - increase RGD to 42% - change Racing split to 20/5	£0.0	£1,163.0	-£128.0	**£1,035.0**
Differentiate - keep GBD at 15% - increase RGD to 50% - change Racing split to 20/5	£0.0	£1,606.0	-£128.0	**£1,478.0**
Differentiate - increase GBD to 25% - increase RGD to 50% - change Racing split to 20/5 - protect small business	£449.8	£1,606.0	-£128.0	**£1,927.8**

Source: SMF analysis of HMT receipts

In conclusion, in this report we have proposed to:

- Increase the Horserace Betting Levy contribution to 20%
- Reduce betting duty on horse racing to 5%
- Increase Remote Gaming Duty to 50%
- Harmonise General Betting Duty across all betting products at 25%
- Exempt small business

Our proposed increase of Remote Gaming Duty to 50% and harmonisation of GBD at 25% would raise around £2bn in additional tax revenue for the Government. As well as raising additional revenue for the Treasury, our proposal would disincentive harm, it would provide the funds needed for British horse racing to remain sustainable, at the same time as protecting small and independent business.

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