

# The bearable lightness of lost revenue

Negligible tax losses from poker  
machine reform

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Discussion paper

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# Introduction

With the Tasmanian Joint Select Committee on Future Gaming Markets considering the future of poker machines in Tasmania, community pressure is growing for poker machines to be banned from hotels and clubs, limiting them to casinos and the Spirit of Tasmania vessels. Concern that this proposal would reduce government revenue is misplaced.

Recent modelling by Professor John Mangan on behalf of Anglicare shows that banning poker machines from hotels and clubs would be a “non-complex means of reducing social costs of gambling while still providing gambling options in the State”. All three scenarios modelled by Mangan found an increase in Gross State Product (by between \$21 million and \$61 million per year), wages, profits and dividends (by between \$11 million and \$45 million) and employment (by between 183 and 670 full-time equivalent jobs).<sup>1</sup> As Mangan concludes:

**The Tasmanian Government is not dependent on taxation from poker machines.<sup>2</sup>**

This paper supplements Mangan’s research by calculating the loss of poker machine tax revenue that would ensue from a ban on hotel and club poker machines. This loss would be very small and could be accounted for by adopting higher tax rates for casino poker machines.

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<sup>1</sup> Mangan (2017) *Removing poker machines from hotels and clubs in Tasmania: Economic considerations*, p 6-7

<sup>2</sup> Mangan (2017) *Removing poker machines from hotels and clubs in Tasmania: Economic considerations*, p 2

# Tax revenues following a partial poker machine ban

Tasmanian government revenue was \$5,307.8 million in 2015-16, of which \$29.6 million came from hotel and club poker machines.<sup>3</sup> Hotel and club poker machines are responsible for less than 0.6% of Tasmanian government revenue. The loss to government revenue from banning poker machines in hotels and clubs is at most the small amount of current revenue from these machines, but is likely to be smaller still.

In modelling a ban on poker machines in hotels and clubs, Mangan considered three scenarios: where all expenditure on hotel and club poker machines is diverted to alternative consumption (the wider community), where 80% of expenditure is diverted (and the remainder spent on casino poker machines) and where 50% of expenditure is diverted (and the remainder spent on casino poker machines).

Under these scenarios, the loss to government revenue is even smaller than the total current revenue from these machines. With 80% diversion, gaming revenue is only \$23.7 million lower (0.5% of total revenue). With 50% diversion, it is only \$14.8 million lower (0.3% of total revenue).

A substantial amount of expenditure diverted into alternative, non-gaming consumption is likely to be spent in Tasmania and would be subject to state taxes. Increased non-gaming expenditure may also create additional economic activity, itself subject to taxes. The net losses to state revenue are likely to be even smaller than described above.

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<sup>3</sup> Tasmanian Liquor and Gaming Commission (2016) *Annual report 2015-16*, p 10; Tasmanian Government (2016) *2016-17 budget*, table 1.1, <http://www.treasury.tas.gov.au/BudgetPapersHTML/Budget2016/BP1/2016-17-BP1-1-The-2016-17-Budget.htm>

# Possible tax reforms

Any small impact on revenue from banning poker machines in hotels and clubs could be offset by taxing casino poker machines at a higher rate. Tasmania’s current system taxes poker machine expenditure at 25.88% (a lower rate applies on Spirit of Tasmania vessels, although they do not account for much poker machine player losses). There is an additional community levy on hotel, pub and club poker machines of 4%.

## MODELLING AN INCREASE IN THE TASMANIAN RATE

Were Tasmania to adopt a higher tax rate for casino poker machines, it would bring in tens of millions of dollars of additional revenue.

This analysis models the consequences for government revenue if Tasmania banned hotel and club poker machines, applied the community levy to casino poker machines and replaced the current 25.88% poker machine tax rate with a rate of 40%. These reforms would make up most or all the shortfall from the ban on hotel and club poker machines.

**Table 1: Poker machine expenditure, tax revenue and levy**

	Unit	Current	100% to community	80% to community	50% to community
<b>Player losses (casinos)</b>	\$ m	76.9	76.9	99.74	134
<b>Player losses (hotels and clubs)</b>	\$ m	114.2	0	0	0
<b>Total losses</b>	\$ m	191.1	76.9	99.74	134
<b>Tax rate</b>	%	25.88	40	40	40
<b>Tax revenue</b>	\$ m	49.4	30.8	39.9	53.6
<b>Community levy (4%)</b>	\$ m	4.6	3.1	4.0	5.4

Note: The Spirit of Tasmania poker machine tax rate is 17.91%, lower than the general poker machine rate, but it does not account for much player losses.

The three scenarios above refer to the three scenarios considered by Mangan, where 100%, 80% and 50% of spending on hotel and club poker machines is diverted to alternative consumption, and the remainder spent on casino poker machines.

How much revenue would be raised by a higher tax depends on how people spend their money following a ban on hotel and club poker machines. In Mangan’s first scenario, where all expenditure is diverted to alternative consumption, the higher rates would raise \$11.0 million for the state government and \$3.1 million for the community levy. In the second scenario, where 80% is diverted and 20% goes to casino

poker machines, the higher rate would raise \$14.2 million and the levy would raise \$4 million.

In the final scenario, where half of the expenditure is diverted to other purposes and half to casino poker machines, adopting the higher rates would raise an additional \$19.0 million in tax, for a total tax take from poker machines of \$53.6 million. The community levy would raise \$5.4 million. This exceeds the current tax take by \$4.2 million and the current levy by \$0.8 million.

## KENO

Keno gaming is also lightly taxed in Tasmania, at just 5.88% of annual gross profit. \$36.5 million of keno gaming player expenditure raises just \$2.1 million.<sup>4</sup>

Increasing keno gaming taxes to 25.88% (the current poker machine rate) would raise an additional \$7.3 million per annum. Increasing keno gaming taxes to 40% would raise an additional \$12.5 million.

**Table 2: Keno machine expenditure and tax revenue**

	Losses (\$ m)	Tax revenue (\$ m)	Increase in revenue (\$ m)
<b>At current tax rate (5.88%)</b>	36.5	2.1	N/A
<b>At standardised tax rate (25.88%)</b>	36.5	9.4	7.3
<b>At proposed tax rate (40%)</b>	36.5	14.6	12.5

The shortfall from banning poker machines from hotels and clubs would be small, and can be partially or entirely accounted for by standardising taxes on casino poker machines and keno.

<sup>4</sup> Tasmanian Liquor and Gaming Commission (2016) *Annual report 2015-16*, p 9-10; see also John Lawrence (2016) *Joint Select Committee on Future Gaming Markets: Submission*, p 35, <http://www.parliament.tas.gov.au/ctee/Joint/Submissions/JSC%20FGM/JSC%20FGM%20114%20John%20Lawrence.pdf>

# Conclusion

Taxes collected from poker machines in hotels and clubs are responsible for less than 0.6% of state government revenue. Professor John Mangan demonstrates that any loss in government revenue from a ban on poker machines in hotels and clubs would be more than accounted for by positive social benefits and economic improvements like increases in Gross State Product, employment, wages, profits and dividends.

If any concern about lost revenue remains, Tasmania could increase its poker machine tax, or increase its keno gaming tax rate. These reforms would make up for lost revenue, or even increase overall tax revenue.